

LG Chem, Ltd.

**Separate Financial Statements
December 31, 2010 and 2009**

LG Chem, Ltd.
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December 31, 2010 and 2009

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Report of Independent Auditors

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

We have audited the accompanying separate statements of financial position of LG Chem, Ltd. (the "Company") as of December 31, 2010 and 2009, and the related separate statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the separate financial statements referred to above present fairly, in all material respects, the financial position of LG Chem, Ltd. as of December 31, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with international financial reporting standards as adopted by the Republic of Korea ("Korean IFRS").

Samil PricewaterhouseCoopers

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Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report 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 separate 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.
Separate Statements of Financial Position
December 31, 2010 and 2009, and January 1, 2009

<i>(in millions of Korean won)</i>	Notes	December 31, 2010	December 31, 2009	January 1, 2009
Assets				
Current assets				
Cash and cash equivalents	3, 4	1,130,818	862,585	373,300
Trade receivables	3, 5, 27	2,173,032	2,177,103	1,942,277
Other receivables	3, 5	105,311	154,034	215,393
Other financial assets	3, 6	2,194	378	-
Other current assets	13	69,077	59,588	61,286
Inventories	9	1,731,344	1,340,931	1,508,938
Total current assets		5,211,776	4,594,619	4,101,194
Non-current assets				
Trade receivables	3, 5	-	40	130
Other receivables	3, 5	14,189	17,227	31,554
Other financial assets	3, 6	4,044	22,041	53,812
Investments in subsidiaries	10	780,667	575,762	616,164
Investments in associates	10	154,593	202,960	184,625
Deferred income tax assets	25	-	-	34,857
Property, plant and equipment	11	4,672,081	3,860,280	3,867,666
Intangible assets	12	167,696	150,440	179,704
Other non-current assets	13	9,563	11,369	21,097
Total non-current assets		5,802,833	4,840,119	4,989,609
Total assets		11,014,609	9,434,738	9,090,803
Liabilities and equity				
Liabilities				
Current liabilities				
Trade payables	3, 27	973,413	868,232	527,150
Other payables	3, 27	840,920	680,917	620,307
Borrowings	3, 14	1,061,723	1,404,000	1,394,058
Other financial liabilities	3	20,535	39	-
Provisions	15	4,906	5,304	-
Current income tax liabilities	25	363,775	185,975	367,620
Other current liabilities	17	71,037	69,926	72,105
Total current liabilities		3,336,309	3,214,393	2,981,240
Non-current liabilities				
Other payables	3, 27	47,181	28,991	5,864
Borrowings	3, 14	215,712	404,239	819,944
Other financial liabilities	3	-	35,024	26,961
Defined benefit liability	16	6,056	53,261	65,372
Deferred income tax liabilities	25	12,847	3,594	-
Total non-current liabilities		281,796	525,109	918,141
Total liabilities		3,618,105	3,739,502	3,899,381

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

<i>(in millions of Korean won)</i>	Notes	December 31, 2010	December 31, 2009	January 1, 2009
Equity				
Share capital	1	369,500	369,500	419,500
Capital surplus		1,157,572	1,157,572	1,314,549
Other components of equity		(15,484)	(479,756)	(14,600)
Accumulated other comprehensive income (expense)		(3,216)	(7,318)	(16,053)
Retained earnings		<u>5,888,132</u>	<u>4,655,238</u>	<u>3,488,026</u>
Total equity		<u>7,396,504</u>	<u>5,695,236</u>	<u>5,191,422</u>
Total liabilities and equity		<u>11,014,609</u>	<u>9,434,738</u>	<u>9,090,803</u>

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

LG Chem, Ltd.
Separate Statements of Income
Years Ended December 31, 2010 and 2009

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2010	2009
Revenue	27	16,850,454	13,694,516
Cost of sales	20, 27	<u>(13,353,672)</u>	<u>(10,866,711)</u>
Gross profit		<u>3,496,782</u>	<u>2,827,805</u>
Selling, general and administrative expenses	19, 20, 27	(981,230)	(866,301)
Other operating income	22	404,376	502,334
Other operating expenses	20, 23	<u>(423,684)</u>	<u>(609,357)</u>
Operating profit		<u>2,496,244</u>	<u>1,854,481</u>
Non-operating income and expenses			
Financial income	24	185,429	188,330
Financial expenses	24	(151,592)	(205,106)
Other non-operating expenses		<u>(12,285)</u>	<u>(10,943)</u>
		<u>21,552</u>	<u>(27,719)</u>
Profit before Income tax		2,517,796	1,826,762
Income tax expense	25	<u>(546,803)</u>	<u>(412,377)</u>
Profit from continuing operations		1,970,993	1,414,385
Loss from discontinued operations		-	(29,913)
Profit for the year		<u>1,970,993</u>	<u>1,384,472</u>
Earnings per share for profit during the year (in won)	26		
Earnings per share for profit attributable to the ordinary equity holders of the Company			
Basic and diluted earnings per share for profit from continuing operations		26,798	18,607
Basic and diluted earnings per share for profit for the year		26,798	18,213
Earnings per share for profit attributable to the preferred equity holders of the Company			
Basic and diluted earnings per share for profit from continuing operations		26,848	18,655
Basic and diluted earnings per share for profit for the year		26,848	18,261

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

LG Chem, Ltd.
Separate Statements of Comprehensive Income
Years Ended December 31, 2010 and 2009

<i>(in millions of Korean won)</i>	Notes	2010	2009
Profit for the year		<u>1,970,993</u>	<u>1,384,472</u>
Other comprehensive income			
Actuarial loss on defined benefit liability	16	(17,771)	(10,272)
Cash flow hedges		5,411	12,488
Income tax effect relating to components of other comprehensive income		<u>387</u>	<u>(1,539)</u>
Other comprehensive income for the year, net of tax		<u>(11,973)</u>	<u>677</u>
Total comprehensive income for the year		<u><u>1,959,020</u></u>	<u><u>1,385,149</u></u>

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

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

<i>(in millions of Korean won)</i>	Notes	Share capital	Capital surplus	Other components of equity	Accumulated other comprehensive income (expense)	Retained earnings	Total equity
Balance at January 1, 2009		419,500	1,314,549	(14,600)	(16,053)	3,488,026	5,191,422
Comprehensive income:							
Profit for the year		-	-	-	-	1,384,472	1,384,472
Actuarial loss on defined benefit liability	16	-	-	-	-	(8,058)	(8,058)
Cash flow hedges		-	-	-	8,735	-	8,735
Total comprehensive income		-	-	-	8,735	1,376,414	1,385,149
Transactions with owners:							
Fair value of non-cash assets distributed due to spin-off		(50,000)	(154,800)	(464,272)	-	-	(669,072)
Purchase of treasury shares		-	-	(2,293)	-	-	(2,293)
Disposal of treasury shares		-	-	1,785	-	-	1,785
Dividends		-	-	-	-	(209,202)	(209,202)
Others		-	(2,177)	(376)	-	-	(2,553)
Total transactions with owners		(50,000)	(156,977)	(465,156)	-	(209,202)	(881,335)
Balance at December 31, 2009		369,500	1,157,572	(479,756)	(7,318)	4,655,238	5,695,236
Balance at January 1, 2010		369,500	1,157,572	(479,756)	(7,318)	4,655,238	5,695,236
Comprehensive income:							
Profit for the year		-	-	-	-	1,970,993	1,970,993
Actuarial loss on defined benefit liability	16	-	-	-	-	(16,075)	(16,075)
Cash flow hedges		-	-	-	4,102	-	4,102
Total comprehensive income		-	-	-	4,102	1,954,918	1,959,020
Transactions with owners:							
Loss on capital reduction		-	-	464,272	-	(464,272)	-
Dividends		-	-	-	-	(257,752)	(257,752)
Total transactions with owners		-	-	464,272	-	(722,024)	(257,752)
Balance at December 31, 2010		369,500	1,157,572	(15,484)	(3,216)	5,888,132	7,396,504

