

PUBLIC  
563 FILE

**LG Chem, Ltd. and Subsidiaries**  
**Consolidated Financial Statements**  
**December 31, 2010 and 2009**

**LG Chem, Ltd. and Subsidiaries**  
**Index**  
**December 31, 2010 and 2009**

---

	<b>Page(s)</b>
<b>Report of Independent Auditors .....</b>	<b>1 - 2</b>
<b>Consolidated Financial Statements</b>	
Consolidated Statements of Financial Position .....	3 - 4
Consolidated Statements of Income.....	5
Consolidated Statements of Comprehensive Income.....	6
Consolidated Statements of Changes in Shareholders' Equity.....	7
Consolidated Statements of Cash Flows .....	8
Notes to the Consolidated Financial Statements .....	9 - 76

**Report of Independent Auditors**

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

We have audited the accompanying consolidated statements of financial position of LG Chem, Ltd. and its subsidiaries (collectively the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean won. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Ningbo LG Yongxing Chemical Co., Ltd. and certain other consolidated subsidiaries, whose financial statements represent 22% of the Company's consolidated total assets as of December 31, 2010 (2009: 18%), and represent 22% of the Company's consolidated total revenue for the year ended December 31, 2010 (2009: 17%). These financial 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 these subsidiaries, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Chem, Ltd. and its subsidiaries as of December 31, 2010 and 2009, and the results of their operations, change in its shareholders' equity and their cash flows for the years then ended in conformity with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

**Samill PricewaterhouseCoopers**

LS Yongsan Tower, 191, Hangangno 2-ga, Yongsan-gu, Seoul 140-702, Korea (Yongsan P.O Box 266, 140-600) www.samill.com

Samill PricewaterhouseCoopers is the Korean network firm of PricewaterhouseCoopers International Limited (PwCIL). "PricewaterhouseCoopers" and "PwC" refer to the network of member firms of PwCIL. Each member firm is a separate legal entity and does not act as an agent of PwCIL or any other member firm.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those who are informed about Korean auditing standards and their application in practice.

*Samil PricewaterhouseCoopers*

Seoul, Korea  
March 10, 2011

This report is effective as of March 10, 2011, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**LG Chem, Ltd. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2010 and 2009, and January 1, 2009**

<i>(in millions of Korean won)</i>	Notes	December 31,	December 31,	January 1,
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	3, 6, 7	1,368,034	1,106,596	513,664
Trade receivables	3, 6, 8, 35	2,529,962	2,285,743	1,992,788
Other receivables	3, 6, 8	78,015	165,666	222,702
Prepaid income taxes		3,379	4,072	-
Other financial assets	3, 6, 9	2,194	378	-
Other current assets	16	127,609	117,121	95,518
Inventories	12	2,182,484	1,597,571	1,808,792
Total current assets		<u>6,291,677</u>	<u>5,277,147</u>	<u>4,633,464</u>
<b>Non-current assets</b>				
Trade receivables	3, 6, 8	-	40	220
Other receivables	3, 6, 8	20,737	20,026	31,946
Other financial assets	3, 6, 9	4,183	22,179	53,961
Investments in associates	1, 5, 13	213,572	219,505	241,629
Deferred income tax assets	31	45,289	16,333	46,405
Property, plant and equipment	14	5,872,040	4,775,350	4,988,332
Intangible assets	15	180,115	162,159	188,864
Other non-current assets	16	45,846	37,853	55,431
Total non-current assets		<u>6,381,782</u>	<u>5,253,445</u>	<u>5,606,788</u>
<b>Total assets</b>		<u>12,673,459</u>	<u>10,530,592</u>	<u>10,240,252</u>
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade payables	3, 6, 35	1,302,563	1,095,966	595,270
Other payables	3, 6, 35	821,435	679,155	633,015
Borrowings	3, 6, 17	1,620,581	1,832,657	1,986,376
Other financial liabilities	3, 6, 9	20,535	39	-
Provisions	18	4,949	5,293	-
Current income tax liabilities	31	409,658	200,295	357,809
Other current liabilities	20	97,671	93,433	90,040
Total current liabilities		<u>4,277,392</u>	<u>3,906,838</u>	<u>3,662,510</u>
<b>Non-current liabilities</b>				
Other payables	3, 6, 35	47,792	29,485	5,881
Borrowings	3, 6, 17	480,510	577,917	1,135,841
Other financial liabilities	3, 6, 9	1,545	35,024	26,961
Defined benefit liability	19	8,136	54,389	65,372
Deferred income tax liabilities	31	14,249	-	-
Other non-current liabilities		-	250	37
Total non-current liabilities		<u>552,232</u>	<u>697,065</u>	<u>1,234,092</u>
<b>Total liabilities</b>		<u>4,829,624</u>	<u>4,603,903</u>	<u>4,896,602</u>

**LG Chem, Ltd. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2010 and 2009, and January 1, 2009**

<i>(in millions of Korean won)</i>	Notes	December 31,	December 31,	January 1,
<b>Equity</b>				
<b>Equity attributable to owners of the parent</b>				
Share capital	1, 22	369,500	369,500	419,500
Capital surplus		1,157,772	1,157,736	1,314,549
Other components of equity	24	(15,699)	(479,564)	(14,600)
Accumulated other comprehensive income(expense)		(62,017)	(74,557)	(18,385)
Retained earnings	23	<u>6,253,917</u>	<u>4,836,099</u>	<u>3,544,810</u>
		7,703,473	5,809,214	5,245,874
<b>Non-controlling interests</b>		<u>140,362</u>	<u>117,475</u>	<u>97,776</u>
<b>Total equity</b>		<u>7,843,835</u>	<u>5,926,689</u>	<u>5,343,650</u>
<b>Total liabilities and equity</b>		<u>12,673,459</u>	<u>10,530,592</u>	<u>10,240,252</u>

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

**LG Chem, Ltd. and Subsidiaries**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2010 and 2009**

<i>(in millions of Korean won, except per share amounts)</i>	<b>Notes</b>	<b>2010</b>	<b>2009</b>
<b>Revenue</b>	5, 35	19,471,450	15,520,813
<b>Cost of sales</b>	26, 35	<u>(15,472,600)</u>	<u>(12,260,974)</u>
<b>Gross profit</b>		3,998,850	3,259,839
<b>Selling, general and administrative expenses</b>	25, 26, 35	(1,158,929)	(1,018,421)
<b>Other operating income</b>	28	445,585	526,684
<b>Other operating expenses</b>	26, 29	<u>(464,178)</u>	<u>(670,353)</u>
<b>Operating profit</b>	5	<u>2,821,328</u>	<u>2,097,749</u>
<b>Non-operating income/expenses</b>			
Financial income	5, 30	137,481	184,729
Financial expenses	5, 30	(182,931)	(236,005)
Share of profit (loss) of associates	5, 13	55,459	(19,842)
Other non-operating expenses		<u>(12,900)</u>	<u>(11,239)</u>
		<u>(2,891)</u>	<u>(82,357)</u>
<b>Profit before income tax</b>	5	2,818,437	2,015,392
<b>Income tax expense</b>	31	<u>(618,672)</u>	<u>(443,179)</u>
<b>Profit from continuing operations</b>		2,199,765	1,572,213
<b>Loss from discontinued operations</b>	34	<u>-</u>	<u>(33,016)</u>
<b>Profit for the year</b>		<u>2,199,765</u>	<u>1,539,197</u>
<b>Attributable to:</b>			
Owners of the parent		<u>2,158,256</u>	<u>1,508,546</u>
Non-controlling interests		<u>41,509</u>	<u>30,651</u>
<b>Earnings per share for profit attributable to owners of the parent (in won)</b>	32		
<b>Earnings per share for profit attributable to the ordinary equity holders of the company</b>			
Basic and diluted earnings per share for profit from continuing operations		29,345	20,274
Basic and diluted earnings per share for profit for the year		29,345	19,846
<b>Earnings per share for profit attributable to the preferred equity holders of the company</b>			
Basic and diluted earnings per share for profit from continuing operations		29,395	20,322
Basic and diluted earnings per share for profit for the year		29,395	19,894

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

**LG Chem, Ltd. and Subsidiaries**  
**Consolidated Statements of Comprehensive income**  
**Years Ended December 31, 2010 and 2009**

<i>(in millions of Korean won)</i>	<b>Notes</b>	<b>2010</b>	<b>2009</b>
<b>Profit for the year</b>		<u>2,199,765</u>	<u>1,539,197</u>
<b>Other comprehensive income</b>			
Actuarial loss on defined benefit liability	19	(17,771)	(10,272)
Currency translation differences		7,390	(55,678)
Cash flow hedges		5,795	12,488
Others		798	(15,072)
Income tax effect relating to components of other comprehensive income		<u>828</u>	<u>(2,018)</u>
<b>Other comprehensive income for the year, net of tax</b>		<u>(2,960)</u>	<u>(70,552)</u>
<b>Total comprehensive income for the year</b>		<u>2,196,805</u>	<u>1,468,645</u>
<b>Attributable to:</b>			
Owners of the parent		<u>2,154,721</u>	<u>1,448,888</u>
Non-controlling interests		<u>42,084</u>	<u>19,757</u>

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



**LG Chem, Ltd. and Subsidiaries**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**Years Ended December 31, 2010 and 2009**

(in millions of Korean won)

Notes	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Other components of equity	Accumulated other comprehensive income (expense)	Retained earnings	Total		
<b>Balance at January 1, 2009</b>	419,500	1,314,549	(14,600)	(18,385)	3,544,810	5,245,874	97,776	5,343,650
<b>Comprehensive Income:</b>					1,508,546	1,508,546	30,651	1,539,197
Profit for the year	-	-	-	-	-	-	-	-
Actuarial loss on defined benefit liability	19	-	-	-	(8,058)	(8,058)	-	(8,058)
Currency translation differences	-	-	-	(45,830)	-	(45,830)	(10,075)	(55,905)
Cash flow hedges	-	-	-	8,735	-	8,735	-	8,735
Others, net of tax	-	-	-	(14,505)	-	(14,505)	(819)	(15,324)
<b>Total comprehensive income</b>	-	-	-	(51,600)	1,500,488	1,448,888	19,757	1,468,645
<b>Transactions with owners:</b>								
Fair value of non-cash assets distributed due to spin-off	22	(50,000)	(155,216)	(464,272)	(4,572)	-	(674,060)	(680,068)
Purchase of treasury shares	22	-	-	(2,293)	-	-	(2,293)	(2,293)
Disposal of treasury shares	22	-	-	1,785	-	-	1,785	1,785
Dividends	-	-	-	-	-	(209,202)	(209,202)	(1,392)
Acquisition of subsidiary	-	-	-	-	-	-	6,925	6,925
Others	-	(1,597)	(184)	-	-	3	(1,778)	417
<b>Total transactions with owners</b>	-	(50,000)	(158,813)	(464,964)	(4,572)	(209,199)	(885,548)	(58)
<b>Balance at December 31, 2009</b>	369,500	1,157,736	(479,564)	(74,557)	4,836,099	5,809,214	117,475	5,926,689
<b>Balance at January 1, 2010</b>	369,500	1,157,736	(479,564)	(74,557)	4,836,099	5,809,214	117,475	5,926,689
<b>Comprehensive Income:</b>					2,158,256	2,158,256	41,509	2,199,765
Profit for the year	19	-	-	-	-	-	-	-
Actuarial loss on defined benefit liability	-	-	-	-	(16,075)	(16,075)	-	(16,075)
Currency translation differences	-	-	-	7,056	-	7,056	575	7,631
Cash flow hedges	-	-	-	4,571	-	4,571	-	4,571
Others, net of tax	-	-	-	913	-	913	-	913
<b>Total comprehensive income</b>	-	-	-	12,540	2,142,181	2,154,721	42,084	2,196,805
<b>Transactions with owners:</b>								
Loss on capital reduction	-	-	464,272	-	(464,272)	-	-	-
Dividends	-	-	-	-	(257,752)	(257,752)	(22,217)	(279,969)
Others	-	36	(407)	-	(2,339)	(2,710)	3,020	310
<b>Total transactions with owners</b>	-	36	463,865	-	(724,363)	(260,462)	(19,197)	(278,659)
<b>Balance at December 31, 2010</b>	369,500	1,157,772	(15,699)	(62,017)	6,253,917	7,703,473	140,362	7,843,835

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

**LG Chem, Ltd. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2010 and 2009**

(in millions of Korean won)

	Notes	2010	2009
<b>Cash flows from operating activities</b>			
Cash generated from operations	36	2,985,720	2,886,497
Interest received		25,547	24,018
Interest paid		(81,889)	(115,004)
Dividends received		1,196	1,408
Income taxes paid		(423,384)	(585,814)
<b>Net cash generated from operating activities</b>		<u>2,507,190</u>	<u>2,211,105</u>
<b>Cash flows from investing activities</b>			
Decrease in other receivables		285,814	150,632
Decrease in non-current other receivables		7,869	3,402
Decrease in non-current other financial assets		617	7,250
Proceeds from disposal of property, plant and equipment		5,080	37,271
Proceeds from disposal of intangible assets		182	727
Decrease in other non-current assets		-	229
Increase in other receivables		(189,958)	(106,798)
Increase in non-current other receivables		(13,023)	(4,530)
Increase in non-current other financial assets		(612)	(3,893)
Acquisition of subsidiary, net of cash acquired	37	(61,972)	-
Acquisition of investments in associates		(14,210)	(20,146)
Purchases of property, plant and equipment		(1,617,231)	(1,099,333)
Purchases of intangible assets		(24,304)	(23,543)
Increase in other non-current assets		-	(173)
<b>Net cash used in investing activities</b>		<u>(1,621,948)</u>	<u>(1,058,905)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		231,776	142,285
Proceeds from issuance of debentures		-	298,653
Proceeds from settlement of derivatives		-	28,442
Capital increase from non-controlling interests		3,437	6,925
Repayments of borrowings		(579,627)	(598,743)
Purchase of treasury shares		-	(2,293)
Dividends		(279,988)	(210,584)
<b>Net cash used in financing activities</b>		<u>(624,402)</u>	<u>(335,315)</u>
<b>Cash flows from spin-off</b>		<u>-</u>	<u>(231,391)</u>
<b>Net increase in cash and cash equivalents</b>		260,840	585,494
Cash and cash equivalents at beginning of year		1,106,596	513,664
Exchange gains on cash and cash equivalents		598	7,438
<b>Cash and cash equivalents at the end of year</b>		<u>1,368,034</u>	<u>1,106,596</u>

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

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

**1. General Information**

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

**1.1 The Parent Company**

The Parent Company was spun off on April 1, 2001, from LG Chem Investment Ltd. (formerly LG Chemical Ltd.), engaged in the petrochemicals, industrial materials, and information and electronic materials business. It completed its registration process on April 3, 2001. The Parent Company's shares have been listed on the Korea Stock Exchange since April 25, 2001.

