

LG Chem, Ltd.

**Non-Consolidated Financial Statements
December 31, 2009 and 2008**

LG Chem, Ltd.
Index
December 31, 2009 and 2009

	Page(s)
Report of Independent Auditors	1 - 2
Non-Consolidated Financial Statements	
Statements of Financial Position	3 - 4
Statements of Income	5
Statements of Appropriations of Retained Earnings.....	6
Statements of Changes in Shareholders' Equity	7
Statements of Cash Flows	8 - 9
Notes to Non-Consolidated Financial Statements	10 - 58
Report of Independent Accountants' Review of Internal Accounting Control System	59 - 60
Report on the Operations of Internal Accounting Control System	61

Report of Independent Auditors

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

We have audited the accompanying non-consolidated statements of financial position of LG Chem, Ltd. (the "Company") as of December 31, 2009 and 2008, and the related non-consolidated statements of income, appropriations of retained earnings, changes in shareholders' equity and cash flows for the years ended December 31, 2009 and 2008, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Ningbo LG Yongxing Chemical Co., Ltd. and certain other subsidiaries, the investments in which are reflected in the accompanying non-consolidated financial statements using the equity method of accounting. The investments in these subsidiaries represent 9.2% of the Company's total assets as of December 31, 2009 (2008: 7.2%), and the equity in their net profits and losses represents 7.3% of the Company's net income before income taxes for the year ended December 31, 2009 (2008: - 0.7%). These statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the subsidiaries, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Chem, Ltd. as of December 31, 2009 and 2008, and the results of its operations, the changes in its retained earnings, the changes in its shareholders' equity and its cash flows for the years ended December 31, 2009 and 2008, in conformity with accounting principles generally accepted in the Republic of Korea.

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

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

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

Seoul, Korea
March 11, 2010

This report is effective as of March 11, 2010, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Chem, Ltd.
Non-Consolidated Statements of Financial Position
December 31, 2009 and 2008

<i>(in millions of Korean won)</i>	2009	2008
Assets		
Current assets		
Cash and cash equivalents (Notes 14 and 29)	₩ 862,585	₩ 373,300
Short-term investments (Note 4)	100,000	148,300
Trade accounts and notes receivable, net (Notes 2, 5, 14, 17 and 26)	1,227,751	1,123,361
Other accounts receivable, net (Notes 5 and 14)	87,903	88,829
Accrued income	4,460	2,799
Advance payments	2,544	8,848
Prepaid expenses	14,598	21,490
Inventories, net (Notes 2 and 6)	1,340,931	1,508,938
Deferred income tax assets (Note 22)	15,553	39,164
Other current assets	897	1,619
Total current assets	3,657,222	3,316,648
Equity-method investments (Notes 2 and 8)	840,809	800,789
Derivative instrument transaction debit (Note 17)	18,375	51,845
Other investments (Notes 3 and 7)	4,135	2,220
Property, plant and equipment, net (Notes 2, 9 and 28)	3,860,280	3,867,666
Intangible assets, net (Notes 2, 10, 28 and 31)	(97,284)	(112,884)
Long-term guarantee deposits	17,137	31,106
Long-term prepaid expenses	11,369	19,476
Other non-current assets, net (Note 5)	46,784	59,516
Total assets	₩ 8,358,827	₩ 8,036,382
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts and notes payable (Notes 14 and 26)	₩ 868,232	₩ 527,150
Other accounts payable (Notes 14 and 26)	633,949	567,475
Withholdings	38,518	47,641
Accrued expenses	57,139	54,752
Income tax payable (Note 22)	185,975	367,620
Dividends payable	61	51
Provision for warranty reserve (Note 11)	5,304	-
Current maturities of long-term debts, net (Note 12)	454,648	575,142
Other current liabilities	21,176	22,494
Total current liabilities	2,265,002	2,162,325
Debentures, net (Note 13)	275,459	361,148
Other long-term debts, net (Notes 2 and 13)	128,780	458,796
Accrued severance benefits, net (Notes 2, 3 and 15)	69,428	93,344
Deferred income tax liabilities (Notes 2 and 22)	71,768	38,250
Derivative instrument transaction credit (Note 17)	35,064	26,961
Other non-current liabilities	28,991	5,864
Total liabilities	2,874,492	3,146,688

LG Chem, Ltd.
Non-Consolidated Statements of Financial Position
December 31, 2009 and 2008

<i>(in millions of Korean won)</i>	2009	2008
Commitments and contingencies (Note 17)		
Shareholders' equity (Note 1)		
Common stock (Note 18)	331,356	376,194
Preferred stock	38,144	43,306
	<u>369,500</u>	<u>419,500</u>
Capital surplus (Note 18)		
Paid-in capital in excess of par value	927,173	1,052,640
Gain on disposal of treasury stock	13,855	13,855
Asset revaluation surplus	206,769	206,769
Other capital surplus	39,688	41,285
	<u>1,187,485</u>	<u>1,314,549</u>
Capital adjustment		
Treasury stock (Note 20)	(15,484)	(14,976)
Losses on capital reduction (Note 18)	(464,272)	-
Other capital adjustments	193	377
	<u>(479,563)</u>	<u>(14,599)</u>
Accumulated other comprehensive income (Note 23)		
Gain on valuation of equity-method investments (Note 8)	83,000	150,525
Loss on valuation of equity-method investments (Note 8)	(3,448)	(978)
Valuation loss on cash flow hedge derivative instruments (Note 17)	(7,318)	(16,053)
	<u>72,234</u>	<u>133,494</u>
Retained earnings (Notes 2, 19 and 23)	<u>4,334,679</u>	<u>3,036,750</u>
Total shareholders' equity	<u>5,484,335</u>	<u>4,889,694</u>
Total liabilities and shareholders' equity	<u>₩ 8,358,827</u>	<u>₩ 8,036,382</u>

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

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

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

	2009	2008
Sales (Notes 26, 27 and 28)	₩ 13,694,515	₩ 12,645,000
Cost of sales (Notes 21 and 26)	10,875,952	10,505,542
Gross profit	2,818,563	2,139,458
Selling and administrative expenses (Note 26)	873,751	795,109
Operating income	1,944,812	1,344,349
Non-operating income		
Interest income	24,632	3,880
Foreign exchange gains	291,333	370,422
Gain on foreign currency translation (Note 14)	55,926	29,625
Gain on valuation of equity-method investments (Notes 2 and 8)	167,480	29,543
Gain on transaction of derivative instruments	31,474	51,849
Gain on valuation of derivative instruments (Note 17)	378	53,590
Reversal of negative goodwill (Notes 2 and 10)	39,170	39,170
Others	28,875	83,214
	639,268	661,293
Non-operating expenses		
Interest expenses	32,692	39,249
Foreign exchange losses	303,215	402,178
Loss on foreign currency translation (Note 14)	5,127	178,042
Loss on disposal of trade accounts receivable	41,555	36,566
Loss on valuation of equity-method investments (Notes 2 and 8)	29,512	45,228
Loss on transaction of derivative instruments	23,113	-
Loss on valuation of derivative instruments (Note 17)	22,136	13,608
Loss on disposal of property, plant and equipment (Note 2)	24,939	7,267
Impairment loss on property, plant and equipment (Note 9)	47,565	-
Impairment loss on intangible assets (Note 10)	16,948	84
Donations	10,944	6,823
Others	41,989	31,133
	599,735	760,178
Income from continuing operations before income tax	1,984,345	1,245,464
Income tax expenses on continuing operations (Note 22)	444,644	299,665
Income from continuing operations	1,539,701	945,799
(Loss) Income from discontinued operations (Notes 21 and 30)	(32,570)	56,786
Net income	₩ 1,507,131	₩ 1,002,585
Per share data (in won) (Notes 24 and 27)		
Income from continuing operations per share	₩ 20,256	₩ 11,341
Earnings per share	₩ 19,827	₩ 12,022
Diluted income from continuing operations per share	₩ 20,256	₩ 11,341
Diluted earnings per share	₩ 19,827	₩ 12,022

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

LG Chem, Ltd.

Non-Consolidated Statements of Appropriations of Retained Earnings

Years Ended December 31, 2009 and 2008

(Date of appropriations: March 19, 2010 and March 20, 2009
for the years ended December 31, 2009 and 2008, respectively)

(in millions of Korean won)

	2009	2008
Retained earnings before appropriations		
Unappropriated retained earnings carried over from prior year	₩ 7	₩ 7
Accumulated effects from changes of financial accounting standards (Note 2)	-	2,035
Net income	1,507,131	1,002,585
	<u>1,507,138</u>	<u>1,004,627</u>
Transfers from other reserves		
Reserve for technology development	<u>90,000</u>	<u>76,667</u>
Appropriation of retained earnings		
Legal reserve	25,775	20,920
Dividends (Note 25)	257,752	209,202
Reserve for technology development	745,788	851,165
Reserve for investment losses	103,548	-
Losses on capital reduction (Note 18)	464,272	-
	<u>1,597,135</u>	<u>1,081,287</u>
Unappropriated retained earnings carried forward to subsequent year	<u>₩ 3</u>	<u>₩ 7</u>

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

LG Chem, Ltd.