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

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

<i>(in millions of Korean won)</i>	Notes	2010	2009
Cash flows from operating activities			
Cash generated from operations	29	2,757,457	2,473,941
Interest received		23,277	22,734
Interest paid		(50,287)	(87,733)
Dividends		73,818	8,347
Income taxes paid		(359,364)	(565,513)
Net cash generated from operating activities		<u>2,444,901</u>	<u>1,851,776</u>
Cash flows from investing activities			
Decrease in other receivables		200,000	148,300
Decrease in non-current other receivables		5,851	273
Decrease in non-current other financial assets		7	6,078
Proceeds from disposal of property, plant and equipment		329	11,549
Proceeds from disposal of intangible assets		182	-
Increase in other receivables		(105,000)	(100,000)
Increase in non-current other receivables		(9,960)	-
Increase in non-current other financial assets		(7)	(2,959)
Acquisition of investments in subsidiaries		(142,328)	(56,181)
Acquisition of investments in associates		(14,210)	(18,823)
Purchases of property, plant and equipment		(1,321,915)	(942,753)
Purchases of intangible assets		(23,890)	(15,811)
Net cash used in investing activities		<u>(1,410,941)</u>	<u>(970,327)</u>
Cash flows from financing activities			
Proceeds from borrowings		-	429,090
Proceeds from settlement of derivatives		-	28,442
Repayments of borrowings		(506,735)	(423,593)
Purchase of treasury shares		-	(2,293)
Dividends		(257,771)	(209,192)
Net cash used in financing activities		<u>(764,506)</u>	<u>(177,546)</u>
Cash flows from spin-off		<u>-</u>	<u>(214,015)</u>
Net increase in cash and cash equivalents		269,454	489,888
Cash and cash equivalents at beginning of year		862,585	373,300
Exchange losses on cash and cash equivalents		(1,221)	(603)
Cash and cash equivalents at the end of year		<u>1,130,818</u>	<u>862,585</u>

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

LG Chem, Ltd.

Notes to the Separate Financial Statements

December 31, 2010 and 2009, and January 1, 2009

1. General information

The 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 Company's shares have been listed on the Korea Stock Exchange since April 25, 2001.

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

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

The 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 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 Company is LG Corp., which owns 33.53% of the 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.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these 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 30.

LG Chem, Ltd.
Notes to the Separate Financial Statements
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The accompanying 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 judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 4 of the consolidated financial statements.

2.2 Investments in subsidiaries, joint venture and associates

The accompanying financial statements are the separate financial statements of the Company prepared in accordance with Korean IFRS 1027, 'Consolidated and separate financial statements'. Investments in subsidiaries, jointly controlled entities and associates are recorded at acquisition cost based on its direct equity investments. At the date of transition from K-GAAP to Korean IFRS, the Company has used the K-GAAP carrying amount at the transition date as deemed cost. The Company recognizes a dividend from a subsidiary, jointly controlled entity or associate in profit or loss when its right to receive the dividend is established.

2.3 Other significant accounting policies

Please refer to the consolidated financial statements for other significant accounting policies adopted by the Company.

3. Financial instruments by category

(1) Categorizations of financial instruments are as follows:

(in millions of Korean won)

	December 31, 2010			
	Loans and receivables	Assets at fair value through profit or loss	Assets classified as available-for- sale	Total
Cash and cash equivalents	1,130,818	-	-	1,130,818
Trade receivables	2,173,032	-	-	2,173,032
Other receivables	105,311	-	-	105,311
Other financial assets	-	2,194	-	2,194
Other non-current receivables	14,189	-	-	14,189
Other non-current financial assets	-	-	4,044	4,044
Total	3,423,350	2,194	4,044	3,429,588

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(in millions of Korean won)

Financial liabilities	December 31, 2010		
	Hedging derivatives	Liabilities at amortized cost	Total
Trade payables	-	973,413	973,413
Other payables	-	840,920	840,920
Borrowings (current)	-	1,061,723	1,061,723
Borrowings (non-current)	-	215,712	215,712
Other current financial liabilities	20,535	-	20,535
Other non-current payables	-	47,181	47,181
Total	20,535	3,138,949	3,159,484

(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	862,585	-	-	-	862,585
Trade receivables	2,177,103	-	-	-	2,177,103
Other receivables	154,034	-	-	-	154,034
Other financial assets	-	378	-	-	378
Trade receivables (non-current)	40	-	-	-	40
Other non-current receivables	17,227	-	-	-	17,227
Other non-current financial assets	-	-	17,997	4,044	22,041
Total	3,210,989	378	17,997	4,044	3,233,408

(in millions of Korean won)

Financial liabilities	December 31, 2009			
	Assets at fair value through profit or loss	Hedging derivatives	Liabilities at amortized cost	Total
Trade payables	-	-	868,232	868,232
Other payables	-	-	680,917	680,917
Borrowings (current)	-	-	1,404,000	1,404,000
Borrowings (non-current)	-	-	404,239	404,239
Other financial liabilities	39	-	-	39
Other non-current payables	-	-	28,991	28,991
Other non-current financial liabilities	-	35,024	-	35,024
Total	39	35,024	3,386,379	3,421,442

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(in millions of Korean won)

	January 1, 2009			Total
	Loans and receivables	Assets at fair value through profit or loss	Assets classified as available-for-sale	
Financial assets				
Cash and cash equivalents	373,300	-	-	373,300
Trade receivables	1,942,277	-	-	1,942,277
Other receivables	215,393	-	-	215,393
Other financial assets	130	-	-	130
Other non-current receivables	31,554	-	-	31,554
Other non-current financial assets	-	51,845	1,967	53,812
Total	2,562,654	51,845	1,967	2,616,466

(in millions of Korean won)

	January 1, 2009		Total
	Hedging derivatives	Liabilities at amortized cost	
Financial liabilities			
Trade payables	-	527,150	527,150
Other payables	-	620,307	620,307
Borrowings (current)	-	1,394,058	1,394,058
Borrowings (non-current)	-	819,944	819,944
Other non-current payables	-	5,864	5,864
Other non-current financial liabilities	26,961	-	26,961
Total	26,961	3,367,323	3,394,284

