

LG International Corp.

Financial statements

Years ended December 31, 2010 and 2009

with independent auditors' report



December 31, 2010 and 2009

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Independent auditors' report

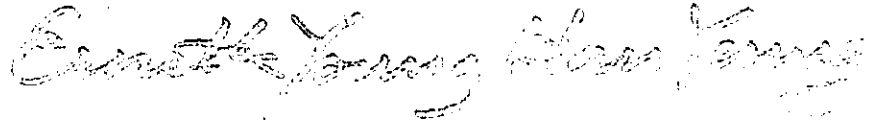
The Board of Directors and Stockholders
LG International Corp.

We have audited the accompanying statements of financial position of LG International Corp. (the "Company") as of December 31, 2010 and 2009, and the related statements of income, appropriations of retained earnings, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statement of equity method investees, GS Retail (two investees including GS Retail for comparative 2009), which are reflected in the accompanying financial statements using the equity method of accounting. The carrying amount of the investments in those investees represent approximately 17.15% and 12.4% of the Company's total assets as of December 31, 2010, and 2009, respectively, and their equity income or loss represents approximately 55.19% and 39.5% of the Company's income before income taxes for the years then ended. 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 those investees, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of LG International Corp. as of December 31, 2010 and 2009, and the results of its financial performance and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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



February 21, 2011

This audit report is effective as of February 21, 2011, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

LG International Corp.
Statement of financial position
As of December 31, 2010 and 2009
 (Korean won in millions)

	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents (Note 15)	₩ 124,190	₩ 110,642
Short-term investments (Notes 5, 8 and 15)	15,035	2,582
Trade accounts and notes receivable, net of allowance for doubtful accounts (Notes 15 and 16)	453,956	388,676
Other accounts receivable (Notes 15 and 16)	23,933	38,949
Inventories (Notes 9)	218,152	106,050
Accrued income (Note 15)	18,135	14,208
Advance payments	20,334	23,316
Prepaid expenses	7,985	6,324
Derivative assets (Note 26)	2,626	4,158
Deferred income tax assets (Note 22)	34,658	37,904
Other current assets	4,314	3,916
Total current assets	923,318	736,725
Non-current assets:		
Long-term financial instruments (Note 4)	13	18
Available-for-sale securities (Note 6)	25,856	26,714
Equity method investments (Note 7)	878,425	601,331
Long-term guarantee deposits (Notes 4 and 15)	22,377	20,642
Investments on overseas resources development (Notes 3 and 8)	133,834	178,254
Long-term loans receivable (Notes 7 and 15)	257,372	208,669
Long-term prepaid expenses	3,435	3,681
Property, plant and equipment (Notes 3 and 9)	57,230	53,212
Intangible assets (Notes 3 and 11)	5,498	5,984
Total non-current assets	1,384,040	1,098,505
Total assets	₩ 2,307,358	₩ 1,835,230

(Continued)

See accompanying notes.

LG International Corp.
Statements of financial position (cont'd)
As of December 31, 2010 and 2009

(Korean won in millions)

	<u>2010</u>	<u>2009</u>
Liabilities and equity		
Current liabilities:		
Trade accounts and notes payable (Notes 15 and 16)	W 587,936	W 397,901
Short-term borrowings (Note 12)	15,690	14,126
Other accounts payable (Notes 15, 16 and 26)	89,198	67,201
Advances received	11,800	12,694
Withholdings	2,758	2,039
Accrued expenses	5,342	5,384
Income taxes payable	7,661	4,185
Current portion of long-term borrowings (Note 13)	130,507	189,922
Derivative liabilities (Note 26)	10,146	5,386
Unearned revenue	67	109
Other current liabilities	1,487	1,530
Total current liabilities	862,592	700,477
Non-current liabilities:		
Long-term borrowings (Note 13)	436,201	424,609
Severance and retirement benefits (Note 14)	187	4,283
Deferred income tax liabilities (Note 22)	39,241	10,844
Other long-term liabilities	8,012	3,515
Total non-current liabilities	483,641	443,251
Total liabilities	1,346,233	1,143,728
Commitment & Contingencies (Notes 25 and 26)		
Equity:		
Capital stock (Note 17)	193,800	193,800
Capital surplus (Note 18)	104,017	104,017
Capital adjustments (Note 18)	(969)	(968)
Accumulated other comprehensive income (Notes 6, 7, 22 and 27)	62,747	57,583
Retained earnings (Note 19)	601,530	337,071
Total equity	961,125	691,503
Total liabilities and equity	W 2,307,358	W 1,835,231

See accompanying notes.