**Non-Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2009 and 2008**

(in millions of Korean won)

	<u>Capital stock</u>	<u>Capital surplus</u>	<u>Capital adjustment</u>	<u>Accumulated other comprehensive income</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as of January 1, 2008	₩ 419,500	₩ 1,299,357	₩ (23,475)	₩ (16,322)	₩ 2,199,136	₩ 3,878,196
Accumulated effects from changes of financial accounting standards (Note 2)	-	-	-	-	2,035	2,035
Dividends	-	-	-	-	(167,006)	(167,006)
Net income	-	-	-	-	1,002,585	1,002,585
Disposal of treasury stock	-	13,014	8,499	-	-	21,513
Changes in equity-method investments (Note 23)	-	2,178	377	165,869	-	168,424
Valuation loss on cash flow hedge derivative instruments (Note 23)	-	-	-	(16,053)	-	(16,053)
Balance as of December 31, 2008	<u>₩ 419,500</u>	<u>₩ 1,314,549</u>	<u>₩ (14,599)</u>	<u>₩ 133,494</u>	<u>₩ 3,036,750</u>	<u>₩ 4,889,694</u>
Balance as of January 1, 2009	₩ 419,500	₩ 1,314,549	₩ (14,599)	₩ 133,494	₩ 3,036,750	₩ 4,889,694
Dividends (Note 25)	-	-	-	-	(209,202)	(209,202)
Decrease in shareholders' equity due to spin-off (Note 18)	(50,000)	(125,467)	(464,272)	(22,769)	-	(662,508)
Net income	-	-	-	-	1,507,131	1,507,131
Acquisition of treasury stock	-	-	(2,293)	-	-	(2,293)
Disposal of treasury stock	-	-	1,785	-	-	1,785
Changes in equity-method investments (Note 23)	-	(1,597)	(184)	(47,226)	-	(49,007)
Valuation loss on cash flow hedge derivative instruments (Note 23)	-	-	-	8,735	-	8,735
Balance as of December 31, 2009	<u>₩ 369,500</u>	<u>₩ 1,187,485</u>	<u>₩ (479,563)</u>	<u>₩ 72,234</u>	<u>₩ 4,334,679</u>	<u>₩ 5,484,335</u>

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

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

(in millions of Korean won)

	2009	2008
Cash flows from operating activities		
Net income	₩ 1,507,131	₩ 1,002,585
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	433,814	423,241
Provision for severance benefits	55,672	64,433
(Gain) loss on foreign currency translation, net	(52,330)	179,613
Loss on disposal of trade accounts receivable	42,444	39,642
Gain (loss) on valuation of equity-method investments, net	(136,564)	15,327
(Gain) loss on transactions of derivative instruments, net	(7,948)	(63,293)
Loss (gain) on valuation of derivative instruments, net	21,758	(48,807)
Loss on disposal of property, plant and equipment, net	31,725	13,229
Impairment loss on property, plant and equipment	47,565	18
Impairment loss on intangible assets	16,948	186
Reversal of negative goodwill	(39,170)	(39,170)
Others, net	22,369	1,661
	<u>436,283</u>	<u>586,080</u>
Changes in operating assets and liabilities		
Increase in trade accounts and notes receivable	(393,548)	(211,554)
Decrease (increase) in inventories	91,024	(348,301)
Dividends received	8,282	54,185
Insurance settlements received	-	76,836
(Increase) decrease in other accounts receivable	(11,326)	12,478
(Increase) decrease in accrued income	(1,660)	934
Decrease (increase) in advance payments	5,575	(6,052)
Decrease (increase) in prepaid expenses	5,140	(6,663)
Decrease (increase) in deferred income tax assets	10,695	(15,318)
Decrease (increase) in other current assets	559	(943)
Increase (decrease) in trade accounts and notes payable	471,189	(210,510)
Increase (decrease) in other accounts payable	156,471	(11,934)
Increase in accrued expenses	13,691	16,296
(Decrease) increase in income tax payable	(181,646)	119,979
Increase in provision for warranty reserve	3,512	-
Decrease in other current liabilities	(3,858)	(4,144)
Accrued severance benefits transferred from associated companies	446	610
Increase (decrease) in deferred income tax liabilities	39,464	(19,173)
Payment of severance benefits	(39,641)	(66,281)
Others, net	(8,820)	(151)
	<u>165,549</u>	<u>(619,706)</u>
Net cash provided by operating activities	<u>2,108,963</u>	<u>968,959</u>

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

<i>(in millions of Korean won)</i>	2009	2008
Cash flows from investing activities		
Disposal (acquisition) of short-term investments, net	₩ 48,300	₩ (41,891)
Disposal of property, plant and equipment	11,549	28,230
Decrease in derivative instrument transaction debit, net	40,250	64,328
Acquisition of property, plant and equipment	(942,753)	(773,356)
Acquisition of equity-method investments	(75,004)	(21,667)
Acquisition of intangible assets, net	(15,811)	(41,640)
Others, net	3,391	(78)
Net cash used in investing activities	<u>(930,078)</u>	<u>(786,074)</u>
Cash flows from financing activities		
Repayment of current maturities of long-term debts	(575,693)	(366,887)
Issuance of debentures	298,653	144,588
Payment of dividends	(209,192)	(166,995)
Proceeds from long-term debts, net	(7)	92,156
(Acquisition) disposal of treasury stock	(2,293)	21,513
Others, net	12,947	(398)
Net cash used in financing activities	<u>(475,585)</u>	<u>(276,023)</u>
Cash flows from spin-off	<u>(214,015)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	489,285	(93,138)
Cash and cash equivalents		
Beginning of the year	373,300	466,438
End of the year	<u>₩ 862,585</u>	<u>₩ 373,300</u>

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

LG Chem, Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2009 and 2008

1. The Company

The Company was spun off from LG Chem Investment Ltd. (formerly LG Chemical Ltd.) on April 1, 2001, and completed the registration process on April 3, 2001. The Company engages in the business of petrochemicals, industrial materials, and information and electronic materials.

As of December 31, 2009, The Company has its manufacturing facilities in Yeosu, Cheongju, Ulsan, Naju, Onsan, Iksan, Daesan, Ochang and Gimcheon.

The Company merged with LG Daesan Petrochemical Ltd. on January 1, 2006, and with LG Petrochemical Co., Ltd. on November 1, 2007, and spun off its Industrial Materials segment to LG Hausys, Ltd. on April 1, 2009 (Note 30).

As of December 31, 2009, the Company has an outstanding capital stock of ₩369,500 million, including preferred stock of ₩38,144 million. The Company has been listed on the Korea Stock Exchange since April 25, 2001.

The Company is authorized to issue 292 million shares of common stock with par value of ₩5,000 per share. As of December 31, 2009, the Company has issued 66,271,000 common shares and 7,628,921 preferred shares. The largest shareholder of the Company is LG Corp., which holds 33.53% of the Company's common shares. Preferred shareholders have no voting rights but are entitled to dividends at a rate 1% more than those paid to common shareholders.

2. Summary of Significant Accounting Policies

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

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

Restatement of Prior Year Financial Statements

In the preparation of the Company's financial statements, the Company adopted the Korea Accounting Institute Opinion on Korean Accounting Statement Implementation 06-2, *Accounting treatment for taxable temporary differences associated with investments in subsidiaries, associates, and interest in joint ventures*, which was revised on February 22, 2008. The effect of the change is adjusted on the beginning balance of 2008. Also, the effect of this change were a decrease in deferred income tax liabilities by ₩2,035 million, and an increase in retained earnings by ₩2,035 million as of January 1, 2008 (Notes 22 and 23).

LG Chem, Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2009 and 2008

Spin-off

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

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

Revenue Recognition

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

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

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

Government Grants

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

Cash and Cash Equivalents

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

Asset-Backed Securities

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

Allowance for Doubtful Accounts

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

Inventories

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

Securities

Costs of securities are determined using the moving-weighted average method.

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

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

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

Equity-Method Investments

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

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

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

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

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

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

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

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

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

In the application of the equity method of accounting, the overseas investee companies apply the same accounting policies as the Company. In 2009, the Company made adjustments to the financial statements of overseas investees whose estimated useful lives on their property, plant and equipment are different from those used by the Company. As a result of these adjustments, the gain on valuation of equity-method of accounting increased by ₩6,400 million (2008: ₩1,213 million) for the year ended December 31, 2009 (Note 8).

Property, Plant and Equipment, and Related Depreciation

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

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

	Estimated Useful Lives
Buildings and structures	25 – 50 years
Machinery and equipment	6 – 15 years
Vehicles	4 –6 years
Tools	4 –6 years
Furniture and fixtures	4 –6 years
Others	1 –3 years

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

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

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

The Company recognized loss on disposal of property, plant and equipment (including that of discontinued operations) of ₩31,691 million for the year ended December 31, 2009 (2008: ₩13,229 million).

Lease Transactions

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

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

Intangible Assets

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

Intangible assets, consisting of intellectual property rights and exclusive facility use rights are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives ranging from three to 25 years. Research and development costs are charged to current operations when incurred and are included in operating expenses. Costs incurred in developing new products or technologies, which can be clearly defined and measured, and having probable future economic benefits, are capitalized as development costs. Amortization of development cost begins at the commencement of the commercial production of the related products or use of the related technology. Other development costs are charged as normal development expense in the period incurred. For the year ended December 31, 2009, the Company expensed ₩ 220,881 million (2008: ₩214,851 million) as normal development expense including discontinued operations.