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

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

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

**1.2 Business overview**

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

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

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

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

**1.3 Consolidated subsidiaries and associates**

Consolidated subsidiaries and associates are as follows:

	<u>Business location</u>
<b>Consolidated subsidiaries</b>	
Tianjin LG Dagu Chemical Co., Ltd.	China
Ningbo LG Yongxing Chemical Co., Ltd.	China
LG Chemical Hong Kong Ltd.	Hong Kong
LG Chem America, Inc.	USA
LG Chemical India Pvt. Ltd.	India
LG Polymer India Pvt. Ltd.	India
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	China
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	China
LG Chem (Taiwan), Ltd.	Taiwan
LG Chem Display Materials (Beijing) Co., Ltd.	China
Tianjin LG Bohai Chemical Co., Ltd.	China
LG Chem (China) Investment Co., Ltd.	China
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	China
LG Chem Europe GmbH	Germany
LG Chem Poland Sp. Z.O.O	Poland
LG Chem Michigan Inc.	USA
LG Chem Power Inc.	USA
Tianjin LG Botian Chemical Co., Ltd.	China
Ningbo Zhenhai LG Yongxing trade Co., Ltd.	China
LG Polycarbonate Ltd. (Note 37)	Korea
<b>Associates</b>	
SEETEC Co., Ltd.	Korea
LG Vina Chemical J/V Company	Vietnam
LG Holdings (HK) Ltd.	Hong Kong
LG Chem Brasil, Ltd.	Brazil
TECWIN Co., Ltd.	Korea
HL Greenpower Co., Ltd.	Korea
LG Yongxing International Trading Co., Ltd.	China

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

**2. Summary of significant accounting policies**

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

**2.1 Basis of preparation**

The Company has adopted International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") from the annual period beginning on January 1, 2010. Korean IFRS are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea. The Company's transition date to Korean IFRS in accordance with Korean IFRS 1101 is January 1, 2009, and its Korean IFRS adoption date is January 1, 2010. Reconciliations and descriptions of the effect of the transition from the accounting principles generally accepted in the Republic of Korea ("K-GAAP") to Korean IFRS on the Company's equity, its comprehensive income and cash flows are provided in Note 39.

The accompanying consolidated financial statements have been prepared in accordance with the Korean IFRS standards and interpretations issued and effective at the reporting date, December 31, 2010. The preparation of financial statements in conformity with Korean IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The following new standards, new interpretations and amendments to standards and interpretations have been issued and announced but are not effective for the year beginning January 1, 2010 and have not been early adopted:

- Korean IFRS 2119: 'Extinguishing financial liabilities with equity instruments'
- Korean IFRS 1024 (amendment): 'Related party disclosures'
- Korean IFRS 1032 (amendment): 'Financial instruments – presentation'
- Korean IFRS 1101: (amendment): 'First-time adoption of Korean IFRS'
- Korean IFRS 2114 (amendment): Korean IFRS 1019 – 'The limit on a defined benefit asset, minimum funding requirements and their interaction'
- Korean IFRS' annual improvements

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

**2.2 Consolidation**

The Company has prepared the consolidated financial statements in accordance with Korean IFRS 1027, 'Consolidated and separate financial statements'.

**(1) Subsidiaries**

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

The Company uses acquisition method of accounting to account for business combination. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, liabilities incurred and equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Company recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of income.

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

**(2) Associates**

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Company's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss (Note 2.15).

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

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with policies adopted by the Company. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

(3) Joint venture

A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. As with associates, investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognized at cost. The Company's investment in jointly controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss (Note 2.15).

(4) Transactions with non-controlling interests

The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains and losses on disposals to non-controlling interests are also recognized in equity. When the Company ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss.

**2.3 Segment reporting**

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

**2.4 Foreign currency translation**

(1) Functional and presentation currency

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

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

(2) Transactions and balances

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

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

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

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognized in the statement of income as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

(3) Consolidated companies

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When the Company ceases to control the subsidiary including foreign operations, accumulated exchange differences that were recorded in equity are recognized in the statement of income as part of the gain or loss on sale.

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

**2.5 Cash and cash equivalents**

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



**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

**2.6 Financial Instruments**

**2.6.1 Classification**

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

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

Financial assets and liabilities at fair value through profit or loss are financial instruments held for trading. Financial assets and liabilities are classified in this category if acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives that are not subject to hedge accounting and financial instruments having embedded derivatives are also included in this category.

**(2) Loans and receivables**

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

**(3) Held-to-maturity financial assets**

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

**(4) Available-for-sale financial assets**

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

**(5) Financial liabilities measured at amortized cost**

The Company classifies non-derivative financial liabilities as financial liabilities measured at amortized cost except for financial liabilities at fair value through profit or loss or financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition. In this case the transferred asset continues to be recognized and a financial liability is measured as the consideration received. Financial liabilities measured at amortized cost are included in non-current liabilities, except for maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

**2.6.2 Recognition and measurement**

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

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

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale financial assets are recognized in 'other comprehensive income'. When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognized in equity are recognized in the statement of income.

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

**2.6.3 Offsetting financial instruments**

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

**2.6.4 Impairment of financial assets**

**(1) Assets carried at amortized cost**

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

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

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

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

The Company first assesses whether objective evidence of impairment exists.

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

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

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

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company uses the criteria provided in (1) above. In the case of equity investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If such evidence exists for available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of income.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

**2.7 Derivative financial instruments**

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The resulting gain or loss is recognized in the statement of income within 'other operating income and expenses' or 'financial income or expenses' depending on the nature of transactions.

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

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

**2.8 Trade receivables**

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

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

**2.9 Inventories**

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

**2.10 Property, plant and equipment**

All property, plant and equipment are stated at historical cost or deemed cost less depreciation. Historical cost or deemed cost includes expenditure that is directly attributable to the acquisition of the items.

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

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.15). Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other operating income or expenses' in the statement of income.

**2.11 Borrowing costs**

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

**2.12 Government grants**

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

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

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

**2.13 Intangible assets**

**(1) Goodwill**

Goodwill relating to the acquisition of subsidiary is included in intangible assets and goodwill relating to the acquisition of associates is included in "investments in associates". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

**(2) Industrial property rights**

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

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

(3) Other intangible assets

Other intangible assets such as software which meet the definition of an intangible asset are amortized using the straight-line method over their estimated useful lives of six to 20 years when the assets are available for use. Membership rights are regarded as intangible assets with indefinite useful lives and not amortized as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. All membership rights are tested annually for impairment and stated at cost less accumulated impairment losses.

**2.14 Research and development**

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

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

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

**2.15 Impairment of non-financial assets**

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

**2.16 Trade payables**

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

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

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

**2.17 Borrowings**

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

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

**2.18 Current and deferred income tax**

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

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

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. It represents future tax consequences that will arise when recovering or settling the carrying amount of its assets and liabilities. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries, joint ventures, and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred income tax assets arising from these assets are recognized only to the extent that it is probable that the temporary difference will be reversed in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention either to settle the balances on a net basis or to realise the asset and settle the liability simultaneously.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

### **2.19 Provisions**

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

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

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

### **2.20 Employee benefits**

The Company operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Company operates both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate fund. The Company has no legal or constructive obligations to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For the defined contribution plan, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit liability is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

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



**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

**2.21 Share capital**

Ordinary shares and preferred shares without mandatory redemption obligation are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any consolidated company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received is included in equity attributable to the Company's equity holders.

**2.22 Revenue recognition**

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

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

**(a) Sales of goods**

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

**(b) Interest income**

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

**(c) Dividend income**

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

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

**2.23 Leases**

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

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

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are recognized as 'finance lease liabilities'. The interest element of the finance cost is charged to the statement of income over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term (Note 17).

**2.24 Dividend distribution**

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

**2.25 Non-current assets (or disposal group) held for sale and discontinued operations**

The Company classifies a non-current asset (or disposal groups) as held for sale if its carrying amount will be recovered principally through a sale transaction and the sale is highly probable. Non-current assets (or disposal groups) are stated at the lower of carrying amount and fair value less costs to sell.

When a component of the Company that either has been disposed of, or is classified as held for sale, i) represents a separate major line of business or geographical area of operations, or ii) is point of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or iii) is a subsidiary acquired exclusively with a view to resale, that component is classified as a discontinued operation. The Company separately discloses a single amount in the statement of income comprising the total of i) the post-tax profit or loss of discontinued operations and ii) the post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation. The net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented in the notes to the consolidated financial statements (Note 34).

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

**3. Financial risk management**

**3.1 Financial risk factors**

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

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

(1) Market risk

1) Foreign exchange risk

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

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

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

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

As of December 31, 2010 and 2009, and January 1, 2009, the Company's monetary assets and liabilities denominated in currencies other than its functional currency, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2010</b>		<b>December 31, 2009</b>		<b>January 1, 2009</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
USD	1,945,873	2,584,070	1,957,471	2,689,960	1,692,424	2,562,45
EUR	44,303	49,263	46,062	44,762	68,092	66,345
GBP	2,454	2,076	2,022	1,276	1,456	1,260
JPY and others	74,862	287,492	88,221	309,405	127,104	301,287

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

As of December 31, 2010 and 2009, if the Company's functional currency had weakened / strengthened by 10% against the US dollar with all other variables held constant, profit for the year would have been affected as follows:

(in millions of Korean won)	December 31, 2010		December 31, 2009	
	10% Increase	10% Decrease	10% Increase	10% Decrease
USD	(63,820)	63,820	(73,249)	73,249

The above sensitivity analysis has been performed for monetary assets and liabilities denominated in foreign currencies other than the Company's functional currency at the reporting date.

2) Cash flow and fair value interest rate risk

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

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

Based on the simulations performed, the impact on profit for the year of a 0.1% shift would be a maximum increase of ₩1,796 million (2009: ₩2,037 million) or decrease of ₩1,796 million (2009: ₩2,037 million), respectively.

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

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(2) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. As of December 31, 2010 and 2009, and January 1, 2009, the maximum degrees of credit exposures are as follows:

(in millions of Korean won)	December 31, 2010			December 31, 2009			January 1, 2009		
	Before impairment	Accumulated impairment loss	After impairment (maximum exposure)	Before impairment	Accumulated impairment loss	After impairment (maximum exposure)	Before impairment	Accumulated impairment loss	After impairment (maximum exposure)
Loans and receivables	4,004,041	(7,293)	3,996,748	3,592,071	(14,000)	3,578,071	2,810,050	(48,730)	2,761,320
Financial assets at fair value through profit or loss	2,194	-	2,194	378	-	378	-	-	-
Available-for-sale financial assets	4,183	-	4,183	4,182	-	4,182	2,116	-	2,116
Hedging derivatives	-	-	-	17,997	-	17,997	51,845	-	51,845
<b>Total</b>	<b>4,010,418</b>	<b>(7,293)</b>	<b>4,003,125</b>	<b>3,614,628</b>	<b>(14,000)</b>	<b>3,600,628</b>	<b>2,864,011</b>	<b>(48,730)</b>	<b>2,815,281</b>

The Company has established the following policies and procedures to manage credit risks.

To manage credit risks relating to trade receivables, the Company evaluates the credit rating of customers and determines credit limit for each customer based on the information provided by credit rating agencies and other available financial information before commencing business with customers. The credit risks relating to trade receivables are also mitigated by insurance contracts, collaterals as well payment guarantees.

The Company has entered into export insurance contracts with Korea Export Insurance Corporation to mitigate credit risks relating to export trade receivables to overseas customers. The Company is also provided with collaterals by customers depending on their credit rating or payment guarantees from the customers' financial institutions as necessary.