4. 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	49,536	52,850	55,690
Financial deposits, others	1,081,282	809,735	317,610
Total	1,130,818	862,585	373,300

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

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5. 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
Current									
Trade receivables	2,179,185	(6,153)	2,173,032	2,188,620	(11,517)	2,177,103	1,975,434	(33,157)	1,942,277
Other receivables	105,311	-	105,311	155,446	(1,412)	154,034	225,704	(10,311)	215,393
Non-current									
Trade receivables	-	-	-	43	(3)	40	146	(16)	130
Other receivables	14,189	-	14,189	17,227	-	17,227	31,554	-	31,554
Total	2,298,685	(6,153)	2,292,532	2,361,336	(12,932)	2,348,404	2,232,838	(43,484)	2,189,354

(2) Details of other receivables are as follows:

<i>(in millions of Korean won)</i>	December 31, 2010	December 31, 2009	January 1, 2009
Current			
Non-trade receivables	89,106	51,219	66,160
Financial deposits	5,000	100,000	148,300
Accrued income	3,943	2,815	933
Deposits	7,262	-	-
Subtotal	105,311	154,034	215,393
Non-current			
Non-trade receivables	-	-	196
Financial deposits	40	40	46
Loans	36	50	206
Deposits	14,113	17,137	31,106
Subtotal	14,189	17,227	31,554
Total	119,500	171,261	246,947

(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	2,149,727	2,086,630	1,881,314
3 to 6 months	24,801	87,066	58,320
Over 6 months	4,657	14,924	35,800
Total	2,179,185	2,188,620	1,975,434

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(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	11,517	3	1,412	-	33,517	16	10,311	-
Addition	-	-	-	-	7,225	-	2,263	-
Reversal	(775)	(3)	-	-	(3)	(13)	-	-
Write-off	(4,589)	-	(1,412)	-	(2,573)	-	-	-
Spin-off	-	-	-	-	(26,289)	-	(11,612)	-
Ending balance	<u>6,153</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,517</u>	<u>3</u>	<u>1,412</u>	<u>-</u>

(5) As of December 31, 2010, the maximum exposure amount of credit risk is the carrying amount of each receivable mentioned above.

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

6. 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
Other financial assets			
Derivatives (Note 8)	2,194	18,375	51,845
Available-for-sale (Note 7)	4,044	4,044	1,967
Less: current portions	<u>(2,194)</u>	<u>(378)</u>	<u>-</u>
Total	<u>4,044</u>	<u>22,041</u>	<u>53,812</u>
Other financial liabilities			
Derivatives (Note 8)	20,535	35,063	26,961
Less: current portions	<u>(20,535)</u>	<u>(39)</u>	<u>-</u>
Total	<u>-</u>	<u>35,024</u>	<u>26,961</u>

LG Chem, Ltd.
Notes to the Separate Financial Statements
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7. Financial assets classified as available-for-sale

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

<i>(in millions of Korean won)</i>	2010	2009
Beginning balance	4,044	1,967
Additions	7	2,959
Disposals	(7)	(1,786)
Reclassification	-	1,281
Spin-off	-	(195)
Impairment	-	(182)
Ending balance	<u>4,044</u>	<u>4,044</u>

(1) Available-for-sale financial assets consist of listed and unlisted equity securities. The unlisted equity securities are measured at cost as their fair values cannot be measured reliably.

(2) 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.

8. Derivative financial instruments

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

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

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(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/ ¥
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	2009.11.27 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.

January 1, 2009					
Classification	Contractor	Contract date	Contract amount (in thousands)	Contract period	Contract terms
Currency swap	Hana Bank	2006.04.13	US\$ 52,029	2006.04.13 ~ 2009.04.13	₩961.00/US\$
	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\$
	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.

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9. 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	51,190	(17)	51,173	36,743	(58)	36,685	67,368	(363)	67,005
Finished products	834,503	(5,867)	828,636	617,725	(4,374)	613,351	751,525	(12,513)	739,012
Semi-finished products	237,091	-	237,091	170,693	-	170,693	177,578	-	177,578
Work-in-process	1,032	-	1,032	595	-	595	494	-	494
Raw materials	418,037	(754)	417,283	381,403	(375)	381,028	351,942	(421)	351,521
Supplies	40,906	-	40,906	46,142	-	46,142	41,333	-	41,333
Materials-in-transit	155,223	-	155,223	92,437	-	92,437	131,995	-	131,995
Total	1,787,982	(6,638)	1,731,344	1,345,738	(4,807)	1,340,931	1,522,235	(13,297)	1,508,938

(2) The cost of inventories recognized as expense and included in 'Cost of Sales' amounted to ₩11,414,464 million (2009: ₩9,144,463 million).

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10. Investments in subsidiaries, joint venture and associates

(1) Details of investments in subsidiaries and associates for the years ended December 31, 2010 and 2009, and January 1, 2009, are as follows:

Subsidiaries	Country	Ownership (%)			Amount		
		2010. 12.31	2009. 12.31	2009. 1.1	2010. 12.31	2009. 12.31	2009. 1.1
Tianjin LG Dagu Chemical Co., Ltd.	China	75	75	75	24,265	24,265	24,265
Ningbo LG Yongxing Chemical Co., Ltd. ¹	China	75	75	75	135,908	135,908	135,908
LG Chemical Hong Kong Ltd.	Hong Kong	100	100	100	11,159	11,159	11,159
LG Chem America, Inc.	USA	100	100	100	3,620	3,620	-
LG Chemical India Pvt. Ltd. ²	India	100	100	100	54,929	54,929	54,929
LG Polymer India Pvt. Ltd. ²	India	-	-	-	-	-	-
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	China	100	100	100	21,911	21,911	21,911
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. ³	China	81	81	83	151,975	126,344	98,921
LG Chem (Taiwan), Ltd.	Taiwan	100	100	100	18	18	-
LG Chem Display Materials (Beijing) Co., Ltd.	China	90	90	90	12,450	12,450	12,450
Tianjin LG Bohai Chemical Co., Ltd. ⁴	China	65	65	65	105,847	105,847	105,847
LG Chem (China) Investment Co., Ltd. ⁶	China	100	100	100	50,092	46,337	46,337
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	China	90	90	90	14,733	14,733	14,733
LG Chem Europe GmbH	Germany	100	100	100	3,085	3,085	3,085
LG Chem Poland Sp. Z.O.O	Poland	100	100	100	8,196	8,196	8,196
LG Chem Michigan Inc. ⁷	USA	100	100	100	29,269	983	983
LG Chem Power Inc. ⁷	USA	100	100	100	6,712	-	-
Tianjin LG Botian Chemical Co., Ltd. ^{4,5}	China	41	36	-	9,550	5,977	-
Ningbo Zhenhai LG Yongxing Trade Co., Ltd. ¹	China	-	-	-	-	-	-
LG Polycarbonate Ltd. ¹⁰	Korea	100	-	-	136,948	-	-
Tianjin LG New Building Materials Co., Ltd. ¹¹	China	-	-	85	-	-	51,689
LG Hausys America, Inc. ¹¹	USA	-	-	100	-	-	7,396
LG Chem Trading (Shanghai) Co., Ltd. ¹¹	China	-	-	100	-	-	2,473
LG Chem Industrial Materials Inc. ¹¹	USA	-	-	100	-	-	15,882
Total					780,667	575,762	616,164