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

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

Impairment of Assets

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

Revaluation of Receivables

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

Premiums or Discounts on Debentures

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

Translation of assets and liabilities denominated in foreign currencies.

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the rates of exchange in effect at the date of statement of financial position and the resulting translation gains and losses are recognized in current operations. The exchange rate used to translate U.S. dollar denominated monetary assets and liabilities as of December 31, 2009, is ₩1167.6: US\$1 (2008: ₩1257.5: US\$1).

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of employment and rate of pay at the time of termination. Accrued severance benefits represent the amount of severance benefits which would be payable assuming all eligible employees and directors were to terminate their employment as of the date of statement of financial position (Note 15).

Accrued severance benefits are funded at approximately 69.6 % as of December 31, 2009 (2008: 65.3 %), through group severance insurance plans and are presented as a deduction from accrued severance benefits.

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

Provisions and Contingent Liabilities

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

Income Tax and Deferred Income Tax

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

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

Derivative Financial Instruments

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

Discontinued Operations

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

Reclassification of Prior Year Financial Statements

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

Approval of Financial Statements

The December 31, 2009 non-consolidated financial statements of the Company were approved by the Board of Directors on February 23, 2010.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

3. Restricted Bank Deposits

As of December 31, 2009, ₩40 million (2008: ₩46 million) in other investments are deposited in connection with bank overdraft agreements, and withdrawal of these deposits is restricted.

The withdrawal of group severance insurance deposits is also restricted to employees' severance payments (Note 15).

4. Short-Term Investments

<i>(in millions of Korean won)</i>	2009		2008	
Time deposits	₩	50,000	₩	-
Certificates of deposit ¹		50,000		148,300
	₩	<u>100,000</u>	₩	<u>148,300</u>

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

5. Receivables

<i>(in millions of Korean won)</i>	2009	2008
Trade accounts and notes receivable	₩ 1,239,268	₩ 1,156,519
Less: Allowance for doubtful accounts	(11,517)	(33,158)
	<u>₩ 1,227,751</u>	<u>₩ 1,123,361</u>
Other accounts receivable	₩ 89,315	₩ 99,166
Less: Allowance for doubtful accounts	(1,412)	(10,311)
Less: Present value discount	-	(26)
	<u>₩ 87,903</u>	<u>₩ 88,829</u>
Long-term trade accounts and notes receivable	₩ 43	₩ 146
Less: Allowance for doubtful accounts	(3)	(16)
	<u>₩ 40</u>	<u>₩ 130</u>
Long-term other accounts receivable	₩ -	₩ 202
Less: Present value discount	-	(7)
	<u>₩ -</u>	<u>₩ 195</u>

6. Inventories

<i>(in millions of Korean won)</i>	2009	2008
Merchandise, net of valuation allowance of ₩58 million (2008: ₩363 million)	₩ 36,685	₩ 67,005
Finished products, net of valuation allowance of ₩3,846 million (2008: ₩19,106 million)	613,351	739,012
Work-in-process	171,288	178,072
Raw materials, net of valuation allowance of ₩375 million (2008: ₩421 million)	381,028	351,521
Supplies	46,142	41,333
Materials-in-transit	92,437	131,995
	<u>₩ 1,340,931</u>	<u>₩ 1,508,938</u>

As of December 31, 2009 and 2008, inventories are insured against fire.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

7. Investment Securities

<i>(in millions of Korean won)</i>	2009		2008	
Government and public bonds	₩	1	₩	1
Non-marketable stocks		4,044		1,967
Total	₩	4,045	₩	1,968

Non-marketable stocks consist of the following:

<i>(in millions of Korean won)</i>	Percentage of Ownership (%)		Acquisition Cost		Book Value		Fair Value or Net Asset Value⁵	
	2009	2008	2009	2008	2009	2008	2009	2008
PT. Halim Samara Interutama	12.10	12.10	₩ 576	₩ 576	₩ 576	₩ 576	₩ 1,100	₩ 936
Chemizen. Com Ltd.	2.62	2.62	300	300	-	-	-	-
LG Mozel Ltd. ¹	-	13.00	-	195	-	195	-	514
EICO Properties Pte. Ltd.	9.20	9.20	2,298	2,298	509	509	2,770	2,996
Neoecos	4.86	4.86	9	9	-	-	4	-
Saerom Seongwon ²	0.00	0.00	182	182	-	182	-	1
LG Chem Industrial Material Russia, LLC ³	-	99.00	-	505	-	505	-	505
Global OLED Technology LLC ⁴	2.00	-	2,959	-	2,959	-	2,959	-
			₩ 6,324	₩ 4,065	₩ 4,044	₩ 1,967	₩ 6,833	₩ 4,952

¹ Transferred to LG Hausys, Ltd. on April 1, 2009.

² The Company recognized an impairment loss of ₩182 million (included in discontinued operations) for Saerom Seongwon in 2009.

³ The Company acquired additional shares of LG Chem Industrial Material Russia, LLC for ₩4,249 million. The investee was reclassified from investment securities to equity-method investments, and transferred to LG Hausys, Ltd. on April 1, 2009 (Note 8).

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

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

8. Equity-Method Investments

(in millions of Korean won)

Investee ¹²	Percentage of		Acquisition Cost		Book Value		Fair Value or Net	
	Ownership (%)						Asset Value	
	2009	2008	2009	2008	2009	2008	2009	2008
Tianjin LG Dagu Chemical Co., Ltd.	75.00	75.00	₩ 17,440	₩ 17,440	₩ 40,217	₩ 24,265	₩ 40,217	₩ 24,324
Tianjin LG New Building Materials Co., Ltd. ^{1,12}	-	85.35	-	33,649	-	51,689	-	57,945
Ningbo LG Yongxing Chemical Co., Ltd.	75.00	75.00	110,746	110,746	185,203	135,908	186,247	134,388
LG Chemical India Pvt. Ltd.	100.00	100.00	31,466	31,466	43,351	43,351	54,928	54,928
LG Chemical Hong Kong Ltd.	100.00	100.00	254	254	10,447	11,159	10,465	10,039
LG Vina Chemical J/V Company	40.00	40.00	1,194	1,194	3,017	1,313	3,169	1,404
LG Hausys America, Inc. ^{2,12}	-	100.00	-	9,596	-	7,396	-	13,367
LG Chem America, Inc. ²	100.00	-	3,620	-	3,438	-	3,970	-
M. Dohmen S.A. ^{3, 12}	-	49.00	-	43,203	-	993	-	4,023
SEETEC Co., Ltd. ¹²	50.00	50.00	36,643	36,643	49,770	58,416	135,534	147,465
LG Dow Polycarbonate Ltd.	50.00	50.00	36,794	36,794	56,804	62,577	57,062	63,074
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	100.00	100.00	13,091	13,091	30,518	21,911	30,534	22,205
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. ⁴	80.80	82.80	98,947	71,523	141,631	98,921	169,426	116,955
LG Chem Trading (Shanghai) Co., Ltd. ^{5, 12}	-	100.00	-	3,503	-	2,473	-	2,471
LG Chem (China) Investment Co., Ltd.	100.00	100.00	40,340	40,340	51,139	46,337	51,139	46,338
LG Chem (Taiwan), Ltd. ⁶	100.00	100.00	6,906	6,888	16,312	-	20,381	7,449
LG Chem Industrial Materials Inc. ^{3, 12}	-	100.00	-	17,846	-	15,883	-	17,209
LG Holdings (HK) Ltd. ^{7,12}	26.00	18.18	60,910	41,582	50,997	58,207	49,688	56,375
Compact Power Inc.	100.00	100.00	5,483	5,483	1,428	983	1,428	983
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	90.00	90.00	5,589	5,589	20,164	14,733	20,841	15,810
LG Chem Display Materials (Beijing) Co., Ltd.	90.00	90.00	6,865	6,865	12,742	12,450	13,503	13,201
Tianjin LG Bohai Chemical Co., Ltd.	65.00	65.00	63,524	63,524	99,495	105,847	113,601	116,114
LG Chem Europe GmbH	100.00	100.00	1,927	1,927	4,951	3,085	5,038	4,637
LG Hausys Europe GmbH ^{8,12}	-	-	-	-	-	-	-	-
LG Chem Brasil, Ltd.	100.00	100.00	258	258	258	258	(103)	258
LG Chem Poland Sp. Z.O.O	100.00	100.00	5,790	5,790	9,484	8,196	9,484	8,196
TECWIN Co., Ltd. ^{9,12}	19.90	19.90	419	419	3,466	2,861	3,466	2,861
LG Chem Industrial Material Russia, LLC ^{10,12}	-	-	-	-	-	-	-	-
Tianjin LG Botian Chemical ¹¹	35.80	-	5,977	-	5,977	-	9,119	-
			<u>₩554,183</u>	<u>₩605,613</u>	<u>₩840,809</u>	<u>₩800,789</u>	<u>₩977,740</u>	<u>₩942,019</u>