The Company has deposited its cash and cash equivalent and other long-term deposits in several financial institutions such as Woori Bank and Shinhan Bank. The Company has also entered into derivative contracts with several financial institutions. The Company maintains business relationship with those financial institutions with high credit ratings evaluated by independent credit rating institutions and accordingly, credit risks associated with these financial institutions are limited.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(3) Liquidity risk

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

The Company's finance team invests surplus cash in interest-bearing current accounts, time deposits, and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

(in millions of Korean won)

	December 31, 2010			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings (excluding finance lease liabilities)	1,618,769	331,453	141,845	-
Finance lease liabilities	1,812	1,978	5,234	-
Hedging derivatives	20,535	-	1,545	-
Trade and other payables	2,123,998	47,792	-	-
<b>Total</b>	<b>3,765,114</b>	<b>381,223</b>	<b>148,624</b>	<b>-</b>

(in millions of Korean won)

	December 31, 2009			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings (excluding finance lease liabilities)	1,830,998	303,904	263,763	1,226
Finance lease liabilities	1,659	1,812	7,212	-
Hedging derivatives	39	35,024	-	-
Trade and other payables	1,775,121	29,485	-	-
<b>Total</b>	<b>3,607,817</b>	<b>370,225</b>	<b>270,975</b>	<b>1,226</b>

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(in millions of Korean won)	January 1, 2009			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings (excluding finance lease liabilities)	1,984,858	752,153	369,246	3,759
Finance lease liabilities	1,518	1,623	3,708	5,352
Hedging derivatives	-	-	26,961	-
Trade and other payables	1,228,285	5,881	-	-
<b>Total</b>	<b>3,214,661</b>	<b>759,657</b>	<b>399,915</b>	<b>9,111</b>

**3.2 Capital risk management**

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

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

Debt to equity ratio and the gearing ratio as of December 31, 2010 and 2009, and January 1, 2009 are as follows:

(in millions of Korean won, except for ratios)	December 31, 2010	December 31, 2009	January 1, 2009
Total borrowings (Note 17) (A)	2,101,091	2,410,574	3,122,217
Less: cash and cash equivalents (B)	(1,368,034)	(1,106,596)	(513,664)
Net debt (C=A+B)	733,057	1,303,978	2,608,553
Total liabilities (D)	4,829,624	4,603,903	4,896,602
Total equity (E)	7,843,835	5,926,689	5,343,650
Total capital (F=C+E)	8,576,892	7,230,667	7,952,203
Gearing ratio (C/F)	8.5%	18.0%	32.8%
Debt to equity ratio (D/E)	61.6%	77.7%	91.6%

**3.3 Fair value estimation**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(1) The following tables present the Company's financial assets and liabilities that are measured at fair value as of December 31, 2010 and 2009, and January 1, 2009:

*(in millions of Korean won)*

	<b>December 31, 2010</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Other current financial assets	-	2,194	-	2,194
Other non-current financial assets	-	-	4,183	4,183
<b>Total financial assets</b>	<u>-</u>	<u>2,194</u>	<u>4,183</u>	<u>6,377</u>
<b>Financial liabilities</b>				
Other current financial liabilities	-	20,535	-	20,535
Other non-current financial liabilities	-	1,545	-	1,545
<b>Total financial liabilities</b>	<u>-</u>	<u>22,080</u>	<u>-</u>	<u>22,080</u>

*(in millions of Korean won)*

	<b>December 31, 2009</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Other current financial assets	-	378	-	378
Other non-current financial assets	-	17,997	4,182	22,179
<b>Total financial assets</b>	<u>-</u>	<u>18,375</u>	<u>4,182</u>	<u>22,557</u>
<b>Financial liabilities</b>				
Other current financial liabilities	-	39	-	39
Other non-current financial liabilities	-	35,024	-	35,024
<b>Total financial liabilities</b>	<u>-</u>	<u>35,063</u>	<u>-</u>	<u>35,063</u>

*(in millions of Korean won)*

	<b>January 1, 2009</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Other current financial assets	-	-	-	-
Other non-current financial assets	-	51,845	2,116	53,961
<b>Total financial assets</b>	<u>-</u>	<u>51,845</u>	<u>2,116</u>	<u>53,961</u>
<b>Financial liabilities</b>				
Other current financial liabilities	-	-	-	-
Other non-current financial liabilities	-	26,961	-	26,961
<b>Total financial liabilities</b>	<u>-</u>	<u>26,961</u>	<u>-</u>	<u>26,961</u>

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



**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses various techniques and makes judgments based on current market conditions. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

**4. Critical accounting estimates and assumptions**

The Company makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities after the end of the reporting period are addressed below.

**(1) Estimated impairment of goodwill**

The Company tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.15. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

**(2) Income taxes**

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

**(3) Fair value of financial instruments**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

**(4) Provisions**

The Company recognizes provisions for product warranties and sales return as of the reporting date as described in Note 18. The amounts are estimated based on historical data.

**(5) Defined Benefit Liability**

The present value of the defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for defined benefit liability are based in part on current market conditions. Additional information is disclosed in Note 19.

**5. Segment information**

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

Segment	Products or services	Major customers
Petrochemicals	PE, PVC, VCM, Alcohol, Plasticizers, ABS/PS, EPS, MBS, SBL, EP, Ethylene, Propylene, BPA and others	LG International Corp., LG Electronics Inc., Daewoo Electronics Corp., National Plastic Co., Ltd., Youlchon Chemical Co., Ltd., OCI Company, Ltd., MITSUBISHI International Corp., and others
Information & Electronic Materials	Batteries, Polarizers	LG Electronics Inc., LG Display Co., Ltd., Motorola, Inc, HP and others
Common and others	General management, sales and R&D.	

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(2) The segment information on revenue and profit and loss for the years ended December 31, 2010 and 2009, is as follows:

<i>(in millions of Korean won)</i>	2010			
	Petro - chemicals	Information & Electronic Materials	Common and others <sup>4</sup>	Total
Total segment revenue	14,650,756	4,923,967	232,417	19,807,140
Inter-segment revenue <sup>1</sup>	125,272	20,966	189,452	335,690
Revenue from external customers <sup>2</sup>	14,525,484	4,903,001	42,965	19,471,450
Operating profit (loss) <sup>3</sup>	2,278,856	600,070	(57,598)	2,821,328
Financial income <sup>2</sup>	106,344	30,562	575	137,481
Financial expenses	134,385	49,376	(830)	182,931
Share of the profit of associates	44,629	11,687	(857)	55,459
Profit (loss) before tax	2,307,659	576,168	(65,390)	2,818,437
	2009			
<i>(in millions of Korean won)</i>	Petro - chemicals	Information & Electronic Materials	Common and others <sup>4</sup>	Total
Total segment revenue	11,449,402	4,165,990	237,597	15,852,989
Inter-segment revenue <sup>1</sup>	120,645	15,320	196,211	332,176
Revenue from external customers <sup>2</sup>	11,328,757	4,150,670	41,386	15,520,813
Operating profit (loss) <sup>3</sup>	1,608,200	506,849	(17,300)	2,097,749
Financial income <sup>2</sup>	153,072	33,079	(1,422)	184,729
Financial expenses	170,098	70,048	(4,141)	236,005
Share of the profit of associates	(14,672)	(5,269)	99	(19,842)
Profit (loss) before tax	1,573,786	464,624	(23,018)	2,015,392

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

<sup>2</sup> Revenue from external customers consists of sales of goods. Interest income and dividend income are included in financial income.

<sup>3</sup> Management assesses the performance of the operating segments based on a measure of operating profit of segment.

<sup>4</sup> Common and other segments include operating segments not qualifying as a reportable segment, supporting divisions as well as R&D divisions.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(3) The segment information on assets and liabilities as of December 31, 2010 and 2009, and January 1, 2009, is as follows:

<i>(in millions of Korean won)</i>	December 31, 2010			
	Petro - chemicals	Information & Electronic Materials	Common and others	Total
Total assets for the segment <sup>1</sup>	8,887,468	3,139,715	646,276	12,673,459
Investments in associates	1,393	-	212,179	213,572
Additions to non-current assets <sup>2</sup>	3,836,934	1,937,197	323,870	6,098,001
Total liabilities for the segment <sup>1</sup>	3,330,780	1,350,256	148,588	4,829,624

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

<i>(in millions of Korean won)</i>	January 1, 2009				
	Petro - chemicals	Information & Electronic Materials	Common and others	Discontinued operations	Total
Total assets for the segment <sup>1</sup>	4,409,126	1,987,575	3,115,741	727,810	10,240,252
Investments in associates	-	-	241,629	-	241,629
Additions to non- current assets <sup>2</sup>	2,848,730	1,302,773	538,452	542,672	5,232,627
Total liabilities for the segment <sup>1</sup>	2,247,536	996,284	1,185,173	467,609	4,896,602

<sup>1</sup> Assets and liabilities are measured in a manner consistent with those in the financial statements and allocated on the basis of segment operation.  
<sup>2</sup> Financial instruments and deferred tax assets are excluded.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(4) The external sales by geographical segments from continuing operations are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Korea(*)	8,720,224	6,968,975
China	8,906,641	7,431,791
South East Asia	1,209,587	770,187
America	1,155,349	897,772
Western Europe	538,186	413,926
Others	2,051,111	1,516,458
Eliminations	<u>(3,109,648)</u>	<u>(2,478,296)</u>
<b>Total</b>	<u><b>19,471,450</b></u>	<u><b>15,520,813</b></u>

(\*) Domestic sales include the exports made through local letters of credit.

(5) There is no external customer attributing to more than 10% of total revenue for the years ended December 31, 2010 and 2009.

**6. Financial Instruments by category**

(1) Categorizations of financial instruments are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2010</b>			
	<b>Loans and receivables</b>	<b>Assets at fair value through profit or loss</b>	<b>Assets classified as available-for- sale</b>	<b>Total</b>
<b>Financial assets</b>				
Cash and cash equivalents	1,368,034	-	-	1,368,034
Trade receivables	2,529,962	-	-	2,529,962
Other receivables	78,015	-	-	78,015
Other financial assets	-	2,194	-	2,194
Other non-current receivables	20,737	-	-	20,737
Other non-current financial assets	-	-	4,183	4,183
<b>Total</b>	<u><b>3,996,748</b></u>	<u><b>2,194</b></u>	<u><b>4,183</b></u>	<u><b>4,003,125</b></u>

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(in millions of Korean won)

Financial liabilities	December 31, 2010		
	Hedging derivatives	Liabilities at amortized cost	Total
Trade payables	-	1,302,563	1,302,563
Other payables	-	821,435	821,435
Borrowings (current)	-	1,620,581	1,620,581
Borrowings (non-current)	-	480,510	480,510
Other non-current payables	-	47,792	47,792
Other financial liabilities	20,535	-	20,535
Other non-current financial liabilities	1,545	-	1,545
<b>Total</b>	<b>22,080</b>	<b>4,272,881</b>	<b>4,294,961</b>

(in millions of Korean won)

Financial assets	December 31, 2009				Total
	Loans and receivables	Assets at fair value through profit or loss	Hedging derivatives	Assets classified as available-for-sale	
Cash and cash equivalents	1,106,596	-	-	-	1,106,596
Trade receivables	2,285,743	-	-	-	2,285,743
Other receivables	165,666	-	-	-	165,666
Other financial assets	-	378	-	-	378
Trade receivables (non-current)	40	-	-	-	40
Other non-current receivables	20,026	-	-	-	20,026
Other non-current financial assets	-	-	17,997	4,182	22,179
<b>Total</b>	<b>3,578,071</b>	<b>378</b>	<b>17,997</b>	<b>4,182</b>	<b>3,600,628</b>

(in millions of Korean won)

Financial liabilities	December 31, 2009			Total
	Assets at fair value through profit or loss	Hedging derivatives	Liabilities at amortized cost	
Trade payables	-	-	1,095,966	1,095,966
Other payables	-	-	679,155	679,155
Borrowings (current)	-	-	1,832,657	1,832,657
Borrowings (non-current)	-	-	557,917	557,917
Other non-current payables	-	-	29,485	29,485
Other financial liabilities	39	-	-	39
Other non-current financial liabilities	-	35,024	-	35,024
<b>Total</b>	<b>39</b>	<b>35,024</b>	<b>4,215,180</b>	<b>4,250,243</b>

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(in millions of Korean won)

Financial assets	January 1, 2009			Total
	Loans and receivables	Hedging derivatives	Assets classified as available-for-sale	
Cash and cash equivalents	513,664	-	-	513,664
Trade receivables	1,992,788	-	-	1,992,788
Other receivables	222,702	-	-	222,702
Other financial assets	220	-	-	220
Other non-current receivables	31,946	-	-	31,946
Other non-current financial assets	-	51,845	2,116	53,961
<b>Total</b>	<b>2,761,320</b>	<b>51,845</b>	<b>2,116</b>	<b>2,815,281</b>

(in millions of Korean won)

Financial liabilities	January 1, 2009		Total
	Hedging derivatives	Liabilities at amortized cost	
Trade payables	-	595,270	595,270
Other payables	-	633,015	633,015
Borrowings (current)	-	1,986,376	1,986,376
Borrowings (non-current)	-	1,135,841	1,135,841
Other non-current payables	-	5,881	5,881
Other non-current financial liabilities	26,961	-	26,961
<b>Total</b>	<b>26,961</b>	<b>4,356,383</b>	<b>4,383,344</b>

**7. Cash and cash equivalents**

(1) Details of cash and cash equivalents are as follows:

(in millions of Korean won)	December 31, 2010	December 31, 2009	January 1, 2009
Bank deposits and cash on hand	258,041	294,039	194,659
Financial deposits, others	1,109,993	812,557	319,005
<b>Total</b>	<b>1,368,034</b>	<b>1,106,596</b>	<b>513,664</b>

(2) As of December 31, 2010, non-current other receivables amounted to ₩49 million are restricted from withdrawal in connection with maintaining checking accounts (December 31, 2009: ₩40 million; January 1, 2009: ₩46 million).