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Associates	Country	Ownership (%)			Amount		
		2010. 12.31	2009. 12.31	2009. 1.1	2010. 12.31	2009. 12.31	2009. 1.1
LG Polycarbonate Ltd. ¹⁰	Korea	-	50	50	-	62,577	62,577
SEETEC Co., Ltd.	Korea	50	50	50	58,416	58,416	58,416
LG Vina Chemical J/V Company	Vietnam	40	40	40	1,313	1,313	1,313
LG Holdings (HK) Ltd.	Hong Kong	26	26	18	77,535	77,535	58,207
LG Chem Brasil, Ltd. ⁸	Brazil	100	100	100	258	258	258
TECWIN Co., Ltd. ¹³	Korea	20	20	20	2,861	2,861	2,861
HL Greenpower Co., Ltd. ⁹	Korea	49	-	-	14,210	-	-
LG Yongxing International Trading Co., Ltd. ^{8,12}	China	-	-	-	-	-	-
M. Dohmen S.A. ¹¹	Swiss	-	-	49	-	-	993
Total					<u>154,593</u>	<u>202,960</u>	<u>184,625</u>

¹ In 2009, Ningbo LG Yongxing Chemical Co., Ltd. established Ningbo Zhenhai LG Yongxing Trade Co., Ltd. with 100% ownership.

² LG Chemical India Pvt. Ltd. owns 100% of LG Polymer India Pvt. Ltd. shares.

³ In 2010, the Company acquired additional shares of LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. for ₩25,631 million.

⁴ As of December 31, 2010 Tianjin LG Bohai Chemical Co., Ltd. owns 20.30% of Tianjin LG Botian Chemical Co., Ltd. shares.

⁵ In 2010, the Company acquired additional shares of Tianjin LG Botian Chemical Co., Ltd. for ₩3,573 million.

⁶ In 2010, the Company acquired additional shares of LG Chem (China) Investment Co., Ltd. for ₩3,755 million.

⁷ In 2010, the Company acquired additional shares of Compact Power Inc. for ₩34,998 million. Compact Power Inc. changed its company name to LG Chem Michigan Inc. In addition, LG Chem Power Inc. is the newly formed entity which has been span off from Compact Power Inc. in 2010.

⁸ Classified as investment in associate due to its small scale.

⁹ In 2010, the Company newly acquired shares of HL Greenpower Co., Ltd. for ₩14,210 million.

¹⁰ The Company obtained controls over LG Polycarbonate Ltd. on October 1, 2010 and accordingly, this investment has been reclassified from an associate to a subsidiary.

¹¹ This investment was transferred to LG Hausys, Ltd., as a result of spin-off.

¹² This entity was established by Ningbo LG Yongxing Chemical Co., Ltd. which is one of the Company's subsidiaries.

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11. 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:

2010											
<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery	Vehicles	Tools	Equipment	Others	Construction-in-progress	Machinery-in-transit	Total
Beginning balance	426,305	842,384	272,005	1,645,500	7,627	105,569	36,129	10,666	449,713	64,382	3,860,280
Cost	426,305	1,029,994	495,541	4,846,537	27,373	290,372	134,170	17,978	484,509	64,382	7,817,161
Accumulated depreciation	-	(180,767)	(223,529)	(3,198,859)	(19,746)	(180,825)	(98,024)	(7,312)	-	-	(3,909,062)
Accumulated impairment	-	(6,843)	(7)	(2,178)	-	(3,978)	(17)	-	(34,796)	-	(47,819)
Acquisitions/ Transfer	169	133,143	17,264	538,532	1,617	62,247	23,367	77,389	1,035,907	284,813	2,174,448
Disposals/ Transfer	(77)	(2,455)	(290)	(6,890)	(37)	(566)	(244)	(232)	(660,253)	(180,242)	(851,286)
Depreciation	-	(23,231)	(21,659)	(367,367)	(2,387)	(37,674)	(13,108)	(26,170)	-	-	(491,596)
Impairment	-	(4,228)	-	(15,537)	-	-	-	-	-	-	(19,765)
Ending balance	426,397	945,613	267,320	1,794,238	6,820	129,576	46,144	61,653	825,367	168,953	4,672,081
Cost	426,397	1,150,391	512,179	5,337,402	28,562	343,216	151,482	94,667	860,163	168,953	9,073,412
Accumulated depreciation	-	(200,544)	(244,852)	(3,525,450)	(21,742)	(209,662)	(105,321)	(33,014)	-	-	(4,340,585)
Accumulated impairment	-	(4,234)	(7)	(17,714)	-	(3,978)	(17)	-	(34,796)	-	(60,746)

2009											
<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery	Vehicles	Tools	Equipment	Others	Construction-in-progress	Machinery-in-transit	Total
Beginning balance	498,231	893,343	293,998	1,562,868	10,022	190,865	50,856	-	286,851	80,632	3,867,666
Cost	498,231	1,092,374	510,824	4,892,001	30,773	497,370	174,546	-	286,851	80,632	8,063,602
Accumulated depreciation	-	(199,031)	(216,819)	(3,320,835)	(20,751)	(302,526)	(123,673)	-	-	-	(4,183,635)
Accumulated impairment	-	-	(7)	(8,298)	-	(3,979)	(17)	-	-	-	(12,301)
Decrease due to spin-off	(71,873)	(99,772)	(10,991)	(110,280)	(1,157)	(86,902)	(12,580)	-	(33,635)	(11,303)	(438,493)
Acquisitions/ Transfer	4,157	81,315	10,772	524,952	1,531	56,254	13,051	17,978	760,974	159,935	1,630,919
Disposals/ Transfer	(4,210)	(803)	(235)	(22,285)	(155)	(13,574)	(1,286)	-	(529,680)	(164,882)	(737,110)
Depreciation	-	(22,044)	(21,442)	(306,739)	(2,614)	(41,074)	(13,912)	(7,312)	-	-	(415,137)
Impairment	-	(9,655)	(97)	(3,016)	-	-	-	-	(34,797)	-	(47,565)
Ending balance	426,305	842,384	272,005	1,645,500	7,627	105,569	36,129	10,666	449,713	64,382	3,860,280
Cost	426,305	1,029,994	495,541	4,846,537	27,373	290,372	134,170	17,978	484,509	64,382	7,817,161
Accumulated depreciation	-	(180,767)	(223,529)	(3,198,859)	(19,746)	(180,825)	(98,024)	(7,312)	-	-	(3,909,062)
Accumulated impairment	-	(6,843)	(7)	(2,178)	-	(3,978)	(17)	-	(34,796)	-	(47,819)

(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).