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

- ¹ The Company acquired additional shares of Tianjin LG New Building Materials Co., Ltd. for ₩11,058 million from LG Chem (China) Investment Co., Ltd. in 2009. And the investee was transferred to LG Hausys, Ltd. on April 1, 2009.
- ² LG Chem America, Inc. changed its name to LG Hausys America, Inc. and LG Chem America was newly spun off from LG Hausys America, Inc. in 2009. And investment in LG Hausys America, Inc. was transferred to LG Hausys, Ltd. on April 1, 2009.
- ³ Investees were transferred to LG Hausys, Ltd. on April 1, 2009.
- ⁴ The Company acquired additional shares of LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. for ₩27,424 million. As LG Chem (China) Investment Company Ltd. also acquired additional shares, the Company's percentage of ownership decreased from 82.80% to 80.80%.
- ⁵ The Company acquired additional shares of LG Chem Trading (Shanghai) Co., Ltd. for ₩4,250 million. And the investee was transferred to LG Hausys, Ltd. on April 1, 2009.
- ⁶ The Company acquired additional shares of LG Chem(Taiwan),Ltd. for ₩18 million without any changes in its percentage ownership.
- ⁷ The Company acquired additional shares of LG Holdings (HK) Ltd. for ₩19,328 million. As a result, the Company's percentage of ownership increased from 18.18% to 26%. As of December 31, 2008, this investment is classified as an equity-method investment as the combined percentage of ownership of the Company and LG Electronics Inc., a consolidated subsidiary of LG Corp., exceeds 20%.
- ⁸ The newly established investee was transferred to LG Hausys, Ltd. on April 1, 2009.
- ⁹ This investee is classified as an equity-method investment as the Company has significant influence over the investee even the Company's percentage of ownership is below 20%.
- ¹⁰ The Company acquired additional shares of LG Chem Industrial Material Russia, LLC for ₩4,249 million. The investee was reclassified from investment securities to equity-method investments, and transferred to LG Hausys, Ltd. on April 1, 2009.
- ¹¹ The Company acquired shares of Tianjin LG Botian Chemical for ₩5,977 million (percentage of ownership: 35.80%) during the current period, and the investment is classified as an equity-method investment. As of December 31, 2009, Tianjin LG Bohai Chemical Co., Ltd. also holds 46% ownership in Tianjin LG Botian Chemical Co., Ltd.
- ¹² As of December 31, 2009, the Company has control over all the investees, except for SEETEC Co., Ltd., LG Holdings (HK) Ltd. and TECWIN Co., Ltd. and subsidiaries which were transferred to LG Hausys, Ltd.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

Changes in equity-method investments are as follows:

(in millions of Korean won)

Investee	2009							December 31, 2009
	January 1, 2009	Acquisition (Disposal)	Dividends	Valuation Gain (Loss) ³	Increase (Decrease) in accumulated other comprehensive income and expenses	Decrease due to Spin-off		
Tianjin LG Dagu Chemical Co., Ltd.	₩ 24,265	₩ -	₩ (2,309)	₩ 21,397	₩ (3,676)	₩ -	₩ 40,217	
Tianjin LG New Building Materials Co., Ltd.	51,689	11,058	-	581	135	(63,463)	-	
Ningbo LG Yongxing Chemical Co., Ltd.	135,908	-	-	62,826	(13,531)	-	185,203	
LG Chemical India Pvt. Ltd.	54,928	-	-	(8,593)	(2,984)	-	43,351	
LG Chemical Hong Kong Ltd.	11,159	-	-	175	(887)	-	10,447	
LG Vina Chemical J/V Company	1,313	-	-	1,823	(119)	-	3,017	
LG Hausys America, Inc. ¹	7,396	(3,620)	-	(1,612)	976	(3,140)	-	
LG Chem America, Inc. ¹	-	3,620	-	(501)	319	-	3,438	
M. Dohmen S.A.	993	-	-	-	-	(993)	-	
SEETEC Co., Ltd.	58,416	-	-	(8,677)	31	-	49,770	
LG Dow Polycarbonate Ltd.	62,577	-	-	(5,022)	(751)	-	56,804	
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	21,911	-	(4,196)	15,139	(2,336)	-	30,518	
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	98,921	27,424	-	29,282	(13,996)	-	141,631	
LG Chem Trading (Shanghai) Co., Ltd.	2,473	4,250	-	54	284	(7,061)	-	
LG Chem (China) Investment Co., Ltd.	46,337	-	-	2,003	2,799	-	51,139	
LG Chem (Taiwan), Ltd.	-	18	-	15,031	1,263	-	16,312	
LG Chem Industrial Materials Inc.	15,883	-	-	444	1,530	(17,857)	-	
LG Holdings (HK) Ltd.	58,207	19,328	-	(6,219)	(20,319)	-	50,997	
Compact Power Inc.	983	-	-	973	(528)	-	1,428	
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	14,733	-	-	6,938	(1,507)	-	20,164	
LG Chem Display Materials (Beijing) Co., Ltd.	12,450	-	-	1,295	(1,003)	-	12,742	
Tianjin LG Bohai Chemical Co., Ltd.	105,847	-	(1,756)	4,927	(9,523)	-	99,495	
LG Chem Europe GmbH	3,085	-	-	2,161	(295)	-	4,951	
LG Hausys Europe GmbH	-	2,700	-	(700)	24	(2,024)	-	
LG Chem Brasil, Ltd.	258	-	-	-	-	-	258	
LG Chem Poland Sp. Z.O.O	8,196	-	-	1,673	(385)	-	9,484	
TECWIN Co., Ltd.	2,861	-	(21)	626	-	-	3,466	
LG Chem Industrial Material Russia, LLC. ²	-	4,754	-	-	-	(4,754)	-	
Tianjin LG Botian Chemical	-	5,977	-	-	-	-	5,977	
	₩ 800,789	₩ 75,509	₩ (8,282)	₩ 136,564	₩ (64,479)	₩ (99,292)	₩ 840,809	

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

- ¹ LG Chem America, Inc. changed its name to LG Hausys America, Inc. and LG Chem America was newly spun off from LG Hausys America, Inc. in 2009.
- ² The Company acquired additional shares of LG Chem Industrial Material Russia, LLC for ₩4,249 million. The investee was reclassified from investment securities to equity-method investments.
- ³ Includes gain (loss) from discontinued operations.

(in millions of Korean won)

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

- ¹ Includes gain (loss) from discontinued operations.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

The accumulated unamortized differences between the purchase price and the underlying proportionate net book value of equity investments, as well as the changes in such amounts are as follows:

(in millions of Korean won)

Investee	2009				2008			
	Beginning Balance	Increase	Amortization	Ending Balance	Beginning Balance	Increase	Amortization	Ending Balance
SEETEC Co., Ltd.	₩(60,530)	₩ -	₩ (3,363)	₩(57,167)	₩(63,893)	₩ -	₩ (3,363)	₩(60,530)
LG Dow Polycarbonate Ltd.	992	-	198	794	1,190	-	198	992
LG Holdings (HK) Ltd.	1,831	-	524	1,307	2,355	-	524	1,831
	₩(57,707)	₩ -	₩ (2,641)	₩(55,066)	₩(60,348)	₩ -	₩ (2,641)	₩(57,707)

The eliminated unrealized gains incurred from inventory transactions among equity method investees are as follows:

(in millions of Korean won)

Investee	2009	2008
Tianjin LG Dagu Chemical Co., Ltd.	₩ -	₩ 60
Tianjin LG New Building Materials Co., Ltd.	-	333
Ningbo LG Yongxing Chemical Co., Ltd.	1,225	23
LG Chemical Hong Kong Ltd.	18	123
LG Vina Chemical J/V Company	151	91
LG Hausys America, Inc.	-	5,946
LG Chem America, Inc.	630	-
LG Dow Polycarbonate Ltd.	1,078	1,405
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	16	309
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	4,075	4,337
LG Chem (China) Investment Co., Ltd.	-	1
LG Chem (Taiwan), Ltd.	4,070	7,322
LG Chem Industrial Materials Inc.	-	1,420
Tianjing LG Bohai Chemical Co., Ltd.	557	325
LG Chem Europe GmbH	96	1,551
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	59	448
	₩ 11,975	₩ 23,694

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

Changes in gain (loss) on valuation of investment securities accounted for as accumulated other comprehensive income and expenses are as follows:

(in millions of Korean won)

	2009			2008		
	Gain	Loss	Net	Gain	Loss	Net
Beginning balance	₩191,854	₩(1,232)	₩ 190,622	₩ 12,385	₩(31,802)	₩ (19,417)
Increase	-	(2,692)	(2,692)	183,147	-	183,147
Decrease	58,881	-	58,881	-	(30,570)	(30,570)
Others ¹	(27,470)	-	(27,470)	(3,678)	-	(3,678)
Ending balance	105,503	(3,924)	101,579	191,854	(1,232)	190,622
Tax effect	(22,503)	476	(22,027)	(41,329)	254	(41,075)
Net ending balance	₩83,000	₩ (3,448)	₩ 79,552	₩ 150,525	₩(978)	₩ (149,547)

¹ Includes changes arising from the transfer to LG Hausys, Ltd.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

The summary financial information on the equity-method investees is as follows:

Investee	2009			
	Total Assets	Total Liabilities	Sales	Net Income (Loss)
Tianjin LG Dagu Chemical Co., Ltd.	₩ 148,194	₩ 94,571	₩ 419,900	₩ 29,009
Tianjin LG New Building Materials Co., Ltd. ¹	-	-	21,382	768
Ningbo LG Yongxing Chemical Co., Ltd.	535,005	286,435	1,124,563	90,946
LG Chemical India Pvt. Ltd. ²	64,173	20,822	139,481	(9,439)
LG Chemical Hong Kong Ltd.	92,574	82,109	423,160	1,313
LG Vina Chemical J/V Company	14,575	6,654	47,355	4,467
LG Hausys America, Inc. ¹	-	-	61,060	(4,143)
LG Chem America, Inc.	116,106	112,136	264,821	32
M. Dohmen S.A. ¹	-	-	23,936	(2,286)
SEETEC Co., Ltd.	355,794	84,727	407,434	(20,075)
LG Dow Polycarbonate Ltd.	290,794	176,670	365,799	(2,516)
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	83,992	53,458	143,960	14,776
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	432,555	263,129	471,092	28,697
LG Chem Trading (Shanghai) Co., Ltd. ¹	-	-	1,614	54
LG Chem (China) Investment Co., Ltd.	61,244	10,105	45,589	2,173
LG Chem (Taiwan), Ltd.	271,501	251,120	536,507	18,300
LG Chem Industrial Materials Inc. ¹	-	-	11,632	(495)
LG Holdings (HK) Ltd.	191,108	-	-	1,087
Compact Power Inc.	14,631	13,203	37,734	901
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	43,115	22,274	63,784	6,556
LG Chem Display Materials (Beijing) Co., Ltd.	22,682	9,179	14,151	1,305
Tianjin LG Bohai Chemical Co., Ltd.	405,120	253,652	397,647	11,861
LG Chem Europe GmbH	22,149	17,111	62,778	696
LG Hausys Europe GmbH ¹	-	-	3,990	16
LG Chem Brasil, Ltd.	159	262	233	(83)
LG Chem Poland Sp. Z.O.O	28,634	19,150	18,243	1,673
TECWIN Co., Ltd.	29,707	12,290	53,622	2,991
LG Chem Industrial Material Russia, LLC ¹	-	-	-	-
Tianjin LG Botian Chemical	24,508	8,823	-	-
	<u>₩ 3,248,320</u>	<u>₩ 1,797,880</u>	<u>₩ 5,161,467</u>	<u>₩ 178,584</u>

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

² LG Chemical India Pvt. Ltd. holds 100% ownership in LG Polymer India Pvt Ltd, and therefore the financial information is included in that of the LG Polymer India Pvt .

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

(in millions of Korean won)

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

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

(in millions of Korean won)

Investee	2009		
	Net Asset Value before Adjustments	Adjustments	Net Asset Value after Adjustments
Tianjin LG Dagu Chemical Co., Ltd.	₩ 91,556	₩ (37,933)	₩ 53,623
Ningbo LG Yongxing Chemical Co., Ltd.	268,439	(19,869)	248,570
LG Chemical India Pvt. Ltd.	46,987	(3,636)	43,351
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	31,441	(907)	30,534
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd	173,664	(4,328)	169,426
LG Chem (China) Investment Co., Ltd.	51,179	(40)	51,139
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	20,857	(16)	20,841
LG Chem Display Materials (Beijing) Co., Ltd	13,743	(240)	13,503
Tianjin LG Bohai Chemical Co., Ltd.	154,671	(3,203)	151,468

(in millions of Korean won)

Investee	2008		
	Net Asset Value before Adjustments	Adjustments	Net Asset Value after Adjustments
Tianjin LG Dagu Chemical Co., Ltd.	₩ 79,900	₩ (47,468)	₩ 32,432
Tianjin LG New Building Materials Co., Ltd.	64,808	(6,863)	57,945
Ningbo LG Yongxing Chemical Co., Ltd.	192,145	(12,961)	179,184
LG Chemical India Pvt. Ltd.	54,455	474	54,929
LG Vina Chemical J/V Company	3,169	341	3,510
LG Hausys America, Inc.	12,283	1,084	13,367
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	22,978	(773)	22,205
LG Chem (China) Investment Co., Ltd.	46,097	241	46,338
LG Chem Poland Sp. Z.O.O	7,655	541	8,196
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	15,833	(23)	15,810

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

9. Property, Plant and Equipment

<i>(in millions of Korean won)</i>	2009		2008	
Buildings	₩	1,029,994	₩	1,092,373
Structures		495,541		510,824
Machinery and equipment		4,846,537		4,892,001
Vehicles		27,373		30,773
Tools and furniture		424,542		671,917
Construction-in-progress		484,509		286,851
Others		17,978		-
		<u>7,326,474</u>		<u>7,197,888</u>
Less: Accumulated depreciation		(3,909,062)		(4,183,635)
Accumulated impairment loss		(47,819)		(12,301)
		<u>3,369,593</u>		<u>3,001,952</u>
Land		426,305		498,231
Machinery-in-transit		64,382		80,632
	₩	<u>3,860,280</u>	₩	<u>3,867,666</u>

For the year ended December 31, 2009, capitalized interest expense amounted to ₩9,270 million (2008: ₩4,693 million). As a result of the capitalization of interest expense, as of December 31, 2009, property, plant and equipment increased by ₩32,206 million (2008: ₩25,558 million), and net income for 2009 increased by ₩5,885 million (2008: ₩2,584 million).

As of December 31, 2009, property, plant and equipment, except for land, are insured against fire and other casualty losses for up to ₩10,101,541 million (2008: ₩13,409,702 million). In addition, the Company has business interruption insurance policies.

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

As of December 31, 2009, the appraised value of the Company's land, as determined by the local governments in Korea for property tax assessment purposes, amounted to ₩678,667 million (2008: ₩814,688 million).

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

10. Intangible Assets

(in millions of Korean won)

	2009		2008	
Intellectual property rights	₩	38,033	₩	32,339
Development costs, net		23,414		45,908
Others		8,832		10,472
Goodwill		28,285		33,415
Negative goodwill		(195,848)		(235,018)
	₩	<u>(97,284)</u>	₩	<u>(112,884)</u>

The changes in development costs are as follows:

(in millions of Korean won)

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

Details of goodwill and negative goodwill are as follows:

(in millions of Korean won)

	2009		2008		Remaining amortization
Goodwill	Acquisition of LG Petrochemical	₩ 5,672	₩ 8,193		2 years 3 month
	Acquisition of SAP business	22,613	25,222		8 years 8 month
Negative goodwill	Acquisition of LG Daesan Petrochemical	₩ (195,848)	₩(235,018)		5 years

Expenses (including those of discontinued operations) which have potential future benefits but were not capitalized as intangible assets due to their uncertainty include:

(in millions of Korean won)

	2009		2008	
Employee education expenses	₩	10,519	₩	14,602
Advertising expenses		14,411		38,936
	₩	<u>24,930</u>	₩	<u>53,538</u>

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

11. Provisions for warranty reserve

(in millions of Korean won)

	Provision for Products defects ¹	Provision for Repairs and recalls ²
Beginning balance	₩ -	₩ -
Increase	3,512	5,131
Decrease due to Spin-off ³	-	(3,339)
Decrease	-	-
Ending balance	<u>₩ 3,512</u>	<u>₩ 1,792</u>

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

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

³ Transferred to LG Hausys, Ltd. on April 1, 2009.

12. Current Maturities of Long-Term Debts

(in millions of Korean won)

	Annual Interest Rate (%)			2009		2008
	<u>2009</u>	<u>2008</u>				
Current maturities of long-term debts						
Debentures, including US\$ 50 million (2008: US\$ 85 million)	6LIBOR+	6LIBOR+				
	0.26~4.5	0.45~3.5	₩	158,380	₩	506,888
Won currency loans	3.0~9.0	3.0~9.0		4,454		3,444
Foreign currency loans of US\$ 250 million (2008: US\$ 52 million)	3LIBOR+					
	0.3~0.4	3LIBOR+0.51		<u>291,900</u>		<u>65,427</u>
				454,734		575,759
Less: Discount on debentures issued				<u>(86)</u>		<u>(617)</u>
			₩	<u>454,648</u>	₩	<u>575,142</u>

Certain property, plant and equipment serve as collaterals for the above borrowings as of December 31, 2009 (Note 9).