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

**8. Trade and other receivables**

(1) Trade and other receivables, net of allowance for doubtful accounts, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2010			December 31, 2009			January 1, 2009		
	Original amount	Less : allowance for doubtful accounts	Carrying amount	Original amount	Less : allowance for doubtful accounts	Carrying amount	Original amount	Less : allowance for doubtful accounts	Carrying amount
<b>Current</b>									
Trade receivables	2,537,255	(7,293)	2,529,962	2,298,310	(12,567)	2,285,743	2,031,191	(38,403)	1,992,788
Other receivables	78,015	-	78,015	167,096	(1,430)	165,666	233,013	(10,311)	222,702
<b>Non-current</b>									
Trade receivables	-	-	-	43	(3)	40	236	(16)	220
Other receivables	20,737	-	20,737	20,026	-	20,026	31,946	-	31,946
<b>Total</b>	<u>2,636,007</u>	<u>(7,293)</u>	<u>2,628,714</u>	<u>2,485,475</u>	<u>(14,000)</u>	<u>2,471,475</u>	<u>2,296,386</u>	<u>(48,730)</u>	<u>2,247,656</u>

(2) Details of other receivables are as follows:

<i>(in millions of Korean won)</i>	December 31, 2010	December 31, 2009	January 1, 2009
<b>Current</b>			
Non-trade receivables	60,676	61,090	72,808
Financial deposits	5,508	101,254	148,835
Loans	93	-	107
Accrued income	4,472	3,215	938
Deposits	7,266	107	14
<b>Subtotal</b>	<u>78,015</u>	<u>165,666</u>	<u>222,702</u>
<b>Non-current</b>			
Non-trade receivables	-	-	217
Financial deposits	46	40	46
Loans	724	234	206
Deposits	19,967	19,752	31,477
<b>Subtotal</b>	<u>20,737</u>	<u>20,026</u>	<u>31,946</u>
<b>Total</b>	<u>98,752</u>	<u>185,692</u>	<u>254,648</u>

(3) The aging analysis of these trade and other receivables is as follows:

<i>(in millions of Korean won)</i>	December 31, 2010	December 31, 2009	January 1, 2009
Up to 3 months	2,465,462	2,099,854	1,855,162
3 to 6 months	66,641	181,187	139,495
Over 6 months	5,152	17,269	36,534
<b>Total</b>	<u>2,537,255</u>	<u>2,298,310</u>	<u>2,031,191</u>



**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(4) The movements in bad debt allowance for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	2010				2009			
	Trade receivables		Other receivables		Trade receivables		Other receivables	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Beginning balance	12,567	3	1,430	-	38,403	16	10,311	-
Additions	-	-	-	-	7,291	-	2,283	-
Reversals	(1,146)	(3)	-	-	(2,820)	(13)	-	-
Write-off	(4,775)	-	(1,430)	-	(4,463)	-	-	-
Business combination	554	-	-	-	-	-	-	-
Spin-off	-	-	-	-	(26,290)	-	(11,613)	-
Exchange differences	93	-	-	-	446	-	(1)	-
Ending balance	7,293	-	-	-	12,567	3	1,430	-

(5) The fair values of trade and other receivables are same as their carrying amounts.

**9. Other financial assets and liabilities**

(1) Details of other financial assets and liabilities are as follows:

<i>(in millions of Korean won)</i>	December 31, 2010	December 31, 2009	January 1, 2009
<b>Other financial assets</b>			
Derivatives (Note 11)	2,194	18,375	51,845
Available-for-sale (Note 10)	4,183	4,182	2,116
Less: current portions	(2,194)	(378)	-
<b>Total</b>	4,183	22,179	53,961
<b>Other financial liabilities</b>			
Derivatives (Note 11)	22,080	35,063	26,961
Less: current portions	(20,535)	(39)	-
<b>Total</b>	1,545	35,024	26,961

**10. Financial assets classified as available-for-sale**

(1) The movements in financial assets classified as available-for-sale for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	2010	2009
Beginning balance	4,182	2,116
Exchange differences	2	(10)
Additions	7	2,980
Disposals	(8)	(1,806)
Reclassification	-	1,280
Spin-off	-	(196)
Impairment	-	(182)
Ending balance	4,183	4,182

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(2) Financial assets classified as available-for-sale consist of listed and unlisted equity securities. The unlisted equity securities are measured at cost as their fair values cannot be measured reliably.

(3) As of December 31, 2010, none of these financial assets classified as available-for-sale is either overdue or impaired. In 2009, ₩182 million of impairment losses were recognized for unlisted equity securities.

**11. Derivative financial Instruments**

(1) Details of derivative financial assets and liabilities are as follows:

(in millions of Korean won)

	December 31, 2010		December 31, 2009		January 1, 2009	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>Current</b>						
Interest rate swaps-cash flow hedges	-	20,535	-	-	-	-
Forward foreign exchange contract- held-for-trading	2,194	-	378	39	-	-
<b>Total</b>	<b>2,194</b>	<b>20,535</b>	<b>378</b>	<b>39</b>	<b>-</b>	<b>-</b>
<b>Non-current</b>						
Interest rate swaps-cash flow hedges	-	1,545	17,997	35,024	51,845	26,961

(2) Details of derivative financial contracts are as follows:

December 31, 2010					
Classification	Contractor	Contract date	Contract amount (in thousands)	Contract period	Contract terms
Forward foreign exchange contract	Korea Exchange Bank and 15 other banks	2010.12.10, various	US\$ 10,000, various	2010.12.10 ~ 2011.01.04, various	1145.66 / US\$, various
Currency swap	BTMU	2008.12.19	₩ 5,000,000	2008.12.19 ~ 2011.12.19	₩ 15.53/₩
	BTMU	2008.12.19	₩ 5,000,000	2008.12.19 ~ 2011.12.19	₩15.67/₩
Interest rate swap	HSBC	2006.10.11	₩ 12,000,000	2006.10.11 ~ 2013.09.05	Received: 3 month CD, Paid: 4.81%
	HSBC	2007.06.15	US\$ 18,000	2007.06.15 ~ 2013.09.05	Received: 3 month Libor Paid: 5.59%
December 31, 2009					
Classification	Contractor	Contract date	Contract amount (in thousands)	Contract period	Contract terms
Forward foreign exchange contract	Shinhan Bank and 12 other banks	2010.12.10, various	US\$ 5,000, various	2009.11.27 ~ 2010.02.26, various	₩ 1173.10 / US\$, various
Currency swap	Woori Bank(*)	2006.07.20	US\$ 50,000	2006.07.20 ~ 2011.07.20	₩944.00/US\$
	ING Bank	2006.07.20	US\$ 50,000	2006.07.20 ~ 2010.07.20	₩ 944.30/US\$
	BTMU	2008.12.19	₩ 5,000,000	2008.12.19 ~ 2011.12.19	₩ 15.53/₩
	BTMU	2008.12.19	₩ 5,000,000	2008.12.19 ~ 2011.12.19	₩ 15.67/₩

(\*) The contract was terminated in 2010.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

January 1, 2009						
Classification	Contractor	Contract date	Contract amount (in thousands)	Contract period	Contract terms	
Currency swap	Hana Bank	2008.04.13	US\$ 52,029	2006.04.13 ~ 2009.04.13	₩961.00/US\$	
	Woorl Bank(*)	2006.07.20	US\$ 50,000	2006.07.20 ~ 2011. 07.20	₩944.00/US\$	
	ING Bank	2006.07.20	US\$ 50,000	2006.07.20 ~ 2010. 07.20	₩944.30/US\$	
	BOA(*)	2008.01.10	US\$ 50,000	2008.01.10 ~ 2012.01.10	₩939.80/US\$	
	BTMU	2008.12.19	¥ 5,000,000	2008.12.19 ~ 2011.12.19	₩ 15.53/¥	
	BTMU	2008.12.19	¥ 5,000,000	2008.12.19 ~ 2011.12.19	₩ 15.67/¥	

(\*) The contract was terminated in 2009.

(3) Trading derivative is classified as a current asset or liability. The fair values of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months.

(4) There was no ineffectiveness to be recorded from cash flow hedges.

## 12. Inventories

(1) Details of inventories are as follows:

<i>(In millions of Korean won)</i>	December 31, 2010			December 31, 2009			January 1, 2009		
	Original amount	Valuation allowance	Carrying amount	Original amount	Valuation allowance	Carrying amount	Original amount	Valuation allowance	Carrying amount
Merchandise	60,028	(17)	60,520	45,933	(325)	45,608	117,704	(398)	117,306
Finished products	1,019,709	(7,852)	1,011,857	707,365	(5,879)	701,486	868,298	(22,682)	845,616
Semi-finished products	268,895	-	268,895	185,221	-	185,221	192,624	-	192,624
Work-in-process	1,032	-	1,032	595	-	595	494	-	494
Raw materials	571,525	(976)	570,549	458,571	(693)	457,878	428,559	(421)	428,138
Supplies	60,331	-	60,331	53,987	-	53,987	51,761	-	51,761
Materials-in-transit	209,300	-	209,300	152,796	-	152,796	172,853	-	172,853
<b>Total</b>	<b>2,191,420</b>	<b>(8,936)</b>	<b>2,182,484</b>	<b>1,604,468</b>	<b>(6,897)</b>	<b>1,597,571</b>	<b>1,832,293</b>	<b>(23,501)</b>	<b>1,808,792</b>

(2) The cost of inventories recognized as expense and included in 'Cost of Sales' amounted to ₩13,170,727 million (2009: ₩9,967,258 million).

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

**13. Investments in associates**

(1) Changes in the carrying amount of investments in associates for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Beginning balance	219,505	241,629
Acquisitions	14,210	20,146
Share of profit of associates	55,459	(19,842)
Share of other comprehensive income of associates	(181)	(21,157)
Reclassification to subsidiaries	(74,562)	-
Dividends	(862)	(21)
Spin-off	-	(1,164)
Others	3	(86)
Ending balance	<u>213,572</u>	<u>219,505</u>

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(2) Financial information of associates follows:

		2010					
<i>(in millions of Korean won)</i>		Country	Ownership (%)	Assets	Liabilities	Revenue	Profit (loss) for the year
LG Vina Chemical Company Ltd.		Vietnam	40	21,722	11,101	72,120	4,891
LG Polycarbonate Ltd. <sup>1</sup>		Korea	50	314,754	167,262	399,027	32,520
HL Greenpower Co., Ltd.		Korea	49	30,287	3,033	1,875	(1,746)
LG Holdings (HK) Ltd.		Hong Kong	26	389,907	190,297	32,117	7,787
TECWIN Co., Ltd.		Korea	20	39,477	18,950	70,987	2,572
SEETEC Co., Ltd.		Korea	50	362,133	47,268	395,423	43,714
LG Chem Brasil, Ltd.		Brazil	100	159	262	-	-
LG Yongxing International Trade Co., Ltd.		China	90	171	10	-	(13)
<b>Total</b>				<u>1,158,610</u>	<u>438,183</u>	<u>971,549</u>	<u>89,725</u>

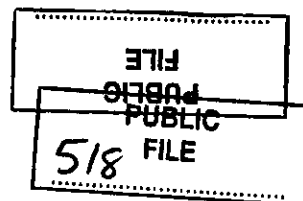
		2009					
<i>(in millions of Korean won)</i>		Country	Ownership (%)	Assets	Liabilities	Revenue	Profit (loss) for the year
LG Vina Chemical Company Ltd.		Vietnam	40	14,575	6,654	47,355	4,467
LG Polycarbonate Ltd. <sup>1</sup>		Korea	50	290,794	176,133	365,799	(1,218)
LG Holdings (HK) Ltd.		Hong Kong	26	380,233	189,125	35,072	1,087
TECWIN Co., Ltd.		Korea	20	29,707	12,290	53,622	2,991
SEETEC Co., Ltd.		Korea	50	355,794	84,727	407,434	(20,075)
LG Chem Brasil, Ltd.		Brazil	100	159	262	233	(83)
M. Dohmen S.A. <sup>2</sup>		Europe	-	-	-	23,936	(2,286)
LG Yongxing International Trade Co., Ltd.		China	90	173	173	-	(14)
Ningbo Zhenhai LG Yongxing trade Co., Ltd. <sup>3</sup>		China	100	855	-	-	-
<b>Total</b>				<u>1,072,290</u>	<u>489,364</u>	<u>933,451</u>	<u>(15,131)</u>

<sup>1</sup> Reclassified from investment in associate to a subsidiary since the Company acquired control over LG Polycarbonate Ltd. on October 1, 2010 (Note 37).

<sup>2</sup> Transferred to LG Hausys, Ltd. on April 1, 2009 due to spin-off.

<sup>3</sup> Established in 2009 and has been reclassified as a subsidiary in 2010.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**



**14. Property, plant and equipment**

(1) Changes in the carrying amounts of property, plant and equipment for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	2010										
	Land	Buildings	Structures	Machinery	Vehicles	Tools	Equipment	Others	Construction-in-progress	Machinery-in-transit	Total
Beginning balance	432,093	1,045,559	341,582	2,222,794	11,498	117,350	46,629	10,667	482,796	64,382	4,775,350
Cost	432,093	1,272,910	586,626	5,955,011	36,447	312,697	159,618	17,978	517,592	64,382	9,355,354
Accumulated depreciation	-	(220,508)	(245,037)	(3,721,524)	(24,949)	(191,315)	(112,888)	(7,311)	-	-	(4,523,532)
Accumulated impairment	-	(6,843)	(7)	(10,693)	-	(4,032)	(101)	-	(34,796)	-	(56,472)
Acquisitions/ Transfer	170	179,657	26,500	728,284	1,914	70,990	28,623	77,366	1,329,428	284,614	2,726,784
Disposals/ Transfer	(77)	(2,842)	(1,548)	(9,156)	(115)	(957)	(1,876)	(232)	(923,220)	(180,243)	(1,120,266)
Exchange differences	(155)	240	2,733	10,342	(1,165)	180	473	201	2,569	-	15,398
Depreciation	-	(33,668)	(26,769)	(505,948)	(3,678)	(42,447)	(16,023)	(26,371)	-	-	(654,904)
Impairment	-	(4,228)	-	(15,537)	-	-	-	-	-	-	(19,765)
Business combination	11,380	27,572	11,279	99,015	-	-	68	-	149	-	149,463
<b>Ending balance</b>	<b>443,411</b>	<b>1,212,290</b>	<b>353,777</b>	<b>2,529,794</b>	<b>8,454</b>	<b>145,096</b>	<b>57,894</b>	<b>61,651</b>	<b>860,720</b>	<b>166,953</b>	<b>5,972,040</b>
Cost	443,411	1,475,425	632,000	6,928,120	34,440	374,325	179,962	94,668	925,518	166,953	11,256,620
Accumulated depreciation	-	(258,901)	(278,216)	(4,372,096)	(25,986)	(225,197)	(121,967)	(33,017)	-	-	(5,315,380)
Accumulated impairment	-	(4,234)	(7)	(26,230)	-	(4,032)	(101)	-	(34,796)	-	(69,400)