LG International Corp.
Statements of income
For the years ended December 31, 2010 and 2009
(Korean won in millions, except per share amounts)

	2010	2009
Sales (Notes 3, 16, 20 and 30)	₩ 6,089,895	₩ 4,316,076
Cost of sales (Notes 3, 16, 20 and 30)	<u>5,851,066</u>	<u>3,880,817</u>
Gross profit	418,829	435,259
Selling and administrative expenses (Notes 21, 29 and 30)	<u>296,154</u>	<u>273,715</u>
Operating income (Note 30)	122,675	161,544
Other income (expenses):		
Interest income	18,176	18,573
Interest expense	(20,840)	(27,559)
Dividend income	8,980	8,400
Gain (loss) on foreign currency transactions, net	4,561	5,536
Gain (loss) on foreign currency translation, net	5,567	17,899
Loss on disposal of short-term financial instruments	(3)	(14)
Loss on disposal of other investments, net	(2)	(659)
Equity in earnings of equity method investments, net (Note 7)	206,756	43,971
Gain on disposal of equity method investments, net	8,898	896
Gain on disposal of available-for-sale securities	1,628	1,249
Gain on disposal of property, plant and equipment, net	47	44
Loss on disposal of trade accounts receivable	(11,515)	(14,581)
Gain (loss) on derivatives transactions, net	(5,570)	(74,535)
Gain on derivatives valuation, net (Note 26)	(1,884)	432
Impairment Losses on Long-term Investment Securities	(786)	-
Others	9,939	(15,716)
	<u>223,952</u>	<u>(36,064)</u>
Income before income taxes	346,627	125,480
Provision for income taxes (Note 22)	58,748	21,186
Net income	<u>₩ 287,879</u>	<u>₩ 104,294</u>
Basic earnings per share (Notes 3 and 23)	<u>₩ 7,447</u>	<u>₩ 2,698</u>

See accompanying notes.

LG International Corp.
Statement of appropriations of retained earnings
For the years ended December 31, 2010 and 2009

(Korean won in millions)

	<u>2010</u>	<u>2009</u>
Retained earnings before appropriations:		
Unappropriated retained earnings carried forward from the prior year	₩ 289,240	₩ 193,451
Cumulative effects of accounting changes	(15,688)	-
Net income for the year	<u>287,879</u>	<u>104,294</u>
	561,431	297,745
Appropriations (2010 proposed):		
Legal reserve	1,353	773
Cash dividends (Note 24)	<u>13,531</u>	<u>7,732</u>
	14,884	8,505
Unappropriated retained earnings to be carried forward to the next year	<u>₩ 546,547</u>	<u>₩ 289,240</u>

See accompanying notes.

LG International Corp.
Statements of changes in equity
For the years ended December 31, 2010 and 2009
(Korean won in millions)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
As of January 1, 2009 (as previously stated)	₩ 193,800	₩ 104,017	₩ (968)	₩ 74,458	₩ 235,214	₩ 606,521
Cumulative effects of accounting changes	-	-	-	-	5,295	5,295
As of January 1, 2009 (as restated)	₩ 193,800	₩ 104,017	₩ (968)	₩ 74,458	₩ 240,509	₩ 611,816
Dividends	-	-	-	-	(7,732)	(7,732)
Net income for the year	-	-	-	-	104,294	104,294
Gain on valuation of available-for-sale securities	-	-	-	-	-	349
Changes in equity adjustment gain of equity-method investments	-	-	-	(13,686)	-	(13,686)
Changes in equity adjustment loss of equity-method investments	-	-	-	(3,538)	-	(3,538)
As of December 31, 2009	₩ 193,800	₩ 104,016	₩ (968)	₩ 57,583	₩ 337,071	₩ 691,503
As of January 1, 2009 (as previously stated)	₩ 193,800	₩ 104,017	₩ (968)	₩ 57,583	₩ 337,071	₩ 691,503
Dividends	-	-	-	-	(7,732)	(7,732)
Net income for the year	-	-	-	-	287,879	287,879
Decrease in retained earnings from equity-method securities	-	-	-	-	(15,688)	(15,688)
Gain on valuation of available-for-sale securities	-	-	-	(203)	-	(203)
Changes in equity adjustment gain of equity-method investments	-	-	-	4,617	-	4,617
Changes in equity adjustment loss of equity-method investments	-	-	-	750	-	750
As of December 31, 2010	₩ 193,800	₩ 104,017	₩ (968)	₩ 62,747	₩ 601,530	₩ 961,125

See accompanying notes.