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

13. Long-term Debts

(in millions of Korean won)

	Reference	2009	2008
Debentures	(1)	₩ 275,459	₩ 361,148
Loans	(2)	128,780	458,796
		<u>₩ 404,239</u>	<u>₩ 819,944</u>

(1) Debentures are as follows:

(In millions of Korean won)

	Annual Interest Rate (%)		2009	2008
	2009	2008		
Publicly offered debentures including JPY 10,000 million, payable through 2012	4.85~3TIBOR+3	3.5~5.02	₩ 376,282	₩ 599,389
Privately offered debentures, payable through 2009	-	5.02~5.32	-	100,000
Foreign currency debentures of US\$50 million (2008: US\$135 million) payable through 2010 ¹	6LIBOR+0.26	6LIBOR+0.2~0.45	58,380	169,763
			<u>434,662</u>	<u>869,152</u>
Less: Current maturities			(158,380)	(506,888)
Discount on debentures			<u>(823)</u>	<u>(1,116)</u>
			<u>₩ 275,459</u>	<u>₩ 361,148</u>

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

(2) Loans payable consist of the following:

(in Millions of Korean won)

	Annual Interest Rate (%)			
	2009	2008	2009	2008
Won currency loans				
Energy fund loans	3.25	4.25	₩ 2,448	₩ 4,153
Housing loans	3.0	3.0	2,198	4,006
Company housing movement expense	-	-	1,145	1,754
Capital lease ¹	9.0	9.0	10,683	12,202
			16,474	22,115
Less: Current maturities			(4,454)	(3,444)
			12,020	18,671
Foreign currency loans				
General term loans of	3LIBOR+			
US\$ 350 million (2008:	0.30~6LIB	3LIBOR+		
US\$ 402 million)	OR+0.40	0.3~0.51	408,660	505,552
Less: Current maturities			(291,900)	(65,427)
			116,760	440,125
			₩ 128,780	₩ 458,796

¹ Certain property, plant and equipment serve as collaterals for the above borrowings as of December 31, 2009 (Note 9).

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

(in millions of Korean won)

Year	Debentures	Loans	Lease	Foreign Currency Loans	Total
2011	₩ 126,282	₩ 1,133	₩ 2,481	₩ 58,380	₩ 188,276
2012	150,000	194	2,481	58,380	211,055
2013	-	212	2,481	-	2,693
Thereafter	-	1,457	3,196	-	4,653
Unaccrued interest	-	-	(1,615)	-	(1,615)
	₩ 276,282	₩ 2,996	9,024	₩ 116,760	₩ 405,062

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

14. Assets and Liabilities Denominated in Foreign Currencies

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

	Foreign Currency (in thousands)				Korean won equivalents (in millions)	
	2009		2008		2009	2008
Cash and cash equivalents	US\$	162,688	US\$	74,735	₩203,071	₩94,428
	EUR	845	EUR	176		
	GBP	368	GBP	16		
	JPY	864,615	JPY	4,561		
Trade accounts and notes receivable	US\$	391,945	US\$	331,855	508,012	452,292
	EUR	841	EUR	11,351		
	GBP	29	GBP	78		
	JPY	3,873,307	JPY	1,053,190		
Other accounts receivable	US\$	36,012	US\$	38,124	43,132	48,229
	EUR	162	EUR	160		
			JPY	270		
Trade accounts and notes payable	US\$	239,422	US\$	93,418	416,297	203,593
	EUR	103	EUR	268		
	JPY	10,747,424	JPY	6,143,927		
Other accounts payable	US\$	94,045	US\$	49,572	124,630	82,301
	EUR	692	EUR	929		
	JPY	897,890	JPY	1,179,483		

Gains and losses on foreign currency translation (including discontinued operations) for the year ended December 31, 2009, are ₩56,856 million (2008: ₩32,613 million) and ₩14,719 million (2008: ₩209,959 million), respectively.

15. Accrued Severance Benefits

(in millions of Korean won)

	2009	2008
Provision for severance benefits	₩ 234,575	₩ 277,340
Less: Group severance insurance deposits	(163,221)	(181,240)
Contribution to National Pension Plan	(1,926)	(2,756)
Ending balance	<u>₩ 69,428</u>	<u>₩ 93,344</u>

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

16. Stock Options

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

Details of the stock options granted are as follows:

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

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

Changes in stock options are as follows:

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

¹ Stock compensation cost was recognized due to changes in stock price during 2008, excluding the reversal of stock compensation expense (including discontinued operations) (Note 26).

LG Chem, Ltd.

Notes to Non-Consolidated Financial Statements

December 31, 2009 and 2008

17. Commitments and Contingencies

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

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

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

As of December 31, 2009, the Company has provided one blank promissory note to the Korea National Oil Corporation as collateral in relation to petroleum import surcharges. Further, with respect to the borrowings of the Company, one blank promissory note is provided as collateral to a financial institution.

As of December 31, 2009, the Company is contingently liable for notes receivable from export sales which were discounted through financial institutions in the ordinary course of business amounting to ₩1,065,720 million.

As of December 31, 2009, the Company has bank overdraft agreements with several banks for up to ₩53,900 million. The Company has also entered into contracts with several financial institutions to open import letters of credit for up to ₩121,700 million and US\$ 275 million, respectively. The Company has entered into contracts with several financial institutions for discounting notes from export and derivative financial instruments for up to US\$ 1,003 million and US\$ 30 million respectively, for other foreign currency payment guarantee of up to US\$ 5 million, and for other notes of up to ₩50,000 million.

Further, the Company has entered into credit line agreements with several financial institutions for up to ₩66,140 million and US\$ 302 million.

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

The Company has guaranteed repayments of various obligations of subsidiaries and associated companies. The outstanding balances of such guarantees as of December 31, 2009, amounted to ₩195,444 million (2008: ₩176,884 million) (Note 26).

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

As of December 31, 2009, the Company has entered into technology license agreements with companies such as Goodyear Tire & Rubber Company for the production of polymer and rubber products. Further, the Company has entered into manufacture and production technical contracts with Toyo Engineering Corp., Exxon Mobile and others. The Company has also entered into technical contracts for technologies and consultation in relation to the manufacture of certain products.

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

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

The Company has cross currency forward and currency swap contracts with financial institutions for hedging against fluctuations in foreign exchange rates. As of December 31, 2009, the Company's outstanding contracts amounts are US\$ 105 million and JPY 10,000 million (2008: US\$ 202 million and JPY 10,000 million).

Details of the changes in valuation gain or loss on derivatives are as follows:

<i>(in millions of Korean won)</i>	Trading		Hedge¹		Other comprehensive income³
	Valuation gain²	Valuation loss	Valuation gain²	Valuation loss²	
2009	₩ 378	₩ (39)	₩ -	₩ (22,097)	₩ (7,318)
2008	-	-	65,418	16,611	(16,053)

¹ The Company applies cash flow hedge accounting and is exposed to fluctuations in cash flows up to December 19, 2011, on its cross currency and interest swaps.

² Includes gain(loss) from discontinued operations.

³ The ₩7,318 million (2008: ₩16,053 million), net of tax, was charged to accumulated other comprehensive income.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

18. Equity

(in millions of Korean won)

	Common stock		Preferred stock		Paid-in capital in excess of par value ¹	Loss on capital reduction ²
	Number of shares	Amounts	Number of shares	Amounts		
January 1, 2008	75,238,770	₩ 376,194	8,661,251	₩ 43,306	₩1,052,640	₩ -
December 31, 2008	75,238,770	376,194	8,661,251	43,306	1,052,640	-
Spin off	(8,967,670)	(44,838)	(1,032,330)	(5,162)	(125,467)	(464,272)
December 31, 2009	<u>66,271,100</u>	<u>₩ 331,356</u>	<u>7,628,921</u>	<u>₩ 38,144</u>	<u>₩ 927,173</u>	<u>₩(464,272)</u>

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

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

19. Retained Earnings

(in millions of Korean won)

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

Legal Reserve

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

Other Reserve

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

20. Treasury Stock

(in millions of Korean won)

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

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

21. Cost of Sales

(in millions of Korean won)

	2009	2008
Products		
Beginning balance of inventories	₩ 916,590	₩ 669,154
Cost of goods manufactured	10,434,262	11,198,546
Ending balance of inventories	(784,044)	(916,590)
Duty refunds	(46,665)	(37,380)
Discontinued operations	(161,256)	(835,695)
	<u>10,358,887</u>	<u>10,078,035</u>
Merchandise		
Beginning balance of inventories	67,005	43,812
Purchases	549,246	1,178,938
Ending balance of inventories	(36,685)	(67,005)
Discontinued operations	(120,116)	(777,604)
	<u>459,450</u>	<u>378,141</u>
Other cost of sales	<u>57,615</u>	<u>49,366</u>
Total	₩ 10,875,952	₩ 10,505,542

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

22. Income Taxes

(in millions of Korean won)

	2009		2008	
Current income taxes under the tax law	₩	383,867	₩	355,698
Changes in deferred income tax assets (liabilities) ¹		<u>39,566</u>		<u>3,587</u>
Total income tax effect		423,433		359,285
Deferred income taxes directly added to shareholders' equity ²		10,593		(38,080)
Income taxes from discontinued operations		10,618		(21,540)
Income tax expense	₩	<u>444,644</u>	₩	<u>299,665</u>

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

(in millions of Korean won)

	Accumulated Temporary Differences		Deferred Income Tax Assets (Liabilities)	
	2009	2008	2009	2008
Beginning balance	₩(25,922)	₩ (7,884)	₩ 914	₩ 2,466
Adjustment ^a	-	7,179	-	2,035
Adjusted beginning balance	(25,922)	(705)	914	4,051
Ending balance	(258,238)	(25,922)	(56,215)	914
Transfer ^b	-	-	17,563	-
			₩ (39,566)	₩ (3,587)

- ^a The Company adopted the Korea Accounting Institute Opinion on Korean Accounting Statement Implementation 06-2, *Accounting treatment for taxable temporary differences associated with investments in subsidiaries, associates, and interest in joint ventures*, which was revised on February 22, 2009. The effect of the change is adjusted to the beginning balance of 2008 (Note 2).
- ^b Transferred to LG Hausys, Ltd. due to spin-off.