<i>(in millions of Korean won)</i>	2009										
	Land	Buildings	Structures	Machinery	Vehicles	Tools	Equipment	Others	Construction-in-progress	Machinery-in-transit	Total
Beginning balance	506,101	1,116,763	370,143	2,276,478	13,844	205,566	65,461	12	353,332	60,632	4,988,332
Cost	506,101	1,353,081	606,342	6,091,639	39,655	526,737	203,583	13	353,332	60,632	9,780,995
Accumulated depreciation	-	(236,296)	(236,192)	(3,806,863)	(25,711)	(317,192)	(136,105)	(1)	-	-	(4,760,362)
Accumulated impairment	-	-	(7)	(8,298)	-	(3,979)	(17)	-	-	-	(12,301)
Decrease due to spin-off	(72,518)	(136,537)	(13,059)	(185,777)	(2,011)	(92,083)	(15,714)	(20)	(34,097)	(11,303)	(563,119)
Acquisitions/ Transfer	4,231	124,729	16,442	656,324	1,893	63,550	18,963	17,988	902,586	159,935	1,966,641
Disposals/ Transfer	(4,210)	(1,652)	(419)	(40,295)	(380)	(14,714)	(2,357)	(1)	(702,428)	(164,862)	(931,336)
Exchange differences	(1,511)	(14,870)	(4,291)	(36,642)	1,732	1,841	(983)	252	(1,603)	-	(56,275)
Depreciation	-	(33,219)	(27,137)	(435,858)	(3,580)	(46,751)	(18,646)	(7,564)	-	-	(572,755)
Impairment	-	(9,655)	(97)	(11,436)	-	(59)	(95)	-	(34,796)	-	(56,138)
<b>Ending balance</b>	<b>432,093</b>	<b>1,045,559</b>	<b>341,582</b>	<b>2,222,794</b>	<b>11,498</b>	<b>117,350</b>	<b>46,629</b>	<b>10,667</b>	<b>482,796</b>	<b>64,382</b>	<b>4,775,350</b>
Cost	432,093	1,272,910	586,626	5,955,011	36,447	312,697	159,618	17,978	517,592	64,382	9,355,354
Accumulated depreciation	-	(220,508)	(245,037)	(3,721,524)	(24,949)	(191,315)	(112,888)	(7,311)	-	-	(4,523,532)
Accumulated impairment	-	(6,843)	(7)	(10,693)	-	(4,032)	(101)	-	(34,796)	-	(56,472)

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

(2) Borrowing costs amounting to ₩18,622 million (2009: ₩9,270 million) are capitalized.

(3) As of December 31, 2010, certain property, plant and equipment have been pledged as collaterals for certain bank loans for up to a maximum of ₩8,787 million (December 31, 2009: ₩391,387 million; January 1, 2009: ₩429,171 million).

(4) As of December 31, 2010, the Company has a finance lease agreement on certain property, plant and equipment at the MTBE factory. The carrying amount of leased assets and depreciation are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Carrying amount	2,223	4,405
Depreciation	<u>2,182</u>	<u>2,182</u>

The said agreement is non-cancellable finance lease agreements. The lease term is 15 years, and the Company has the title of the leased assets.

(5) Depreciation of property, plant and equipment was classified as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Cost of sales	612,529	488,800
Selling, general and administrative expenses	41,654	40,344
Others(*)	721	43,611
<b>Total</b>	<u><b>654,904</b></u>	<u><b>572,755</b></u>

(\*) Amounts capitalized to development costs and charged to discontinued operations are included.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

**15. Intangible assets**

(1) Changes in the carrying amount of intangible assets for the years ended December 31, 2010 and 2009, are as follows:

	2010					
	Development costs	Industrial property rights	Goodwill	Memberships	Others	Total
<i>(in millions of Korean won)</i>						
<b>— Beginning balance</b>	24,300	47,205	33,415	46,747	10,492	162,159
Acquisitions/ Transfer	9,412	12,086	-	2,196	12,010	35,704
Disposals/ Transfer	(2)	(642)	-	(236)	(29)	(909)
Exchange differences	-	67	-	536	485	1,088
Amortization	(7,912)	(3,008)	-	-	(7,007)	(17,927)
<b>Ending balance</b>	<b>25,798</b>	<b>55,708</b>	<b>33,415</b>	<b>49,243</b>	<b>15,951</b>	<b>180,115</b>
	2009					
	Development costs	Industrial property rights	Goodwill	Memberships	Others	Total
<i>(in millions of Korean won)</i>						
<b>Beginning balance</b>	46,747	32,360	33,415	57,570	18,772	188,864
Acquisitions/ Transfer	8,429	24,289	-	-	(3,488)	29,230
Disposals/ Transfer	(265)	(802)	-	-	(80)	(1,147)
Exchange differences	(57)	(847)	-	-	561	(343)
Amortization	(9,756)	(3,544)	-	-	(3,636)	(16,936)
Impairment	(16,948)	-	-	-	-	(16,948)
Decrease due to spin-off	(3,850)	(4,251)	-	(10,823)	(1,637)	(20,561)
<b>Ending balance</b>	<b>24,300</b>	<b>47,205</b>	<b>33,415</b>	<b>46,747</b>	<b>10,492</b>	<b>162,159</b>

(2) Amortization of intangible assets was classified as follows:

<i>(in millions of Korean won)</i>	2010	2009
Cost of sales	5,540	6,791
Selling, general and administrative expenses	12,387	9,381
Others(*)	-	764
<b>Total</b>	<b>17,927</b>	<b>16,936</b>

(\*) Amounts charged to discontinued operations are included.



**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(3) Impairment tests for goodwill

Goodwill is allocated to the Company's cash-generating units (CGUs) identified according to operating segment. The carrying amounts of allocated goodwill by CGUs are as follows:

(in millions of Korean won)

CGUs	Carrying amount
<b>Goodwill recorded from the acquisition of LG Petrochemical Co., Ltd.</b>	
NCC	4,724
PO	977
Special resin	255
Synthetic rubber	600
Petrochemistry BPA	1,637
<b>Subtotal</b>	<b>8,193</b>
<b>Goodwill recorded from the acquisition of SAP business</b>	
Acrylic business	25,222
<b>Subtotal</b>	<b>25,222</b>
<b>Total</b>	<b>33,415</b>

The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are estimated using 0% of expected growth rate.

Management determined budgeted EBIT margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. Discount rate used for value-in-use calculations for the current year is 12.82%. The recoverable amounts based on value-in-use calculations exceed carrying amounts and accordingly, no impairments were recognized for the year ended December 31, 2010.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

**16. Other current and non-current assets**

(1) Details of other current and non-current assets are as follows:

<i>(in millions of Korean won)</i>	December 31, 2010	December 31, 2009	January 1, 2009
<b>Current</b>			
Advances to suppliers	26,919	40,247	23,959
Prepaid expenses	26,207	21,742	32,696
Prepaid income taxes	-	-	599
Prepaid value added tax	66,670	50,311	24,292
Others	7,813	4,821	13,972
<b>Total</b>	<b>127,609</b>	<b>117,121</b>	<b>95,518</b>
<b>Non-current</b>			
Long-term prepaid expenses	45,819	37,547	53,192
Other investment assets	27	306	2,239
<b>Total</b>	<b>45,846</b>	<b>37,853</b>	<b>55,431</b>

**17. Borrowings**

Details of borrowings are as follows:

(1) Current borrowings

<i>(in millions of Korean won)</i>	Bank	Annual interest rate (%) at 12. 31, 2010	Carrying Amount		
			December 31, 2010	December 31, 2009	January 1, 2009
Notes discounted <sup>1</sup>	Shinhan Bank, others	Libor+1.3, various	862,290	949,353	818,916
Bank loans <sup>2</sup>	China Bank, others	Libor+0.8, various	397,597	343,792	501,478
<b>Current maturities of long-term debts</b>					
Debentures	Woori Security	3Tibor+3.00	139,461	158,294	506,271
Bank loans	Shinhan Bank, others	Libor+0.36, various	219,421	379,559	158,193
Finance lease liabilities	Hyundai Oil Bank	9.00	1,812	1,659	1,518
<b>Total</b>			<b>1,620,581</b>	<b>1,832,657</b>	<b>1,986,376</b>

<sup>1</sup> Notes discounted that are not yet due.

<sup>2</sup> Bank loans are secured by certain property, plant and equipment (Note 14).

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(2) Non-current borrowings

(in millions of Korean won)

December 31, 2010

	Bank	Annual interest rate (%)	Maturity	Total amount	Current maturities	Long-term debts
<b>1. Debentures</b>						
Won currency debentures	Woori Security	4.85	2012.4.29	149,531	-	149,531
Foreign currency debentures <sup>1</sup>	Woori Security	3Tibor+3.0	2011.12.19	139,461	139,461	-
<b>Subtotal</b>				<u>288,992</u>	<u>139,461</u>	<u>149,531</u>
<b>2. Bank loans</b>						
Won currency loans	Kookmin Bank, others	3.00, various	2011.9.15~2020.3.21	2,996	1,133	1,863
Foreign currency loans	KDB, others	Libor+0.36, various	2010.10.1~2015.10.15	540,192	218,288	321,904
<b>Subtotal</b>				<u>543,188</u>	<u>219,421</u>	<u>323,767</u>
<b>3. Finance lease liabilities</b>						
Finance lease liabilities <sup>2</sup>	Hyundai Oil Bank	9.00	2014.10.29	9,024	1,812	7,212
<b>Subtotal</b>				<u>9,024</u>	<u>1,812</u>	<u>7,212</u>
<b>Total</b>				<u>841,204</u>	<u>360,694</u>	<u>480,510</u>

(in millions of Korean won)

December 31, 2009

	Bank	Annual interest rate (%)	Maturity	Total amount	Current maturities	Long-term debts
<b>1. Debentures</b>						
Won currency debentures	Woori Security	4.5~4.85	2010.3.16~2012.4.29	249,399	99,926	149,473
Foreign currency debentures <sup>1</sup>	Woori Security	Libor+0.26~Tibor+3.00	2010.9.17~2011.12.19	184,354	58,368	125,986
<b>Subtotal</b>				<u>433,753</u>	<u>158,294</u>	<u>275,459</u>
<b>2. Bank loans</b>						
Won currency loans	Kookmin Bank, others	0~3.25	2010.6.15~2020.3.21	5,792	2,795	2,997
Foreign currency loans	KDB, others	Libor+0.3, various	2015.10.15	667,201	376,764	290,437
<b>Subtotal</b>				<u>672,993</u>	<u>379,559</u>	<u>293,434</u>
<b>3. Finance lease liabilities</b>						
Finance lease liabilities <sup>2</sup>	Hyundai Oil Bank	9.00	2014.10.29	10,683	1,659	9,024
<b>Subtotal</b>				<u>10,683</u>	<u>1,659</u>	<u>9,024</u>
<b>Total</b>				<u>1,117,429</u>	<u>539,512</u>	<u>577,917</u>

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(in millions of Korean won)

		January 1, 2009				
	Bank	Annual interest rate (%)	Maturity	Total amount	Current maturities	Long-term debts
<b>1. Debentures</b>						
Won currency debentures	Woori Bank, others	3.5~5.02	2009.4.26~ 2013.10.27	458,824	299,438	159,386
Won currency debentures	Woori Security	5.02~5.32	2009.4.13~ 2009.5.30	100,000	100,000	-
Foreign currency debentures <sup>1</sup>	Woori Security	Libor+0.26~ Tibor+3.00	2009.9.23~ 2011.12.19	308,595	106,833	201,762
<b>Subtotal</b>				<b>867,419</b>	<b>506,271</b>	<b>361,148</b>
<b>2. Bank loans</b>						
Won currency loans	Kookmin Bank, others	3.00~4.25, CD+0.6	2010.6.15~ 2020.3.21	9,914	1,926	2,997
Foreign currency loans	KDB, others	Libor+0.3, various	2010.2.27~ 2015.10.15	912,289	156,267	756,022
<b>Subtotal</b>				<b>922,203</b>	<b>158,193</b>	<b>764,010</b>
<b>3. Finance lease liabilities</b>						
Finance lease liabilities <sup>2</sup>	Hyundai Oil Bank	9.00	2014.10.29	12,201	1,518	10,683
<b>Subtotal</b>				<b>12,201</b>	<b>1,518</b>	<b>10,683</b>
<b>Total</b>				<b>1,801,823</b>	<b>665,982</b>	<b>1,135,841</b>

<sup>1</sup> Floating rate notes issued on March 20, 2007, were repaid on September 17, 2010, the maturity date.

<sup>2</sup> Finance lease liabilities are liabilities associated with sales and leaseback arrangements of property, plant and equipment of MTBE factory (Note 14).