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(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>	2010	2009
Carrying amount	2,223	4,405
Depreciation	<u>2,182</u>	<u>2,182</u>

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

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

<i>(in millions of Korean won)</i>	2010	2009
Cost of sales	453,442	364,661
Selling, general and administrative expenses	37,445	35,458
Others(*)	<u>709</u>	<u>15,018</u>
Total	<u>491,596</u>	<u>415,137</u>

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

12. Intangible assets

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

<i>(in millions of Korean won)</i>	2010					Total
	Development costs	Industrial property rights	Goodwill	Memberships	Others	
Beginning balance	23,413	38,033	33,415	46,747	8,832	150,440
Acquisitions/ Transfer	8,871	12,746	-	1,911	7,434	30,962
Disposals/ Transfer	(2)	(642)	-	(236)	(29)	(909)
Amortization	<u>(7,640)</u>	<u>(2,301)</u>	-	-	<u>(2,856)</u>	<u>(12,797)</u>
Ending balance	<u>24,642</u>	<u>47,836</u>	<u>33,415</u>	<u>48,422</u>	<u>13,381</u>	<u>167,696</u>

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	2009					
	<i>(in millions of Korean won)</i>					
	Development costs	Industrial property rights	Goodwill	Memberships	Others	Total
Beginning balance	45,908	32,339	33,415	57,570	10,472	179,704
Acquisitions/ Transfer	7,909	12,599	-	-	2,527	23,035
Disposals/ Transfer	(265)	(785)	-	-	(48)	(1,098)
Amortization	(9,542)	(1,872)	-	-	(2,663)	(14,077)
Impairment	(16,948)	-	-	-	-	(16,948)
Decrease due to spin-off	(3,649)	(4,248)	-	(10,823)	(1,456)	(20,176)
Ending balance	23,413	38,033	33,415	46,747	8,832	150,440

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

	2009	
	2010	2009
<i>(in millions of Korean won)</i>		
Cost of sales	5,401	6,006
Selling, general and administrative expenses	7,396	7,307
Others(*)	-	764
Total	12,797	14,077

(*) Amounts charged to discontinued operations are included.

13. Other current and non-current assets

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
Current:			
Advances to suppliers	-	2,544	8,848
Prepaid expenses	15,513	19,463	28,150
Prepaid value added tax	46,747	33,278	19,193
Others	6,817	4,303	5,095
Total	69,077	59,588	61,286
Non-current:			
Long-term prepaid expenses	9,563	11,369	19,476
Other investment assets	-	-	1,621
Total	9,563	11,369	21,097

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14. Borrowings

Details of borrowings are as follows:

(1) Current borrowings

(in millions of Korean won)	Bank	Annual interest rate (%) at 12.31, 2010	Carrying Amount		
			December 31, 2010	December 31, 2009	January 1, 2009
Notes discounted ¹	Shinhan Bank, others	Libor+1.3, various	862,290	949,353	818,916
Current maturities of long-term debts					
Debentures	Woori Security	3Tibor+3.00	139,543	158,294	506,271
Bank loans ²	Shinhan Bank, others	Libor+0.36, various	58,078	294,694	67,353
Finance lease liabilities	Hyundai Oil Bank	9.00	1,812	1,659	1,518
Total			1,061,723	1,404,000	1,394,058

¹ Notes discounted that are not yet due.

² Bank loans are secured by certain property, plant and equipment (Note 11).

(2) Non-current borrowings

(in millions of Korean won)

December 31, 2010						
	Bank	Annual interest rate (%)	Maturity	Total amount	Current maturities	Long-term debts
1. Debentures						
Won currency debentures	Woori Security	4.85	2012.4.29	149,692	-	149,692
Foreign currency debentures ¹	Woori Security	3Tibor+3.0	2011.12.19	139,543	139,543	-
Subtotal				289,235	139,543	149,692
2. Bank loans						
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	113,890	56,945	56,945
Subtotal				116,886	58,078	58,808
3. Finance lease liabilities						
Finance lease liabilities ²	Hyundai Oil Bank	9.00	2014.10.29	9,024	1,812	7,212
Subtotal				9,024	1,812	7,212
Total				415,145	199,433	215,712

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December 31, 2009						
	Bank	Annual interest rate (%)	Maturity	Total amount	Current maturities	Long-term debts
1. Debentures						
Won currency debentures	Woori Security	4.5~ 4.85	2010.3.16~2012.4.29	249,399	99,926	149,473
Foreign currency debentures ¹	Woori Security	Libor+0.26~ Tibor+3.0	2010.9.17~2011.12.19	184,354	58,368	125,986
Subtotal				433,753	158,294	275,459
2. Bank loans						
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	2010.2.27~2015.10.15	408,658	291,899	116,759
Subtotal				414,450	294,694	119,756
3. Finance lease liabilities						
Finance lease liabilities ²	Hyundai Oil Bank	9.00	2014.10.29	10,683	1,659	9,024
Subtotal				10,683	1,659	9,024
Total				858,886	454,647	404,239

(in millions of Korean won)

January 1, 2009						
	Bank	Annual interest rate (%)	Maturity	Total amount	Current maturities	Long-term debts
1. Debentures						
Won currency debentures	Woori Security	3.5~5.02	2009.4.26~2013.10.27	458,824	299,438	159,386
Won currency debentures	Woori Bank, others	5.02~5.32	2009.4.13~2009.5.30	100,000	100,000	-
Foreign currency debentures ¹	Woori Security	Libor+0.26~ Tibor+3.00	2009.9.23~2011.12.19	308,595	106,833	201,762
Subtotal				867,419	506,271	361,148
2. Bank loans						
Won currency loans	Kookmin Bank, others	3.00~4.25, CD+0.6	2010.6.15~2020.3.21	9,914	1,926	7,988
Foreign currency loans	KDB, others	Libor+0.3, various	2010.2.27~2015.10.15	505,552	65,427	440,125
Subtotal				515,466	67,353	448,113
3. Finance lease liabilities						
Finance lease liabilities ²	Hyundai Oil Bank	9.00	2014.10.29	12,201	1,518	10,683
Subtotal				12,201	1,518	10,683
Total				1,395,086	575,142	819,944

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

² Finance lease liabilities are liabilities associated with sales and leaseback arrangements on property, plant and equipment of MTBE factory (Note 11).

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

<i>(in millions of Korean won)</i>	December 31, 2010		December 31, 2009		January 1, 2009	
	Carrying amount	Fair value ¹	Carrying amount	Fair value ¹	Carrying amount	Fair value ¹
Debentures	149,692	153,716	275,459	276,247	361,148	350,276
Bank loans	58,808	58,852	119,756	119,343	448,113	446,943
Finance lease liabilities	7,212	7,197	9,024	8,948	10,683	10,326
Total	215,712	219,765	404,239	404,538	819,944	807,544

¹ 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:

	2010	2009
Beginning balance	433,753	867,419
Amortization	776	1,342
Increase	-	298,653
Repayment	(158,380)	(506,887)
Decrease due to spin-off	-	(209,172)
Exchange difference	13,086	(17,602)
Ending balance	289,235	433,753

(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:

<i>(in millions of Korean won)</i>	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	669	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

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15. 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 returns¹	Warranty²	Total
Beginning balance	3,512	1,792	5,304
Additions	-	335	335
Reversals	(733)	-	(733)
Ending balance	<u>2,779</u>	<u>2,127</u>	<u>4,906</u>

(in millions of Korean won)

	2009		
	Sales returns¹	Warranty²	Total
Beginning balance	-	-	-
Additions	3,512	5,131	8,643
Decrease due to spin-off	-	(3,339)	(3,339)
Ending balance	<u>3,512</u>	<u>1,792</u>	<u>5,304</u>

¹ Sales return provisions have been accrued for the estimated sales returns determined based on historical experience.