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

(in millions of Korean won)

	Accumulated Temporary Differences		Deferred Income Tax Assets (Liabilities)	
	2009	2008	2009	2008
Beginning balance	₩ (164,562)	₩ 11,252	₩ (34,986)	₩ 3,094
Ending balance	(88,924)	(164,562)	(19,691)	(34,986)
Transfer ^a			(4,702)	-
			₩ 10,593	₩ (38,080)

- ^b Transferred to LG Hausys, Ltd. due to spin-off.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

Reconciling items between net income before tax (including discontinued operations) and income tax expense (including discontinued operations) are as follows:

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

Changes in temporary differences for the years ended December 31, 2009 and 2008, are as follows:

(in millions of Korean won)

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

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

² As of December 31, 2009, deferred income taxes for the negative goodwill of ₩195,848 million and goodwill of ₩5,672 million were not recognized, when the Company adopted SKFAS No. 16, *Deferred Income Tax*.

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

(in millions of Korean won)

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

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

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

³ The Company adopted the Korea Accounting Institute Opinion on Korean Accounting Statement Implementation 06-2, *Accounting treatment for taxable temporary differences associated with investments in subsidiaries, associates, and interest in joint ventures*, which was revised on February 22, 2008. The effect of the change is adjusted to the beginning balance of 2008 (Note 2).

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

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

<i>(in millions of Korean won)</i>	2009		2008	
	Deferred tax Assets	Deferred tax Liabilities	Deferred tax Assets	Deferred tax Liabilities
Current	₩ 30,754	₩ (15,201)	₩ 69,754	₩ (30,590)
Non-current	62,400	(134,168)	81,346	(119,596)

The tax effect of cumulative temporary differences was calculated based on future tax rate of the fiscal year when temporary differences are expected to be realized. The 24.2% tax rate was used for temporary differences expected to be reversed in year 2010 and 2011, while 22% was used for temporary differences expected to reverse in 2012 and thereafter. As a result, deferred tax assets and deferred tax liabilities increased by ₩3,342 million and ₩3,525 million, respectively, as compared to the amount using the current tax rate .

Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook of the Korean economic environment, and the overall future industry outlook. Management periodically considers these factors in reaching its conclusion and recognized the deferred income tax asset since all the future (deductible) tax benefits are determined to be realizable as of December 31, 2009.

23. Comprehensive Income and Expenses

<i>(in millions of Korean won)</i>	2009	2008
Net income	₩1,507,131	₩1,002,585
Accumulated effects from changes of financial accounting standards (Note 2)	-	2,035
Other comprehensive income		
Increase from equity-method investments, net of tax effects of ₩(14,347) million (2008: ₩44,171 million)	(47,226)	165,869
Valuation loss on cash flow hedge derivative instruments, net of tax effects of ₩3,753 million (2008: ₩(6,089) million)	8,735	(16,053)
Comprehensive income	<u>₩1,468,640</u>	<u>₩1,154,436</u>

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

24. Earnings Per Share

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

	2009	2008
Income from continuing operations	₩ 1,539,701	₩ 945,799
Preferred stock dividends	(27,063)	(22,077)
Preferred stock share in the remaining profit available for dividends	(132,902)	(76,497)
Income from continuing operations available for common stock (A)	1,379,736	847,225
Weighted average number of shares of outstanding common stock (B) ¹	68,116,575	74,706,927
Basic income from continuing operations per share (A/B)	₩ 20,256	₩ 11,341
Net income	₩ 1,507,131	₩ 1,002,585
Preferred stock dividends	(27,063)	(22,077)
Preferred stock share in the remaining profit available for dividends	(129,526)	(82,395)
Net income available for common stock (A)	1,350,542	898,113
Weighted average number of shares of outstanding common stock (B) ¹	68,116,575	74,706,927
Basic earnings per share (A/B)	₩ 19,827	₩ 12,022

¹ Excludes treasury stock.

There are no outstanding convertible bonds or other dilutive securities as of December 31, 2009 and 2008. Accordingly, basic earnings and income from continuing operations per share are identical to fully diluted earnings and income from continuing operations per share.

Basic and diluted loss from discontinued operations per share are ₩(429) (2008: income per share of ₩ 681).

25. Dividends

	2009	2008
Shares issued and outstanding (par value per share: ₩5,000)		
Common stock	65,911,322	74,849,856
Preferred stock	7,623,403	8,657,592
Dividend per share (in won)		
Common stock: cash	₩ 3,500 (70%)	₩ 2,500 (50%)
Preferred stock: cash	₩ 3,550 (71%)	₩ 2,550 (51%)
Cash dividend amount (in millions of Korean won)		
Common stock	₩ 230,689	₩ 187,125
Preferred stock	27,063	22,077
	₩ 257,752	₩ 209,202

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

26. Related Party Transactions

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

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

<i>(in millions of Korean won)</i>	2009			
	Sales	Purchases	Receivables⁴	Payables
Controlling company	₩ -	₩ 37,677	₩ 5,276	₩ 1,943
Subsidiaries ^{1, 2, 3}	1,276,387	505,763	35,962	81,498
Equity method investees ¹	48,751	152,374	-	13,578
Key management	-	40,590	-	33,581
Other related companies ⁴	2,907,472	679,738	511,623	142,891
Total	₩4,232,610	₩1,416,142	₩ 552,861	₩ 273,491

<i>(in millions of Korean won)</i>	2008			
	Sales	Purchases	Receivables⁴	Payables
Controlling company	₩ -	₩ 37,788	₩ 7,723	₩ 6,024
Subsidiaries ^{1, 2}	1,209,951	285,515	30,472	48,277
Equity method investees ¹	95,548	159,930	5,194	8,260
Key management	-	64,468	-	52,284
Other related companies	2,363,582	627,616	356,701	89,027
Total	₩3,669,081	₩1,175,317	₩ 400,090	₩ 203,872

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

² Includes Ningbo Bond International Trade Co., Ltd., a subsidiary of Ningbo LG Yongxing Chemical Co., Ltd.

³ Includes transactions with Tianjin LG New Building Materials Co., Ltd., and other companies of LG Hausys, Ltd. before spin-off.

⁴ Includes LG Display Co., Ltd., LG Electronics Inc., LG International Corp., and LG Hausys, Ltd. and its subsidiaries after spin-off.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

Compensation for key management officers consists of:

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

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

The details of guarantees provided by the Company are as follows:

<i>(in millions of Korean won)</i>	2009		
Guarantee Beneficiary	Amount of Guarantee	Financial Institution	Outstanding Loan Amount
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	₩ 68,129	Bank of China	₩ 63,377
	23,352	Woori Bank	23,532
	-	Korea Exchange Bank	-
	35,028	Export-Import Bank of Korea	35,028
Tianjin LG Bohai Chemical Co., Ltd.	3,892	Export-Import Bank of Korea	3,892
	-	Export-Import Bank of Korea	-
LG Chem Poland Sp.Z.O.O.	17,989	Nordea Bank	11,261
	-	JP Morgan	-
LG Hausys America, Inc.	29,540	Kookmin Bank	29,540
	-	Bank of America	-
LG Chem America, Inc.	5,838	Bank of America	3,503
	11,676	Bank of America	-
Compact Power, Inc.	-		-
	₩ 195,444		₩ 169,953

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

27. Operating Results for the Final Interim Period

Operating results for the three-month periods ended December 31, 2009 and 2008, are as follows:

<i>(in millions of Korean won, except per share amounts)</i>	2009	2008
Sales	₩ 3,563,007	₩ 2,815,633
Operating income	309,419	147,192
Net income	208,473	61,612
Earnings per share	2,834	737

28. Segment Information

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

(1) Industry Segment Information

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

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

Financial information on industry segments are as follows:

<i>(in millions of Korean won)</i>	2009			
	Petrochemicals	Information & Electronic Materials	Others	Total
Sales				
External sales ¹	₩ 9,476,727	₩ 4,181,256	₩ 36,532	₩ 13,694,515
Inter-segment sales	120,645	15,320	196,211	332,176
	<u>₩ 9,597,372</u>	<u>₩ 4,196,576</u>	<u>₩ 232,743</u>	<u>₩ 14,026,691</u>
Operating income	<u>₩ 1,458,637</u>	<u>₩ 498,217</u>	<u>₩ (12,042)</u>	<u>₩ 1,944,812</u>
Property, plant and equipment, and intangible assets ²	<u>₩ 2,128,850</u>	<u>₩ 1,212,081</u>	<u>₩ 617,913</u>	<u>₩ 3,958,844</u>
Depreciation and amortization	<u>₩ 242,099</u>	<u>₩ 167,988</u>	<u>₩ 8,474</u>	<u>₩ 418,561</u>

<i>(in millions of Korean won)</i>	2008			
	Petrochemicals	Information & Electronic Materials	Others	Total
Sales				
External sales ¹	₩ 9,933,935	₩ 2,695,637	₩ 15,428	₩ 12,645,000
Inter-segment sales	90,758	4,727	240,459	335,944
	<u>₩ 10,024,693</u>	<u>₩ 2,700,364</u>	<u>₩ 255,887</u>	<u>₩ 12,980,944</u>
Operating income	<u>₩ 903,344</u>	<u>₩ 451,451</u>	<u>₩ (10,446)</u>	<u>₩ 1,344,349</u>
Property, plant and equipment, and intangible assets ²	<u>₩ 2,081,876</u>	<u>₩ 1,016,518</u>	<u>₩ 891,406</u>	<u>₩ 3,989,800</u>
Depreciation and amortization	<u>₩ 232,670</u>	<u>₩ 126,375</u>	<u>₩ 6,378</u>	<u>₩ 365,423</u>

¹ Includes sales of discontinued operations to the Industrial Materials segment, amounting to ₩36,883 million (2008: ₩247,836 million).