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

(in millions of Korean won)

	December 31, 2010		December 31, 2009		January 1, 2009	
	Carrying amount	Fair value <sup>1</sup>	Carrying amount	Fair value <sup>1</sup>	Carrying amount	Fair value <sup>1</sup>
Debentures	149,531	153,716	275,459	276,247	361,148	350,276
Bank loans	323,767	323,574	293,434	292,716	764,010	762,840
Finance lease liabilities	7,212	7,197	9,024	8,948	10,683	10,326
<b>Total</b>	<b>480,510</b>	<b>487,537</b>	<b>577,917</b>	<b>577,911</b>	<b>1,135,841</b>	<b>1,123,442</b>

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

(4) Changes in the carrying amount of debentures for the years ended December 31, 2010 and 2009, are as follows:

(in millions of Korean won)

	2010	2009
<b>Beginning balance</b>	433,753	867,419
Amortization	533	1,342
Increase	-	298,653
Repayment	(158,380)	(506,887)
Decrease due to spin-off	-	(209,172)
Exchange difference	13,086	(17,602)
<b>Ending balance</b>	<b>288,992</b>	<b>433,753</b>

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(5) Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

(6) The present value of finance lease liabilities is as follows:

(in millions of Korean won)

	December 31, 2010			December 31, 2009			January 1, 2009		
	Minimum lease payments	Future finance costs	Present value	Minimum lease payments	Future finance costs	Present value	Minimum lease payments	Future finance costs	Present value
Within 1 year	2,481	889	1,812	2,481	822	1,659	2,480	962	1,518
1 to 5 years	8,157	945	7,212	10,637	1,613	9,024	9,922	2,313	7,609
Over 5 years	-	-	-	-	-	-	3,196	122	3,074

**18. Provisions**

Changes in the carrying amount of provisions for the years ended December 31, 2010, and 2009, are as follows:

(in millions of Korean won)	2010		
	Sales returns <sup>1</sup>	Warranty <sup>2</sup>	Total
<b>Beginning balance</b>	3,501	1,792	5,293
Additions	-	335	335
Reversals	(679)	-	(679)
<b>Ending balance</b>	<b>2,822</b>	<b>2,127</b>	<b>4,949</b>

(in millions of Korean won)	2009		
	Sales returns <sup>1</sup>	Warranty <sup>2</sup>	Total
<b>Beginning balance</b>	-	-	-
Additions	3,501	5,131	8,632
Decrease due to spin-off	-	(3,339)	(3,339)
<b>Ending balance</b>	<b>3,501</b>	<b>1,792</b>	<b>5,293</b>

<sup>1</sup> Sales return provisions have been accrued for the estimated sales return determined based on historical experience.

<sup>2</sup> Warranty provisions have been accrued for the estimated warranty service costs to be incurred based on the terms of warranty and historical experience.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

**19. Defined benefit liability**

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

<i>(in millions of Korean won)</i>	<b>December 31, 2010</b>	<b>December 31, 2009</b>	<b>January 1, 2009</b>
Present value of obligations <sup>(*)</sup>	162,363	219,256	248,479
Fair value of plan assets	(154,227)	(164,867)	(183,107)
<b>Liability in the statement of financial position</b>	<b>8,136</b>	<b>54,389</b>	<b>65,372</b>

<sup>(\*)</sup> The present value of retirement benefit obligations is net of existing contributions to the National Pension Plan of ₩1,052 million for the year ended December 31, 2010 (December 31, 2009: ₩1,926 million; January 1, 2009: ₩2,756 million).

(2) The amounts recognized in the statements of income for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Current service cost <sup>1</sup>	37,260	38,256
Interest cost	10,730	12,595
Expected return on plan assets	(7,621)	(5,672)
Loss from discontinued operations	-	(3,173)
Curtailment of plan	7,967	-
Past service cost	(8,834)	-
<b>Total, Included In employee benefit expenses</b>	<b>39,502</b>	<b>42,006</b>

<sup>1</sup> The above amounts excluded ₩127 million (2009: ₩1,436 million) of expenses capitalized to construction in progress and development costs.

(3) The amounts recognized in the statement of income for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Cost of sales	30,366	28,505
Selling, general and administrative expenses	9,136	13,501
<b>Total</b>	<b>39,502</b>	<b>42,006</b>

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(4) Actuarial gains and losses recognized as other comprehensive income for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Actuarial losses before tax	(17,771)	(10,272)
Income tax effect	1,696	2,214
Actuarial losses after tax	<u>(16,075)</u>	<u>(8,058)</u>

As of December 31, 2010, ₩24,133 million (December 31, 2009: ₩8,058 million; January 1, 2009: ₩ Nil) of accumulated actuarial losses are included in other comprehensive income.

(5) Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
<b>Beginning balance</b>	219,256	248,479
Transfer in	452	1,766
Current service cost	37,387	36,519
Interest expense	10,730	12,595
Actuarial losses(before tax)	16,769	12,340
Benefits paid	(34,741)	(39,414)
Spin-off	-	(53,029)
Business combination	3,300	-
Curtailment of plan	7,967	-
Settlements of plan	(90,067)	-
Past service cost	(8,834)	-
Exchange differences	144	-
<b>Ending balance</b>	<u>162,363</u>	<u>219,256</u>

(6) Changes in the fair value of plan assets for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
<b>Beginning balance</b>	164,867	183,107
Expected return on plan assets	7,621	5,672
Actuarial gains/(losses) (before tax)	(1,002)	2,068
Employer contributions	52,500	33,000
Benefits paid	(20,388)	(22,470)
Spin-off	-	(36,510)
Business combination	2,501	-
Settlements of plan	(51,872)	-
<b>Ending balance</b>	<u>154,227</u>	<u>164,867</u>

(7) The actual return on plan assets was ₩6,619 million (2009: ₩7,740 million).

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

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

	December 31, 2010	December 31, 2009	January 1, 2009
Discount rate	5.7%	5.7%	6.8%
Expected return on plan assets	4.3%	5.0%	3.7%
Future salary increase	4.7%	3.6%	3.6%

(9) The sensitivity analysis for changes in key actuarial assumptions is as follows:

<i>(in millions of Korean won)</i>	Increase by 1%	Decrease by 1%
Discount rate:		
Increase(decrease) of defined benefit obligations	(12,651)	14,638

(10) Plan assets consist of:

<i>(in millions of Korean won)</i>	December 31, 2010		December 31, 2009		January 1, 2009	
	Amount	Proportion	Amount	Proportion	Amount	Proportion
Equity instruments	29,669	20%	-	0%	-	0%
Time deposits	54,901	36%	-	0%	-	0%
Insurance contracts with guaranteed yield	69,657	44%	164,867	100%	183,107	100%
<b>Total</b> <sup>1</sup>	<b>154,227</b>	<b>100%</b>	<b>164,867</b>	<b>100%</b>	<b>183,107</b>	<b>100%</b>

<sup>1</sup> Based on management's estimation, the expected contributions to plan assets for the year ending December 31, 2011, are ₩20,498 million.

(11) The amounts of experience adjustments on the defined benefit obligations and the plan assets are as follows:

<i>(in millions of Korean won)</i>	December 31, 2010	December 31, 2009
Present value of defined benefit obligations	162,363	219,256
Fair value of plan assets	(154,227)	(164,867)
Deficit in the plan	8,136	54,389
Experience adjustments on plan liabilities	(20,393)	(4,674)
Experience adjustments on plan assets	(1,002)	2,068



**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

**20. Other current liabilities**

Other current liabilities consist of:

<i>(in millions of Korean won)</i>	December 31, 2010	December 31, 2009	January 1, 2009
Advances from customers	28,188	32,331	28,184
Dividends payable	43	61	51
Value added tax withheld	2,111	-	(21)
Withholding	35,121	40,880	49,068
Advance income	10,609	9,991	10,833
Others	21,599	10,170	1,925
<b>Total</b>	<b>97,671</b>	<b>93,433</b>	<b>90,040</b>

**21. Commitments and contingencies**

- (1) The Company and the newly established company, LG Hausys Ltd., are jointly liable for the obligations outstanding as of April 1, 2009, the spin-off date.
- (2) As of December 31, 2010 and 2009, the Company has been provided with guarantees from the Seoul Guarantee Insurance for the execution of supply contracts.
- (3) As of December 31, 2010, the Company has provided one blank promissory note to the Korea National Oil Corporation as collateral in relation to petroleum import surcharges.
- (4) As of December 31, 2010, the Company has various specific and comprehensive line of credit agreements with several financial institutions, as follows:

*(unit: Korean won in millions, foreign currencies in millions)*

Classification	KRW	USD	CNY	EUR	INR	PLN
Limit of bank overdraft	64,000	32	435	32	-	-
Limit of the import letters of credit	-	23	-	-	-	-
Limit of the local letters of credit	-	-	1,840	-	-	-
Limit of discount of notes from export	-	445	-	-	-	-
Limit of derivative financial instruments	-	30	-	-	-	-
Limit of loan arrangements	30,500	225	-	-	561	1
Limit of discount of other notes	210,000	-	-	-	-	-
Comprehensive lines of credit	1,554,500	1,070	-	-	5,001	-

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

- (5) As of December 31, 2010, the Company has entered into B2B purchase arrangements with several financial institutions.
- (6) As of December 31, 2010, the Company has been named as a plaintiff for 30 legal actions involving ₩9,812 million in claims and defendant for 16 legal actions with ₩5,570 million in claims. The ultimate outcome of these cases cannot be determined at this time.
- (7) As of December 31, 2010, the Company has entered into technology license agreements with KBR and other companies for the production of polymer and rubber products. Further, the Company has entered into manufacture and production technical contracts with Exxon Mobile and others.
- (8) The Company has entered into a license agreement 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.
- (9) As of December 31, 2010, the Company has a long-term purchase contract for certain raw materials and was provided with a US\$ 68 million guarantee for this contract. Further, as of December 31, 2010, the Company provided a US\$ 17 million guarantee in regard to a purchase contract for certain raw materials.
- (10) As of the reporting date, the Company has guaranteed the repayment of various obligations of its subsidiaries and associates. The outstanding balance of such guarantees as of December 31, 2010, amounts to US\$ 170 million, EUR 1 million and PLN 32,000 million (total equivalent to ₩207,744 million) (2009: US\$ 155 million, EUR 3 million and PLN 32 million, total equivalent to ₩199,533 million). Details of guarantees provided as of December 31, 2010 and 2009, are as follows:

*(in millions of Korean won)*

		2010			
Guarantor	Guarantee beneficiary	Amount of guarantee	Financial institution	Outstanding loan amount	
The Parent Company	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	66,455	Bank of China	66,455	
	"	22,778	Woori Bank	22,778	
	"	34,167	Export-Import Bank of Korea	34,167	
	LG Chem Poland Sp.ZOO.	13,731	Nordea Bank	8,865	
	LG Chem America, Inc.	5,695	Bank of America	-	
	LG Chem Michigan, Inc.	39,862	Bank of America	20,272	
	LG Chem Power, Inc.	11,389	Woori Bank	3,417	
	LG Chem Power, Inc.	11,389	Comerica Bank	2,278	
	LG Chem (China) Investment Co., Ltd.	LG Chem Display Materials Co., Ltd.	2,278	Agricultural Bank of China	2,278
			<u>207,744</u>		<u>160,510</u>

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(in millions of Korean won)

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

(11) Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

(in millions of Korean won)

	December 31, 2010	December 31, 2009
Property, plant and equipment	1,136,056	887,183

**22. Equity**

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

(in millions of Korean won)

	Ordinary shares		Preferred shares		Share premium	Loss on capital reduction
	Number of shares	Amount	Number of shares	Amount		
January 1, 2009	75,238,770	376,194	8,661,251	43,306	1,052,640	-
Spin-off	(8,967,670)	(44,838)	(1,032,330)	(5,162)	(155,216)	(464,272)
December 31, 2009	<u>66,271,100</u>	<u>331,356</u>	<u>7,628,921</u>	<u>38,144</u>	<u>897,424</u>	<u>(464,272)</u>
Offset of loss on capital reduction	-	-	-	-	-	464,272
December 31, 2010	<u>66,271,100</u>	<u>331,356</u>	<u>7,628,921</u>	<u>38,144</u>	<u>897,424</u>	<u>-</u>

(2) Changes in treasury shares are as follows:

(in millions of Korean won)

	Number of shares		Carrying amount	Gain on sale of treasury shares
	Ordinary shares	Preferred shares		
January 1, 2009	388,914	3,659	14,976	13,855
Sale of treasury shares	(46,356)	(437)	(1,785)	-
Purchase of treasury shares	17,220	2,296	2,293	-
December 31, 2009	<u>359,778</u>	<u>5,518</u>	<u>15,484</u>	<u>13,855</u>
Purchase of treasury shares	3	1	-	-
December 31, 2010	<u>359,781</u>	<u>5,519</u>	<u>15,484</u>	<u>13,855</u>

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

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

**23. Retained earnings**

Details of retained earnings are as follows:

<i>(in millions of Korean won)</i>	December 31, 2010	December 31, 2009	January 1, 2009
Legal reserve <sup>1</sup>	153,441	98,349	77,429
Discretionary reserve <sup>2</sup>	3,488,528	2,729,193	1,954,694
Unappropriated retained earnings	2,611,948	2,008,557	1,512,687
<b>Total</b>	<b>6,253,917</b>	<b>4,836,099</b>	<b>3,544,810</b>

<sup>1</sup> The Commercial Code of the Republic of Korea 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, but may be transferred to common stock or used to reduce accumulated deficit, if any.

<sup>2</sup> 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.