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

16. Defined benefit liability

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

(in millions of Korean won)

	December 31, 2010	December 31, 2009	January 1, 2009
Present value of obligations ^(*)	157,782	218,128	248,479
Fair value of plan assets	(151,726)	(164,867)	(183,107)
Liability in the statement of financial position	<u>6,056</u>	<u>53,261</u>	<u>65,372</u>

^(*) The present value of retirement benefit obligations is net of existing contributions to the National Pension Plan of ₩1,021 million (December 31, 2009; ₩1,926 million; January 1, 2009; ₩2,756 million).

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(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>	2010	2009
Current service cost ¹	37,251	38,021
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)	-
Total, included in employee benefit expenses	<u>39,493</u>	<u>41,771</u>

¹ 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>	2010	2009
Cost of sales	30,366	28,399
Selling, general and administrative expenses	9,127	13,372
Total	<u>39,493</u>	<u>41,771</u>

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

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(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>	2010	2009
Beginning balance	218,128	248,479
Transfer in	452	708
Current service cost	37,378	36,284
Interest expense	10,730	12,595
Actuarial losses(before tax)	16,769	12,340
Benefits paid	(34,741)	(39,249)
Spin-off	-	(53,029)
Curtailment of plan	7,967	-
Settlements of plan	(90,067)	-
Past service cost	(8,834)	-
Ending balance	157,782	218,128

(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>	2010	2009
Beginning balance	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)
Settlements of plan	(51,872)	-
Ending balance	151,726	164,867

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

(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

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(10) Plan assets consist of:

(in millions of Korean won)

	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	67,156	44%	164,867	100%	183,107	100%
Total¹	151,726	100%	164,867	100%	183,107	100%

¹ 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:

(in millions of Korean won)	December 31, 2010	December 31, 2009
Present value of defined benefit obligations	157,782	218,128
Fair value of plan assets	(151,726)	(164,867)
Deficit in the plan	6,056	53,261
Experience adjustments on plan liabilities	(20,393)	(4,674)
Experience adjustments on plan assets	(1,002)	2,068

17. Other current liabilities

Other current liabilities consist of as follows:

(in millions of Korean won)	December 31, 2010	December 31, 2009	January 1, 2009
Advances from customers	9,868	16,814	18,160
Dividends payable	43	61	51
Value added tax withheld	1,415	-	-
Withholding	31,707	38,518	47,641
Advance income	6,407	4,362	4,332
Others	21,597	10,171	1,921
Total	71,037	69,926	72,105

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18. 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 bank overdraft agreements with several banks for up to ₩64,000 million. The Company has also entered into contracts with several financial institutions to open purchase card agreements for up to ₩210,000 million and has entered into contracts with several financial institutions for discounting notes from export and derivative financial instruments for up to US\$ 445 million and US\$ 30 million, respectively. The Company has entered into credit line agreements which are related to trade finance and import & export with several financial institutions for up to ₩1,554,500 million and US\$ 290 million.
- (5) As of December 31, 2010, the Company has entered into B2B purchase contracts with several financial institutions.
- (6) As of December 31, 2010, the Company has been named as a plaintiff for five legal actions involving ₩2,348 million in claims and defendant for 11 legal actions with ₩4,483 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 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 Controlling 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 Controlling Company provided a US\$ 17 million guarantee in regard to a purchase contract for certain raw materials.

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(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\$ 168 million, EUR 1 million and PLN 32,000 million (total equivalent to ₩205,466 million) (2009: US\$ 152 million, EUR 3 million and PLN 32 million, total equivalent to ₩195,444 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 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
		205,466		158,232

(in millions of Korean won)

		2009		
Guarantor	Guarantee beneficiary	Amount of guarantee	Financial institution	Outstanding loan amount
The 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
		195,444		169,953

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

<i>(in millions of Korean won)</i>	December 31, 2010	December 31, 2009
Property, plant and equipment	772,084	881,468

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19. 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>	2010	2009
Wages and salaries	184,839	155,372
Pension costs (Note 16)	9,127	13,372
Welfare expense	35,017	31,555
Travel expense	17,635	14,647
Water & utilities	14,697	14,517
Packaging expense	3,993	3,812
Rental expense	49,279	40,418
Commission expense	173,065	146,973
Depreciation(Note 11)	37,445	35,458
Advertising expense	10,813	9,123
Freight expense	289,133	261,285
Training expense	9,118	7,261
Amortization (Note 12)	7,396	7,307
Sample expense	6,844	6,363
Others	132,829	118,838
Total	981,230	866,301

20. 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>	2010	2009
Changes in inventories	(296,608)	95,940
Raw materials and consumables used	11,132,449	8,573,824
Purchase of merchandise	578,622	474,699
Pension costs (Note 21)	682,129	619,662
Advertising expense	11,680	9,858
Transportation expense	312,122	284,531
Service fees	235,940	201,879
Depreciation, amortization and impairment	523,449	478,709
Operating lease payments	23,384	20,671
Other expenses	1,555,419	1,582,594
Total	14,758,586	12,342,367

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21. Employee benefit expense

<i>(in millions of Korean won)</i>	2010	2009
Wages and salaries	599,552	537,769
Pension costs (Note 16)	39,493	41,771
Others	43,084	40,122
Total	682,129	619,662

22. 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>	2010	2009
Foreign exchange gains	365,307	451,724
Gain on foreign currency translation	11,540	22,459
Gain on disposal of property, plant and equipment	4,569	456
Others	22,960	27,695
Total	404,376	502,334

23. Other operating expenses

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

<i>(in millions of Korean won)</i>	2010	2009
Foreign exchange loss	369,557	456,358
Loss on foreign currency translation	13,165	20,878
Loss on disposal of property, plant and equipment	10,665	24,939
Loss on disposal of intangible assets	727	1,097
Impairment loss on property, plant and equipment	19,765	47,565
Impairment loss on intangible assets	-	16,948
Others	9,805	41,572
Total	423,684	609,357

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24. 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>	2010	2009
Financial income		
Interest income ¹	24,416	17,384
Dividend income	73,763	8,392
Foreign exchange gain	56,235	77,573
Gain on foreign exchange translation	2,985	48,836
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	-	4,293
Total	<u>185,429</u>	<u>188,330</u>
Financial expense		
Interest expense ²	32,758	75,402
Foreign exchange loss	73,753	83,670
Loss on foreign exchange translations	14,763	770
Loss on settlement of trading derivatives	29,199	-
Loss on settlement of hedging derivatives	1,118	23,113
Others	1	22,151
Total	<u>151,592</u>	<u>205,106</u>

¹ Details of interest income are as follows:

<i>(in millions of Korean won)</i>	2010	2009
Bank deposits	24,402	17,359
Financial assets classified as available- for- sale	1	1
Other receivables	13	24
Total	<u>24,416</u>	<u>17,384</u>

² Details of interest expense are as follows:

<i>(in millions of Korean won)</i>	2010	2009
Interest on bank overdraft and borrowings	28,914	39,786
Interest on finance lease liabilities	822	962
Interest on debentures	8,994	26,429
Other interest expenses	12,650	17,495
Capitalized interest for qualifying assets	(18,622)	(9,270)
Total	<u>32,758</u>	<u>75,402</u>

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25. Income taxes

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

<i>(in millions of Korean won)</i>	2010	2009(*)
Current tax on profit for the year	517,445	374,849
Adjustments in respect of prior years	19,718	9,018
Deferred tax	5,730	16,447
Subtotal	<u>542,893</u>	<u>400,314</u>
Current tax charged directly to equity	3,910	-
Income tax expense	<u>546,803</u>	<u>400,314</u>

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

<i>(in millions of Korean won)</i>	2010	2009(*)
Current tax		
Actuarial loss on defined benefit liability	3,910	-
Deferred tax		
Actuarial loss on defined benefit liability	(2,214)	2,214
Cash flow hedges	(1,309)	(3,753)
Total	<u>(3,523)</u>	<u>(1,539)</u>

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

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

<i>(in millions of Korean won)</i>	2010			
	Beginning balance	Increase(Decrease)		Ending balance
		Profit for the year	Other comprehensive income	
Defined benefit liability	30,292	(4,333)	-	25,959
Plan assets	(35,701)	4,347	-	(31,354)
Reserve for technology development	(41,083)	(18,479)	-	(59,562)
Allowance for doubtful accounts	5,382	(312)	-	5,070
Property, plant and equipment	1,855	3,564	-	5,419
Investments in subsidiaries and associates ¹	(3,519)	2,473	-	(1,046)
Accrued interest income	(681)	(273)	-	(954)
Others	35,310	7,283	-	42,593
Subtotal	<u>(8,145)</u>	<u>(5,730)</u>	<u>-</u>	<u>(13,875)</u>
Deferred tax charged directly to equity	4,551	-	(3,523)	1,028
Deferred income tax assets	(3,594)	(5,730)	(3,523)	(12,847)

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(in millions of Korean won)

	2009				
	Beginning balance	Profit for the year	Increase(Decrease)		Ending balance
			Other comprehensive income	Spin-off	
Defined benefit liability	33,310	6,996	-	(10,014)	30,292
Plan assets	(39,053)	(4,680)	-	8,032	(35,701)
Reserve for technology development	(41,300)	(281)	-	498	(41,083)
Allowance for doubtful accounts	13,321	71	-	(8,010)	5,382
Property, plant and equipment	14,378	(12,523)	-	-	1,855
Investments in subsidiaries and associates ¹	5,584	-	-	(9,103)	(3,519)
Accrued interest income	(226)	(455)	-	-	(681)
Others	42,753	(5,575)	-	(1,868)	35,310
Subtotal	<u>28,767</u>	<u>(16,447)</u>	<u>-</u>	<u>(20,465)</u>	<u>(8,145)</u>
Deferred tax charged directly to equity	6,090	-	(1,539)	-	4,551
Deferred income tax assets	<u>34,857</u>	<u>(16,447)</u>	<u>(1,539)</u>	<u>(20,465)</u>	<u>(3,594)</u>

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

(in millions of Korean won)	2010	2009
Profit before income tax	2,517,796	1,784,786
Profit before income tax from continuing operations	2,517,796	1,826,762
Loss before income tax from discontinued operations	-	(41,976)
Income tax expense based on applicable tax rate	609,280	431,891
Tax adjustments		
Income not subject to tax	(4,342)	(11,859)
Expenses not deductible for tax purposes	7,056	3,720
Tax credit	(75,706)	(45,156)
Others	10,515	21,718
Income tax expense ¹	<u>546,803</u>	<u>400,314</u>
Effective tax rate (income tax expense/ profit before income tax)	<u>21.72%</u>	<u>22.43%</u>

¹ 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.

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26. Earnings per share

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

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

<i>(in millions of Korean won)</i>	2010	2009
Profit attributable to ordinary shares¹	1,766,317	1,240,601
Profit from continuing operations attributable to ordinary shares	1,766,317	1,267,413
Loss from discontinued operations attributable to ordinary shares	-	(26,812)
Weighted average number of ordinary shares outstanding²	65,911,322	68,116,575
Basic earnings per ordinary share (in won)	26,798	18,213
Earnings per ordinary share from continuing operations	26,798	18,607
Earnings (loss) per ordinary share from discontinued operations	-	(394)
<i>(in millions of Korean won)</i>	2010	2009
Profit attributable to preferred shares¹	204,676	143,871
Profit from continuing operations attributable to preferred shares	204,676	146,972
Loss from discontinued operations attributable to preferred shares	-	(3,101)
Weighted average number of preferred shares outstanding²	7,623,403	7,878,573
Basic earnings per preferred share (in won)	26,848	18,261
Earnings per preferred share from continuing operations	26,848	18,655
Earnings (loss) per preferred share from discontinued operations	-	(394)

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¹ Profit attributable to ordinary and preferred shares are as follows:

<i>(in millions of Korean won)</i>	2010	2009
Profit from continuing operations	1,970,993	1,414,385
Ordinary shares dividends (A)	263,645	230,689
Preferred shares dividends (B)	30,875	27,063
Undistributed earnings from continuing operations	<u>1,676,473</u>	<u>1,156,633</u>
Continuing operations available for ordinary shares (C)	1,502,672	1,036,724
Continuing operations available for preferred shares (D)	173,801	119,909
Profit from continuing operations attributable to ordinary shares (A+C)	1,766,317	1,267,413
Profit from continuing operations attributable to preferred shares (B+D)	204,676	146,972
Loss from discontinued operations	-	(29,913)
Discontinued operations attributable to ordinary shares	-	(26,812)
Discontinued operations attributable to preferred shares	-	(3,101)

² Weighted average numbers of shares are calculated as follows:

Ordinary shares	Period	2010		
		Number of shares	Number of days	Number of shares x days
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)
Total				<u>24,057,632,527</u>

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

Preferred shares	Period	2010		
		Number of shares	Number of days	Number of shares x days
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)
Total				<u>2,782,542,094</u>

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

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		2009		
Ordinary shares	Period	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)
Total				24,862,549,798

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

		2009		
Preferred shares	Period	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)
Total				2,875,679,297

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 Company, respectively.