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

(2) Geographical Segment Information

(in millions of Korean won)

	Domestic¹	China	North America	South America	South-East Asia	Western Europe	Others	Total
2009	<u>₩6,486,729</u>	<u>₩4,218,944</u>	<u>₩ 361,029</u>	<u>₩ 128,887</u>	<u>₩ 632,977</u>	<u>₩ 349,492</u>	<u>₩1,516,457</u>	<u>₩13,694,515</u>
2008	<u>₩6,263,873</u>	<u>₩3,250,377</u>	<u>₩ 472,834</u>	<u>₩ 127,563</u>	<u>₩ 600,224</u>	<u>₩ 402,156</u>	<u>₩1,527,973</u>	<u>₩12,645,000</u>

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

29. Supplemental Cash Flow Information

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

<i>(in millions of Korean won)</i>	2009	2008
Reclassification of construction-in-progress to property, plant and equipment	₩ 529,680	₩ 590,176
Reclassification of machinery-in-transit to machinery and equipment	164,882	100,478
Reclassification of depreciation expenses to development costs	530	905
Reclassification of severance benefits to development costs	298	164
Gain on valuation of investments using the equity method of accounting (accumulated other comprehensive income and expenses)	64,479	213,717
Reclassification of long-term debts to current maturities of long-term debts	296,354	52,258
Reclassification of long-term debts to current maturities of debentures	158,380	479,747
Gain on valuation of derivatives (accumulated other comprehensive income and expenses)	12,488	22,142

30. Spin-off

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

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

Method of spin-off

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

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

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

The summarized financial information of the spun off business segment

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

Transfer of right and obligations

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

Severance benefits and employees

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

Responsibilities

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

Settlement of transfer transactions after the spin-off date.

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

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

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

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

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

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

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

<i>(in millions of Korean won)</i>	2009	2008
Impairment loss on discontinued operations	₩ (168)	₩ (120)
Income from the industrial materials segment ¹	(43,020)	78,446
Income before tax from discontinued operations	₩ (43,188)	₩ 78,326

¹ Excludes impairment loss on discontinued operations.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

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

<i>(in millions of Korean won)</i>	2009	2008
Sales ¹	₩ 341,200	₩ 2,090,667
Cost of sales ¹	(281,975)	(1,617,208)
Gross profit	<u>59,225</u>	<u>473,459</u>
Selling and administrative expenses	(86,164)	(388,177)
Operating income (loss)	<u>(26,939)</u>	<u>85,282</u>
Non-operating income	19,425	100,607
Non-operating expenses	(35,506)	(107,443)
Income (loss) from the Industrial Materials segment	<u>₩ (43,020)</u>	<u>₩ 78,446</u>

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

The income (loss) after income tax from discontinued operations of the Industrial Materials segment for the three-month period ended March 31, 2009 and for the year ended December 31, 2008, follows:

<i>(in millions of Korean won)</i>	2009	2008
Income before income tax from discontinued operations	₩ (43,188)	₩ 78,326
Income tax	<u>10,618</u>	<u>(21,540)</u>
Income after income tax from discontinued operations	<u>₩ (32,570)</u>	<u>₩ 56,786</u>

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

<i>(in millions of Korean won)</i>	2009	2008
Cash flows from operating activities	₩ 13,309	₩ 53,436
Cash flows from investing activities	(20,932)	(83,824)
Cash flows from financing activities	7,623	30,388

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

31. Business Acquisition

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

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

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

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

(2) Changes in goodwill are as follows:

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

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

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

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

32. Early Adoption of Korean International Financial Reporting Standards

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

The Company’s implementation plan is as follows:

Early adoption plan and progress status

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

Since 2007, the Company engaged an external advisory firm and completed an analysis on significant differences between K-IFRS and the current Korean Financial Accounting Standards. The Company has completed determining the accounting policies that the Company will adopt under K-IFRS. Financial statements in accordance with K-IFRS at the date of transition, January 1, 2009, and after the transition date, are now being prepared.

Differences between K-IFRS and current Korean Financial Accounting Standards

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

Changes in consolidated companies

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

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

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

Effects on Financial Position and Operating Results

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

<i>(in millions of Korean won)</i>	Total Assets	Total Liabilities	Total Shareholders' equity
K-GAAP	₩ 8,036,382	₩ 3,146,688	₩ 4,889,694
Adjustments			
Derecognition of accounts receivable ¹	852,576	818,915	6,661
Employee benefits ²	(1,867)	(27,973)	26,106
Amortization on negative goodwill ³	235,018	-	235,018
Income tax effect ⁴	(4,306)	(38,249)	33,943
Total adjustments	1,054,421	752,693	301,728
K-IFRS	₩ 9,090,803	₩ 3,899,381	₩ 5,191,422

- ¹ Discounted trade accounts receivable with recourse accounted as sales under K-GAAP is accounted as borrowing transaction under K-IFRS.
² Changes of accrued severance benefits using actuarial valuation.
³ Balance of negative goodwill was reversed entirely.
⁴ Income tax effects from above adjustments and deferred income tax classified as non-current assets or liabilities.

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

<i>(in millions of Korean won)</i>	Total Assets	Total Liabilities	Total Shareholders' equity
K-GAAP	₩ 8,358,827	₩ 2,874,492	₩ 5,484,335
Adjustments			
Change equity-method Investments into cost methods ¹	(63,803)	-	(63,803)
Derecognition of accounts receivable ²	954,219	949,353	4,866
Employee benefits ³	(1,646)	(22,241)	20,595
Amortization on negative goodwill ⁴	195,848	-	195,848
Withdrawal of amortization on goodwill ⁵	5,130	-	5,130
Spin-off ⁶	1,716	9,391	(7,675)
Income tax effect ⁷	(15,553)	(71,493)	55,940
Total adjustments	1,075,911	869,010	210,901
K-IFRS	₩ 9,434,738	₩ 3,739,502	₩ 5,695,236

- ¹ Application of cost method for investments in subsidiaries and associates accounted previously under the equity method.
² Discounted trade accounts receivable with recourse accounted as sales under K-GAAP is accounted for as borrowing transaction under K-IFRS.
³ Changes of accrued severance benefits using actuarial valuation.
⁴ Balance of negative goodwill was reversed entirely.
⁵ Cancellation of goodwill amortization.

LG Chem, Ltd.
Notes to Non-Consolidated Financial Statements
December 31, 2009 and 2008

- ⁶ Distribution of non-cash assets to owners as spin off accounting treatment in Industry Materials segment under K-IFRS.
⁷ Income tax effects from above adjustments and deferred income tax classified as non-current assets or liabilities.

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

(in millions of Korean won)

	Net Income	Comprehensive income
K-GAAP	₩ 1,507,131	₩ 1,468,640
Adjustments		
Change equity-method Investments into cost methods ¹	(128,282)	(66,709)
Derecognition of accounts receivable ²	(1,795)	(1,795)
Employee benefits ³	4,761	(5,511)
Amortization on negative goodwill ⁴	(39,170)	(39,170)
Withdrawal of amortization on goodwill ⁵	5,130	5,130
Spin-off ⁶	(1,110)	(1,110)
Income tax effect ⁷	34,128	21,996
Others	3,679	3,679
Total adjustments	<u>(122,659)</u>	<u>(83,490)</u>
K-IFRS	<u>₩ 1,384,472</u>	<u>₩ 1,385,150</u>

- ¹ Application of cost method for investments in subsidiaries and associates accounted previously under the equity method.
² Interests from the derecognition of accounts receivable.
³ Changes of accrued severance benefits from using actuarial valuation.
⁴ Cancellation of negative goodwill amortization
⁵ Cancellation of goodwill amortization.
⁶ Distribution of non-cash assets to owners as spin off accounting treatment in industry materials segment under K-IFRS.
⁷ Income tax effects from above adjustments

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

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

To the President of
LG Chem, Ltd.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of LG Chem, Ltd. (the "Company") as of December 31, 2009. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2009, the Company's IACS has been designed and is operating effectively as of December 31, 2009, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

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

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

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

Our review is based on the Company's IACS as of December 31, 2009, and we did not review management's assessment of its IACS subsequent to December 31, 2009. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

March 11, 2010

Report on the Operations of the Internal Accounting Control System

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

I, as the Internal Accounting Control Officer (“IACO”) of LG Chem, Ltd. (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2009.

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

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2009, in all material respects, in accordance with the IACS standards.

January 29, 2010

Cho Seok-Je, Internal Accounting Control System Officer

Kim Bahn-Suk, Chief Executive Officer