LG International Corp.
Statements of cash flows
For the years ended December 31, 2010 and 2009
(Korean won in millions)

	2010	2009
Cash flows from operating activities:		
Net income	₩ 287,879	₩ 104,294
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for severance and retirement benefits	5,457	5,379
Depreciation	3,808	6,016
Bad debt expense	255	560
Amortization of intangible assets	2,773	3,160
Amortization of discount on bonds	209	152
Loss (gain) on foreign currency translation, net	(6,035)	(17,909)
Equity in earnings of equity method investments, net	(206,756)	(43,971)
Loss on disposal of trade accounts receivable	11,515	14,581
Gain on disposal of available-for-sale securities	(1,628)	(1,249)
Gain on disposal of equity method investments	(8,898)	(896)
Gain on disposal of property, plant and equipment, net	(47)	(44)
Gain on valuation of derivative instruments, net	1,884	(432)
Impairment Losses on Long-term Investment Securities	786	
Others, net	385	22,546
Changes in operating assets and liabilities:		
Trade accounts and notes receivable	(78,868)	(196,412)
Other accounts receivable	34,521	78,316
Accrued income	(7,113)	(4,964)
Inventories	(113,329)	109,460
Advance payments	3,017	9,797
Prepaid expenses	(1,416)	1,303
Deferred income tax assets	31,934	(2,093)
Trade accounts and notes payable	192,218	132,790
Other accounts payable	17,262	(163,898)
Accrued expenses	(42)	(244)
Advances received	(894)	(4,514)
Withholdings	719	924
Unearned revenue	(42)	63
Income taxes payable	3,476	(18,339)
Payment of severance and retirement benefits	(4,100)	(3,384)
Others, net	(5,850)	(1,008)
Total adjustments	(124,799)	(74,310)
Net cash provided by operating activities	₩ 163,080	₩ 29,984

(Continued)

See accompanying notes.

LG International Corp.
 Statements of cash flows (cont'd)
 For the years ended December 31, 2010 and 2009
 (Korean won in millions)

	2010	2009
Cash flows from investing activities:		
Decrease (increase) in short-term financial instruments, net ₩	(14,789)	₩ 37,500
Decrease in overseas resources development	80,665	45,795
Investment in overseas resources development	(36,244)	(49,030)
Decrease in Long-term Financial Instruments	5	-
Proceeds from disposal of available-for-sale securities	6,335	1,249
Acquisition of available-for-sale securities	(5,265)	(5,650)
Proceeds from disposal of intangible assets	-	-
Proceeds from business transfer	-	-
Increase in long-term loans receivable, net	(73,131)	(60,642)
Proceeds from disposal of property, plant and equipment	228	395
Dividend income from equity method investments	24,046	34,914
Acquisition of equity method investments	(77,659)	(40,019)
Payment of long-term guarantee deposits, net	(1,738)	(1,767)
Purchase of property, plant and equipment	(10,247)	(10,164)
Purchase of intangible assets	(46)	(178)
Net cash used in investing activities	<u>(107,839)</u>	<u>(47,597)</u>
Cash flows from financing activities:		
Drawdown from short-term borrowings	223,121	171,905
Drawdown from long-term borrowings	89,153	156,071
Proceed from issuance of bonds	39,793	89,558
Decrease in long-term withholding, net	4,498	-
Repayment of short-term borrowings	(221,697)	(246,774)
Repayment of long-term borrowings	-	-
Repayment of current portion of long-term borrowings	(168,830)	(171,908)
Payment of dividends	(7,732)	(7,732)
Others, net	2	2
Net cash used in financing activities	<u>(41,693)</u>	<u>(8,878)</u>
Net increase in cash and cash equivalents	13,548	(26,491)
Cash and cash equivalents at the beginning of the year	110,642	137,133
Cash and cash equivalents at the end of the year	₩ 124,190	₩ 110,642

See accompanying notes.

**LG International Corp.
Notes to financial statements
December 31, 2010 and 2009**

1. Corporate information

LG International Corp. (the "Company") was incorporated on November 26, 1953 under the laws of the Republic of Korea to engage in the export and import of goods, overseas resource and business development, and other business activities. The Company is a member of the LG Group, which consists of numerous companies under a common management control. The Company has 7 overseas subsidiaries, 23 liaison offices and 21 overseas branches as of December 31, 2010. In January 1976, the Company listed its common shares on the Korean Exchange. Also on November 12, 1976, the Company was designated as a general trading company by the Korean government. As of December 31, 2010, its outstanding capital stock amounted to ₩193,800 million.

2. Summary of significant accounting policies

Basis of financial statement preparation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea ("Korean GAAP"). Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. In the event of any differences in interpreting the financial statements or the Independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements.