**24. Other components of equity**

Details of other components of equity are as follows:

<i>(in millions of Korean won)</i>	December 31, 2010	December 31, 2009	January 1, 2009
Treasury shares (Note 22)	(15,484)	(15,484)	(14,976)
Capital transactions within the Company <sup>1</sup>	(215)	192	376
Loss on capital reduction	-	(464,272)	-
<b>Total</b>	<b>(15,699)</b>	<b>(479,564)</b>	<b>(14,600)</b>

<sup>1</sup> Included gain (loss) from transactions with non-controlling interests and other reserves of subsidiaries.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

**25. Selling, general and administrative expenses**

Selling, general and administrative expenses for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Wages and salaries	220,225	190,177
Pension costs (Note 19)	9,136	13,501
Welfare expense	49,172	44,729
Travel expense	22,403	19,035
Water & utilities	15,582	15,476
Packaging expense	3,999	3,815
Rental expense	68,979	45,954
Commission expense	173,711	137,855
Depreciation (Note 14)	41,654	40,344
Advertising expense	11,442	10,524
Freight expense	341,471	308,913
Training expense	10,171	8,054
Amortization (Note 15)	12,387	9,381
Sample expense	7,811	6,930
Others	170,786	163,733
<b>Total</b>	<b>1,158,929</b>	<b>1,018,421</b>

**26. Expenses by nature**

Expenses that are recorded by nature as cost of sales, selling, general and administrative expenses and other operating expenses in the statements of income for the years ended December 31, 2010 and 2009, consist of:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Changes in inventories	(409,394)	112,211
Raw materials and consumables used	12,780,587	9,239,893
Purchase of merchandise	799,532	615,154
Employee benefit expense (Note 27)	767,043	692,008
Advertising expense	12,385	11,259
Transportation expense	365,074	332,487
Service fees	249,836	199,993
Depreciation, amortization and impairment	691,875	618,402
Operating lease payments	34,582	31,199
Other expenses	1,804,187	2,097,142
<b>Total</b>	<b>17,095,707</b>	<b>13,949,748</b>

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

**27. Employee benefit expense**

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Wages and salaries	679,633	605,058
Pension costs (Note 19)	39,502	42,006
Others	47,908	44,944
<b>Total</b>	<b><u>767,043</u></b>	<b><u>692,008</u></b>

**28. Other operating income**

Details of other operating income for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Foreign exchange gain	387,502	467,098
Gain on foreign currency translation	18,712	29,230
Gain on disposal of property, plant and equipment	4,667	490
Gain on disposal of intangible assets	-	696
Others	34,704	29,170
<b>Total</b>	<b><u>445,585</u></b>	<b><u>526,684</u></b>

**29. Other operating expenses**

Detail of other operating expenses for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Foreign exchange loss	392,481	477,676
Loss on foreign currency translation	16,433	20,904
Loss on disposal of property, plant and equipment	12,080	27,246
Loss on disposal of intangible assets	727	1,116
Impairment loss on property, plant and equipment	19,765	56,138
Impairment loss on intangible assets	-	16,948
Others	22,692	70,325
<b>Total</b>	<b><u>464,178</u></b>	<b><u>670,353</u></b>

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

**30. Financial income and expense**

Details of financial income and expense for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
<b>Financial income</b>		
Interest income <sup>1</sup>	26,690	19,070
Dividend income	279	567
Foreign exchange gain	59,940	78,450
Gain on foreign currency translation	20,328	50,497
Gain on settlement of trading derivatives	9,995	-
Gain on settlement of hedging derivatives	2,415	31,474
Gain on valuation of trading derivatives	2,194	-
Gain on valuation of hedging derivatives	13,426	378
Others	2,214	4,293
<b>Total</b>	<u>137,481</u>	<u>184,729</u>
<b>Financial expense</b>		
Interest expense <sup>2</sup>	61,250	103,873
Foreign exchange loss	74,072	84,962
Loss on foreign exchange translations	16,793	1,906
Loss on settlement of trading derivatives	29,199	-
Loss on valuation of trading derivatives	-	22,136
Loss on settlement of hedging derivatives	1,118	23,113
Others	499	15
<b>Total</b>	<u>182,931</u>	<u>236,005</u>

<sup>1</sup> Details of interest income are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Bank deposits	26,406	18,219
Financial assets classified as available- for- sale	11	613
Other loans and receivables	273	238
<b>Total</b>	<u>26,690</u>	<u>19,070</u>

<sup>2</sup> Details of interest expense are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Interest on bank overdraft and borrowings	57,020	68,023
Interest on finance lease liabilities	822	962
Interest on debentures	8,994	26,429
Other interest expenses	13,336	17,729
Capitalized interest for qualifying assets	(18,922)	(9,270)
<b>Total</b>	<u>61,250</u>	<u>103,873</u>

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

**31. Income taxes**

(1) Details of income tax expense are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009(*)</b>
Current tax on profit for the year	608,333	423,255
Adjustments in respect of prior years	24,493	5,475
Deferred tax	(18,064)	3,508
<b>Subtotal</b>	<u>614,762</u>	<u>432,238</u>
Current tax charged directly to equity	3,910	-
<b>Income tax expense</b>	<u>618,672</u>	<u>432,238</u>

(2) The income taxes charged directly to other comprehensive income during the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009(*)</b>
<b>Current tax</b>		
Actuarial loss on defined benefit liability	<u>3,910</u>	<u>-</u>
<b>Deferred tax</b>		
Other consolidated comprehensive income	115	(252)
Actuarial loss on defined benefit liability	(2,214)	2,214
Cash flow hedges	(1,224)	(3,753)
Currency translation differences	241	(227)
<b>Total</b>	<u>(3,082)</u>	<u>(2,018)</u>

(\*) Includes income tax expense related to discontinued operations.



**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(3) The movements in deferred tax assets (liabilities) for the years ended December 31, 2010 and 2009, are as follows:

(in millions of Korean won)	2010					
	Increase (Decrease)					
	Beginning balance	Profit for the year	Other comprehensive income	Acquisition of subsidiary	Exchange differences	Ending balance
Defined benefit liability	30,394	(4,405)	-	706	2	26,697
Plan assets	(35,701)	3,797	-	-	-	(31,904)
Reserve for technology development	(41,082)	(18,480)	-	-	-	(59,562)
Allowance for doubtful accounts	5,531	1,727	-	-	(18)	7,240
Property, plant and equipment	21,128	14,251	-	-	(57)	35,322
Investments in subsidiaries and associates <sup>1</sup>	(3,939)	549	-	-	-	(3,390)
Accrued interest income	(681)	(273)	-	-	-	(954)
Others	36,131	19,371	-	3,439	(11,456)	47,485
<b>Sub total</b>	<b>11,781</b>	<b>16,537</b>	<b>-</b>	<b>4,145</b>	<b>(11,529)</b>	<b>20,934</b>
Deferred tax charged directly to equity	4,552	-	(3,082)	(223)	-	1,247
Tax credits carryforwards	-	910	-	6,615	-	7,525
Tax loss carryforwards	-	617	-	717	-	1,334
Deferred income tax assets	16,333	18,064	(3,082)	11,254	(11,529)	31,040
	<b>2009</b>					
(in millions of Korean won)	Increase (Decrease)					
	Beginning balance	Profit for the year	Other comprehensive income	Spin-off	Exchange differences	Ending balance
	Defined benefit liability	33,312	7,096	-	(10,014)	-
Plan assets	(39,053)	(4,680)	-	8,032	-	(35,701)
Reserve for technology development	(41,299)	(281)	-	498	-	(41,082)
Allowance for doubtful accounts	13,500	28	-	(8,010)	13	5,531
Property, plant and equipment	16,450	4,678	-	-	-	21,128
Investments in subsidiaries and associates <sup>1</sup>	3,211	1,953	-	(9,103)	-	(3,939)
Accrued interest income	(226)	(455)	-	-	-	(681)
Others	53,968	(11,847)	-	(3,204)	(2,786)	36,131
<b>Sub total</b>	<b>39,863</b>	<b>(3,508)</b>	<b>-</b>	<b>(21,801)</b>	<b>(2,773)</b>	<b>11,781</b>
Deferred tax charged directly to equity	6,542	-	(2,018)	28	-	4,552
Tax credits carryforwards	-	-	-	-	-	-
Tax loss carryforwards	-	-	-	-	-	-
Deferred income tax assets	46,405	(3,508)	(2,018)	(21,773)	(2,773)	16,333

<sup>1</sup> Deferred tax liabilities of ₩16,239 million (2009: ₩8,298 million) for the accumulated temporary differences of ₩282,177 million (2009: ₩160,016 million) relating to unremitted earnings of certain subsidiaries have not been recognized as such amounts are reinvested permanently.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(4) The reconciliation between income tax expense and accounting profit is as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Profit before income tax	2,818,437	1,971,435
Profit before income tax from continuing operations	2,818,437	2,015,392
Loss before income tax from discontinued operations	-	(43,957)
<b>Tax calculated based on applicable tax rate <sup>1</sup></b>	<b>663,321</b>	<b>466,745</b>
<b>Tax adjustments</b>	<b>(44,649)</b>	<b>(34,507)</b>
Income not subject to tax	(4,516)	(11,982)
Expenses not deductible for tax purposes	8,998	5,693
Unrecognized deferred income tax for temporary differences in the current year	(97)	(308)
Tax credit	(78,627)	(45,677)
Others	29,593	17,767
<b>Income tax expense<sup>2</sup></b>	<b>618,672</b>	<b>432,238</b>
<b>Effective tax rate (income tax expense/ profit before income tax)</b>	<b>21.95%</b>	<b>21.93%</b>

<sup>1</sup> The weighted average applicable tax rate on profit before income tax is 23.54% (2009: 23.68%).

<sup>2</sup> Income tax related to discontinued operations is included.

(5) Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook of the economic environment, and the overall future industry outlook. Management periodically considers these factors in reaching its conclusion. The Company did not recognize deferred income tax assets of ₩7,942 million (2009: ₩1,409 million) for the tax loss carryforwards of ₩26,943 million (2009: ₩3,748 million).

### 32. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Parent Company by the weighted average number of shares in issue excluding shares purchased by the Parent Company and held as treasury shares. As of the reporting date, the Parent Company has no potential ordinary shares. Preferred shares have a right to participate in the profits of the Parent Company. These participation rights have been considered in presenting the EPS for ordinary shares and preferred shares.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(1) Basic earnings per share attributable to the owners of the Parent Company for the years ended December 31, 2010 and 2009, is computed as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
<b>Profit attributable to ordinary shares<sup>1</sup></b>	1,934,166	1,351,814
Profit from continuing operations attributable to ordinary shares	1,934,166	1,381,022
Loss from discontinued operations attributable to ordinary shares	-	(29,208)
<b>Weighted average number of ordinary shares outstanding<sup>2</sup></b>	65,911,322	68,116,575
<b>Basic earnings per ordinary share (in won)</b>	29,345	19,846
Earnings per ordinary share from continuing operations	29,345	20,274
Earnings (losses) per ordinary share from discontinued operations	-	(428)
<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
<b>Profit attributable to preferred shares<sup>1</sup></b>	224,090	156,734
Profit from continuing operations attributable to preferred shares	224,090	160,112
Loss from discontinued operations attributable to preferred shares	-	(3,378)
<b>Weighted average number of preferred shares outstanding<sup>2</sup></b>	7,623,403	7,878,573
<b>Basic earnings per preferred share (in won)</b>	29,395	19,894
Earnings per preferred share from continuing operations	29,395	20,322
Earnings (loss) per preferred share from discontinued operations	-	(428)

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

<sup>1</sup> Profit attributable to ordinary and preferred shares are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
<b>Profit from continuing operations</b>	2,158,256	1,541,134
Ordinary shares dividends (A)	263,645	230,689
Preferred shares dividends (B)	30,875	27,063
<b>Undistributed earnings from continuing operations</b>	<u>1,863,736</u>	<u>1,283,382</u>
Continuing operations available for ordinary shares (C)	1,670,521	1,150,333
Continuing operations available for preferred shares (D)	193,215	133,049
<b>Profit from continuing operations attributable to ordinary shares (A+C)</b>	1,934,166	1,381,022
<b>Profit from continuing operations attributable to preferred shares (B+D)</b>	224,090	160,112
<b>Loss from discontinued operations</b>	-	(32,586)
Discontinued operations attributable to ordinary shares	-	(29,208)
Discontinued operations attributable to preferred shares	-	(3,378)

<sup>2</sup> Weighted average numbers of shares are calculated as follows:

		<b>2010</b>		
<b>Ordinary shares</b>	<b>Period</b>	<b>Number of shares</b>	<b>Number of days</b>	<b>Number of shares x days</b>
Beginning	2010.1.1 ~ 2010.12.31	65,911,322	365	24,057,632,530
Purchase of treasury shares	2010.12.31 ~ 2010.12.31	(3)	1	(3)
<b>Total</b>				<u>24,057,632,527</u>

Weighted average number of ordinary shares outstanding:  $24,057,632,527 / 365 = 65,911,322$  shares

		<b>2010</b>		
<b>Preferred shares</b>	<b>Period</b>	<b>Number of shares</b>	<b>Number of days</b>	<b>Number of shares x days</b>
Beginning	2010.1.1 ~ 2010.12.31	7,623,403	365	2,782,542,095
Purchase of treasury shares	2010.12.31 ~ 2010.12.31	(1)	1	(1)
<b>Total</b>				<u>2,782,542,094</u>

Weighted average number of preferred shares outstanding:  $2,782,542,094 / 365 = 7,623,403$  shares

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

Ordinary shares	Period	2009		
		Number of shares	Number of days	Number of shares x days
Beginning	2009.1.1 ~ 2009.12.31	74,849,856	365	27,320,197,440
Spin-off	2009.4.1 ~ 2009.12.31	(8,967,670)	275	(2,466,109,250)
Sale of treasury shares	2009.4.1 ~ 2009.12.31	46,356	275	12,747,900
Purchase of treasury shares	2009.4.27 ~ 2009.12.31	(17,214)	249	(4,286,286)
Purchase of treasury shares	2009.12.31 ~ 2009.12.31	(6)	1	(6)
<b>Total</b>				<b>24,862,549,798</b>

Weighted average number of ordinary shares outstanding: 24,862,549,798 / 365 = 68,116,575 shares

Preferred shares	Period	2009		
		Number of shares	Number of days	Number of shares x days
Beginning	2009.1.1 ~ 2009.12.31	8,657,592	365	3,160,021,080
Spin-off	2009.4.1 ~ 2009.12.31	(1,032,330)	275	(283,890,750)
Sale of treasury shares	2009.4.1 ~ 2009.12.31	437	275	120,175
Purchase of treasury shares	2009.4.27 ~ 2009.12.31	(2,294)	249	(571,206)
Purchase of treasury shares	2009.12.31 ~ 2009.12.31	(2)	1	(2)
<b>Total</b>				<b>2,875,679,297</b>

Weighted average number of preferred shares outstanding: 2,875,679,297 / 365 = 7,878,573 shares

(2) There are no dilutive potential outstanding ordinary shares at the reporting date. Accordingly, diluted earnings per share and diluted earnings per share from continuing operations are identical to basic earnings per share and basic earnings per share from continuing operations attributable to owners of the Parent Company, respectively.