27. 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, are summarized as follows:

(in millions of Korean won)	2010		2009	
	Sales	Purchases	Sales	Purchases
Entities with significant influence over the Company ¹	2	42,705	-	37,677
Subsidiaries	1,582,312	698,429	1,173,392	460,791
Associates	128,534	217,036	151,746	197,346
Key management	-	48,014	-	63,377
Others ²	17,691	588,844	11,606	416,273
Total	1,728,539	1,595,028	1,336,744	1,175,464

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<i>(in millions of Korean won)</i>	December 31, 2010		December 31, 2009		January 1, 2009	
	Receivables	Payables	Receivables	Payables	Receivables	Payables
Entities with significant influence over the Company ¹	5,541	6,923	5,276	1,943	7,723	6,024
Subsidiaries	383,391	131,644	476,516	76,748	381,921	46,653
Associates	1,325	18,961	16,783	18,329	15,877	9,885
Key management	-	51,768	-	36,664	-	53,640
Others ²	31,100	142,247	30,717	102,868	39,032	63,322
Total	421,357	351,543	529,292	236,326	444,553	179,524

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

² Includes LG Corp.'s subsidiaries.

(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>	2010	2009
Wages and salaries	33,768	51,055
Pension costs	2,621	2,122
Other long-term employee benefits	11,625	10,200
Total	48,014	63,377

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 arise 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 as of the reporting date are disclosed in Note 18.

28. Statement of appropriation of retained earnings

The statement of appropriation of retained earnings for the years ended December 31, 2010 and 2009, are as follows:

(Dates of appropriation: March 18, 2011 and March 19, 2010 for the years ended December 31, 2010 and 2009, respectively)

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<i>(in millions of Korean won)</i>	2010	2009
Retained earnings before appropriation		
Unappropriated retained earnings carried over from prior year	320,559	451,280
Profit for the year	1,970,993	1,384,472
Actuarial losses	(16,075)	(8,058)
	<u>2,275,477</u>	<u>1,827,694</u>
 Transfer from other reserves		
Reserve for technology development	<u>60,000</u>	<u>90,000</u>
 Appropriation of retained earnings		
Legal reserve	29,452	25,775
Dividends	294,520	257,752
Reserve for technology development	2,011,500	745,788
Reserve for investment losses	-	103,548
Losses on capital reduction	-	464,272
	<u>2,335,472</u>	<u>1,597,135</u>
 Unappropriated retained earnings carried forward to subsequent year		
	<u>5</u>	<u>320,559</u>

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29. 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, is as follows:

<i>(in millions of Korean won)</i>	2010	2009 (*)
Profit before income tax	2,517,796	1,784,786
Adjustments for:		
Depreciation	490,887	414,607
Amortization	12,797	14,077
Pension costs	39,493	44,944
Financial income	(129,534)	(115,152)
Financial expense	82,072	124,755
Foreign exchange differences	(12,430)	(107,694)
Gain on disposal of property, plant and equipment	(4,569)	(725)
Loss on disposal of property, plant and equipment	10,665	31,725
Loss on disposal of intangible assets	727	1,097
Other expenses	20,112	54,230
Inventories	(385,453)	(480,897)
Trade receivables	2,906	91,024
Other receivables	(40,139)	(11,050)
Settlement of derivatives	(18,866)	11,807
Trade payables	103,953	471,189
Other payables	173,792	174,565
Defined benefit liability	(104,592)	(49,553)
Other cash flows from operation	(2,160)	20,206
Cash generated from operations	2,757,457	2,473,941

(*) Discontinued operating income is included.

(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	660,253	529,680
Transfer of machinery-in-transit	180,242	164,882
Reclassification of current maturities of borrowings	199,432	539,512
Gain(loss) on valuation of derivatives recognized as other comprehensive income	5,411	12,488

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30. Transition to Korean IFRS

(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>	Total assets	Total liabilities	Total shareholders' equity
K-GAAP	8,036,382	3,146,688	4,889,694
Adjustments			
Derecognition of accounts receivable ¹	825,576	818,915	6,661
Employee benefits ²	(1,867)	(27,973)	26,106
Amortization on negative goodwill ³	235,018	-	235,018
Income tax effects ⁴	(4,306)	(38,249)	33,943
Total adjustments	1,054,421	752,693	301,728
Korean IFRS	9,090,803	3,899,381	5,191,422

¹ As of January 1, 2009, discounted trade accounts receivable which have not yet matured are recognized as borrowings.

² Changes in defined benefit liability using actuarial valuation.

³ Balance of negative goodwill was reversed entirely.

⁴ Income tax effects from above adjustments and deferred income tax classified as non-current assets or liabilities.

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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>	Total assets	Total liabilities	Total shareholders' equity
K-GAAP	8,358,827	2,874,492	5,484,335
Adjustments			
Transition to cost method from equity-method ¹	(62,087)	-	(62,087)
Derecognition of accounts receivable ²	954,219	949,353	4,866
Employee benefits ³	(1,646)	(16,167)	14,521
Amortization on negative goodwill ⁴	195,848	-	195,848
Withdrawal of amortization on goodwill ⁵	5,130	-	5,130
Income tax effect ⁶	(15,553)	(68,176)	52,623
Total adjustments	1,075,911	865,010	210,901
Korean IFRS	9,434,738	3,739,502	5,695,236

¹ Changes in method of accounting for investments in subsidiaries and associates which have been treated as equity-method stocks.

² As of January 1, 2009, discounted trade accounts receivable which have not yet matured are recognized as borrowings.

³ Changes in defined benefit liability using actuarial valuation.

⁴ Balance of negative goodwill was reversed entirely.

⁵ Cancellation of goodwill amortization.

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

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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	1,507,131	1,468,640
Adjustments		
Transition to cost method from equity-method ¹	(128,282)	(66,709)
Derecognition of accounts receivable ²	(1,795)	(1,795)
Employee benefits ³	4,761	(5,511)
Withdrawal of amortization on negative goodwill ⁴	(39,170)	(39,170)
Withdrawal of amortization on goodwill ⁵	5,130	5,130
Spin-off effects of industrial materials division ⁶	(1,110)	(1,110)
Income tax effect ⁷	34,128	21,995
Others	3,679	3,679
Total adjustments	(122,659)	(83,491)
Korean IFRS	1,384,472	1,385,149

¹ Changes in method of accounting for investments in subsidiaries and associates which have been treated as equity-method stocks.

² As of January 1, 2009, discounted trade accounts receivable which have not yet matured are recognized as borrowings.

³ Changes in defined benefit liability using actuarial valuation.

⁴ Balance of negative goodwill was reversed entirely.

⁵ Cancellation of goodwill amortization.

⁶ Effects from the application of Korean IFRIC 2117, 'Distribution of non-cash assets to owners', for the spin-off of Industrial Materials Segment.

⁷ 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 collateralized 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.

Report of Independent Accountants'
Review of Internal Accounting Control System

To the President of
LG Chem, Ltd.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of LG Chem, Ltd. (the "Company") as of December 31, 2010. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2010, the Company's IACS has been designed and is operating effectively as of December 31, 2010, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

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

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

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

Our review is based on the Company's IACS as of December 31, 2010, and we did not review management's assessment of its IACS subsequent to December 31, 2010. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

March 10, 2011

Report on the Operations of the Internal Accounting Control System

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

I, as the Internal Accounting Control Officer (“IACO”) of LG Chem, Ltd. (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2010.

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

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2010, in all material respects, in accordance with the IACS standards.

January 28, 2011

Cho Seok-Je, Internal Accounting Control System Officer

Peter Bahnsuk Kim, Chief Executive Officer