### 33. Dividends

(1) Details of dividends are as follows:

	2010	2009
Number of shares entitled to dividends: shares issued and outstanding (par value per share: ₩5,000)		
Ordinary shares	65,911,319	65,911,322
Preferred shares	7,623,402	7,623,403
Dividend per share (in won)		
Ordinary shares: cash	4,000 (80%)	3,500 (70%)
Preferred shares: cash	4,050 (81%)	3,550 (71%)
Cash dividends to distribute (in millions of Korean won)		
Ordinary shares	263,645	230,689
Preferred shares	30,875	27,063
	<u>294,520</u>	<u>257,752</u>

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(2) Dividend payout ratios for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Dividends (A)	294,520	257,752
Profit for the year attributable to owners of the parent company (B)	2,158,256	1,508,546
Dividend payout ratio (A/B)	<u>13.65%</u>	<u>17.09%</u>

(3) Dividend yield ratios for the years ended December 31, 2010 and 2009, are as follows:

	<b>2010</b>		<b>2009</b>	
<i>(in Korean won)</i>	<b>Ordinary shares</b>	<b>Preferred Shares</b>	<b>Ordinary shares</b>	<b>Preferred Shares</b>
Dividend per share (A)	4,000	4,050	3,500	3,550
Market value at the end of year (B)	391,000	159,000	228,500	82,500
Dividend yield ratio (A/B)	<u>1.02%</u>	<u>2.55%</u>	<u>1.53%</u>	<u>4.30%</u>

**34. Discontinued operations**

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

(2) The statement of income for discontinued operations is as follows:

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

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(3) Cash flows from the discounted operations are as follows:

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

**35. Related party transactions**

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

*(in millions of Korean won)*

	<b>2010</b>		<b>2009</b>	
	<b>Sales</b>	<b>Purchases</b>	<b>Sales</b>	<b>Purchases</b>
Entities with significant influence over the Company <sup>1</sup>	2	42,705	-	37,677
Associates	128,534	217,036	151,746	197,346
Key management	-	48,014	-	63,377
Others <sup>2</sup>	17,691	588,844	11,606	416,273
<b>Total</b>	<u>146,227</u>	<u>896,599</u>	<u>163,352</u>	<u>714,673</u>

*(in millions of Korean won)*

	<b>December 31, 2010</b>		<b>December 31, 2009</b>		<b>January 1, 2009</b>	
	<b>Receivables</b>	<b>Payables</b>	<b>Receivables</b>	<b>Payables</b>	<b>Receivables</b>	<b>Payables</b>
Entities with significant influence over the Company <sup>1</sup>	5,541	6,923	5,276	1,943	7,723	6,024
Associates	1,325	18,961	16,783	18,329	15,877	9,885
Key management	-	51,768	-	36,438	-	53,640
Others <sup>2</sup>	31,100	142,247	30,717	102,868	39,032	63,322
<b>Total</b>	<u>37,966</u>	<u>219,899</u>	<u>52,776</u>	<u>159,578</u>	<u>62,632</u>	<u>132,871</u>

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

<sup>2</sup> Includes LG Corp.'s subsidiaries.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(2) Compensation for key management of the Company for the years ended December 31, 2010 and 2009, consists of:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009</b>
Wages and salaries	33,768	51,055
Pension costs	2,621	2,122
Other long-term employee benefits	11,625	10,200
<b>Total</b>	<b>48,014</b>	<b>63,377</b>

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

(3) The receivables from related parties are mainly from sales transactions. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties (2009: Nil).

(4) Details of the guarantees provided by the Company for related parties at the reporting date are disclosed in Note 21.

**36. Cash generated from operations**

(1) Reconciliation between operating profit and net cash inflow (outflow) from operating activities for the years ended December 31, 2010 and 2009, follows:

<i>(in millions of Korean won)</i>	<b>2010</b>	<b>2009 (*)</b>
<b>Profit before income tax</b>	<b>2,818,437</b>	<b>1,971,435</b>
<b>Adjustments for:</b>		
Depreciation	654,183	567,885
Amortization	17,927	16,936
Pension costs	39,502	45,179
Financial income	(76,611)	(109,615)
Financial expense	112,592	116,379
Foreign exchange differences	(19,435)	(150,654)
Gain on disposal of property, plant and equipment	(4,667)	(759)
Loss on disposal of property, plant and equipment	12,080	33,998
Gain on disposal of intangible assets	-	(696)
Loss on disposal of intangible assets	727	1,116
Other expenses	(40,810)	115,688
Inventories	(533,932)	60,291
Trade receivables	(155,999)	(644,117)
Other receivables	7,689	(15,878)
Settlement of derivatives	(18,866)	11,807
Trade payables	125,009	726,707
Other payables	160,014	183,100
Defined benefit liability	(111,821)	(56,273)
Other cash flows from operations	(299)	13,968
<b>Cash generated from operations</b>	<b>2,985,720</b>	<b>2,886,497</b>

(\*) Discontinued operating income is included.



**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

(2) The principal non-cash transactions for the years ended December 31, 2010 and 2009, are as follows:

<i>(in millions of Korean won)</i>	2010	2009
Transfer of construction-in-progress	923,165	702,426
Transfer of machinery-in-transit	180,242	164,882
Reclassification of current maturities of borrowings	360,694	539,512
Gain(loss) on valuation of derivatives recognized as other comprehensive income	5,795	12,488

**37. Business combination**

In order to enhance business efficiency as well as to create synergy effect, based on the resolution of the board of directors on July 1, 2010, on October 1, 2010, the Company acquired the remaining 50% of the share capital of LG Polycarbonate Ltd. (the "Acquiree"), in which the Company had previously owned 50% of the share capital. As the acquisition was accounted for using the acquisition method in accordance with Korean IFRS 1103, the assets acquired and liabilities assumed from the acquisition were measured at fair value.

(1) Details of the identifiable assets and liabilities as of October 1, 2010, arising from the acquisition are as follows :

<i>(in millions of Korean won)</i>	Acquiree's carrying amount	Fair value
<b>I. Current assets</b>	144,560	144,560
Cash and cash equivalents	12,398	12,398
Trade receivables	71,343	71,343
Inventories	39,656	39,656
Other current assets	21,163	21,163
<b>II. Non-current assets</b>	170,194	171,313
Property, plant and equipment	148,344	149,463
Other non-current assets	21,850	21,850
<b>Total assets(A)</b>	<u>314,754</u>	<u>315,873</u>
<b>I. Current liabilities</b>	114,286	114,286
<b>II. Non-current liabilities</b>	52,976	52,908
<b>Total liabilities(B)</b>	<u>167,262</u>	<u>167,194</u>
<b>Fair value of net assets (C=A-B)</b>		148,679
Consideration transferred (D) <sup>1</sup>		148,554
Gain from a bargain purchase (C-D)		125

<sup>1</sup> Consideration transferred consists of the fair value of the previously held equity interest (₩74,184 million) and the cash consideration paid for the additional acquisition of the remaining share capital (₩74,370 million).

(2) The Company re-measured its previously held equity interest in the acquiree at its acquisition-date fair value. The acquisition-date fair value and the related loss recognized in the consolidated statement of income amounted to ₩74,184 million and ₩498 million, respectively.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

- (3) The ₩125 million of gain from a bargain purchase was recognized as other operating income in the consolidated statement of income from the above business combination. The gain from a bargain purchase was recognized as cost of acquisition was less than the fair value of the net assets acquired.
- (4) The fair value of trade and other receivables acquired from LG Polycarbonate Ltd. is ₩75,119 million. The gross contractual amount for these trade and other receivables is ₩75,774 million, of which ₩655 million is expected to be uncollectible.

<i>(in millions of Korean won)</i>	<u>Fair value</u>	<u>Gross contractual amount</u>	<u>Amount expected to be uncollectible</u>
Trade receivables	71,343	71,998	655
Other receivables	3,776	3,776	-
<b>Total</b>	<b>75,119</b>	<b>75,774</b>	<b>655</b>

- (5) The acquired business contributed revenues of ₩97,932 million and net loss of ₩3,912 million for the Company for the period from October 1, 2010 to December 31, 2010.
- (6) If the acquisition had occurred on January 1, 2010, the consolidated revenue and consolidated profit for the year ended December 31, 2010, would have increased by ₩228,071 million and ₩6,003 million, respectively.

**38. Approval of financial statements**

The consolidated financial statements for the year ended December 31, 2010, were approved by the Board of Directors on February 22, 2011.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

---

**39. Transition to Korean IFRS**

**39.1 The first adoption of Korean IFRS**

The Company's transition date to Korean IFRS is January 1, 2009, and adoption date is January 1, 2010. The financial statements for the year beginning January 1, 2009, are the first annual financial statements compliant with Korean IFRS. The reporting date of consolidated financial statements is December 31, 2010.

**39.2 Exemptions elected by the Company**

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

1) Business combination

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

2) Cumulative translation differences

The Company has elected to set the previously accumulated cumulative translation to zero at January 1, 2009. These exemptions are applied to all foreign operations in accordance with Korean IFRS 1101.

3) Deemed cost

Certain items of property, plant and equipment were previously revalued under K-GAAP in accordance with the Asset Revaluation Act before the year 2000. For these assets, the Company has elected to use the K-GAAP revaluations as their deemed cost at the date of the revaluation.

**39.3 IFRS mandatory exceptions**

Set out below are the applicable mandatory exceptions in IFRS 1 applied in the conversion from Korean GAAP to IFRS.

1) Exception for de-recognition of financial assets and liabilities

Financial assets and liabilities derecognized before January 1, 2004, shall not be recognized in accordance with Korean IFRS. The Company applied the derecognition requirements in IAS 39 Financial Instruments: Recognition and Measurement prospectively for transactions occurring on or after January 1, 2004. The Company did not apply the derecognition requirements in IAS 39 retrospectively from a date of the entity's choosing, earlier than January 1, 2004.

2) Exception for estimates

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

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

**39.4 Reconciliations between Korean IFRS and K-GAAP**

(1) Effects on financial position and operating results

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

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

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

Changes	Subsidiaries
The Company owns less than 50% of voting power. These entities are excluded from the scope of consolidation assuming that the Company does not have de facto control.	LG Polycarbonate Ltd. LG Vina Chemical J/V Company
Included in the scope of consolidation under K-IFRS. These entities were not consolidated under K-GAAP since their total assets were less than ₩10 billion.	Tianjin LG Botian Chemical Co., Ltd. LG Chem Power Inc.

- <sup>2</sup> Withdrawal of amortization of negative goodwill in associates and recognition of deferred tax liabilities from associates companies' revaluation of land.
- <sup>3</sup> Discounted trade accounts receivable with recourse accounted for as sales under K-GAAP are accounted for as borrowing transaction under Korean IFRS.
- <sup>4</sup> Changes in defined benefit liability using actuarial valuation.
- <sup>5</sup> Balance of negative goodwill was reversed entirely.
- <sup>6</sup> Income tax effects from above adjustments and deferred income tax classified as non-current assets or liabilities.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

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

<i>(in millions of Korean won)</i>	<b>Total assets</b>	<b>Total liabilities</b>	<b>Total shareholders' equity</b>
K-GAAP	<u>9,977,873</u>	<u>4,313,839</u>	<u>5,658,034</u>
Adjustments			
Changes in consolidated companies <sup>1</sup>	(204,454)	(147,863)	(56,591)
Investments in associates <sup>2</sup>	54,182	-	54,182
Derecognition of accounts receivable <sup>3</sup>	527,421	522,555	4,866
Employee benefits <sup>4</sup>	(1,715)	(16,167)	14,452
Amortization on negative goodwill <sup>5</sup>	195,848	-	195,848
Withdrawal of amortization on goodwill <sup>6</sup>	5,130	-	5,130
Income tax effect <sup>7</sup>	(23,693)	(74,024)	50,331
Others	-	(437)	437
<b>Total adjustments</b>	<u>552,719</u>	<u>284,064</u>	<u>268,655</u>
<b>Korean IFRS</b>	<u>10,530,592</u>	<u>4,603,903</u>	<u>5,926,689</u>

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

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

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

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

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

<sup>6</sup> Cancellation of goodwill amortization.

<sup>7</sup> Income tax effects from above adjustments and deferred income tax classified as non-current assets or liabilities.

**LG Chem, Ltd. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010 and 2009, and January 1, 2009**

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

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

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

<sup>2</sup> Withdrawal of amortization of goodwill and negative goodwill in associates.

<sup>3</sup> Interests from the derecognition of accounts receivable.

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

<sup>5</sup> Cancellation of negative goodwill amortization

<sup>6</sup> Cancellation of goodwill amortization.

<sup>7</sup> Effect from the application of Korean IFRIC 2117, 'Distribution of non-cash assets to owners', for the spin-off of Industrial Materials Segment.

<sup>8</sup> Income tax effects from above adjustments

(2) The principal Korean IFRS transition effects presented by the Company in the statements of cash flows for the year ended December 31, 2009, were as follows:

According to Korean IFRS, cash flows of the related income (expenses) and assets (liabilities) are adjusted to separately disclose the cash flows from interest received, interest paid and cash payments of income taxes that were not presented separately under K-GAAP. And the effects of the change in exchange rate on cash and cash equivalents held or due in a foreign currency are presented separately from cash flows from operating, investing and financing activities.

Cash flows from operating and financing activities are adjusted respectively because some transactions are treated as borrowings with collateralised trade receivables, which were treated as a selling transaction under K-GAAP. Also, other Korean IFRS transition effects are reflected on cash flows if they have an effect on cash flow.