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the Republic of Korea, including Statements of Korea Accounting Standards ("SKAS") 1 to 23, and the summary of significant account policies used for the preparation of the financial statements are as follows:

Cash equivalents

Highly liquid deposits and marketable securities with original maturities of three months or less, and which have no significant risk of loss in value by interest rate fluctuations, are considered as cash equivalents.

Financial instruments

Financial instruments, such as time deposits and restricted bank deposits, which are traded by financial institutions and are held for short-term cash management purposes or which will mature within one year, are accounted for as short-term financial instruments. Financial instruments other than cash equivalents and short-term financial instruments are recorded as long-term financial instruments.

Allowance for doubtful accounts

The Company provides an allowance for doubtful accounts in consideration of the estimated losses that may arise from non-collection of its receivables. The estimate of losses, if any, is based on a review of the aging and current status of the outstanding receivables.

Inventories

Inventories are valued at the lower of cost or net realizable value, with cost being determined using the specific identification method.

When a decline in the value of an inventory indicates that its cost exceeds net realizable value, a valuation loss will be recognized to write the inventory down to its net realizable value. The loss on valuation is recognized in cost of sales.

2. Summary of significant accounting policies (cont'd)

Investments in securities

Investments in securities within the scope of SKAS 8 *Investments in Securities* are classified as either trading, held-to-maturity and available-for-sale securities, as appropriate, and are initially measured at cost, including incidental expenses, with cost being determined using the moving average method. The Company determines the classification of its investments after initial recognition, and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Securities that are acquired and held principally for the purpose of selling them in the near term are classified as trading securities. Debt securities which carry fixed or determinable payments and fixed maturity are classified as held-to-maturity if the Company has the positive intention and ability to hold to maturity. Securities that are not classified as either trading or held-to-maturity are classified as available-for-sale securities.

After initial measurement, available-for-sale securities are measured at fair value with unrealized gains or losses being recognized directly in equity as other comprehensive income. Likewise, trading securities are also measured at fair value after initial measurement, but with unrealized gains or losses reported as part of net income. Held-to-maturity securities are measured at amortized cost after initial measurement. The cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount.

The fair value of trading and available-for-sale securities that are traded actively in the open market (marketable securities) is measured at the closing price of those securities at the reporting date, except for non-marketable equity securities which are measured at cost subsequent to initial measurement if their fair values cannot be reliably estimated. Non-marketable debt securities are carried at a value using the present value of future cash flows discounted using an appropriate interest rate which reflects the issuer's credit rating announced by a public independent credit rating agency. If the application of such measurement method is not feasible, estimates of fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting business in similar industries.

Trading securities are classified as current assets. Available-for-sale and held-to-maturity securities are classified as long-term investments, except that securities maturing within one year or are certain to be disposed of within one year from the reporting date are classified as short-term investments.

The Company recognizes an impairment loss on its investments in securities if there is objective evidence that the securities are impaired. The impairment loss is charged to statement of income.

Equity method investments

Investments in entities over which the Company has control or significant influence are accounted for using the equity method.

Under the equity method of accounting, the Company's initial investment in an investee is recorded at acquisition cost. Subsequently, the carrying amount of the investment is adjusted to reflect the Company's share of income or loss of the investee in the statement of income and share of changes in equity that have been recognized directly in the equity of the investee in the related equity account of the Company on the statement of financial position. If the Company's share of losses of the investee equal or exceed its interest in the investee, it discontinues recognizing its share of further losses. However, if the Company has other long-term interests in the investee, it continues recognizing its share of further losses to the extent of the carrying amount of such long-term interests.

At the date of acquisition, the excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill which is amortized over its useful life determined within 20 years using the straight-line method. Conversely, negative goodwill represents the excess of the Company's share in the net fair value of the investee's identifiable assets and liabilities over the cost of the investment. Negative goodwill is recorded to the extent of the fair value of acquired non-monetary assets and recognized as income using the straight-line method over the remaining weighted-average useful life of those acquired non-monetary assets. The amount of negative goodwill in excess of the fair value of acquired non-monetary assets is recognized as income immediately.

2. Summary of significant accounting policies (cont'd)

Equity method investments (cont'd)

In translating the financial statements of foreign investees into Korean won, assets and liabilities are translated at the exchange rate on the reporting date and income and expenses are translated at the average exchange rate for the period. All resulting exchange differences are recognized as foreign currency translation adjustments in other comprehensive income within equity.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, except for assets which were revalued in accordance with the Korean Assets Revaluation Law are stated at revalued amounts less accumulated depreciation. The revaluation of assets is no longer allowed effective from January 1, 2001.

Maintenance and repairs are expensed in the year in which they are incurred. Expenditures which enhance the value or extend the useful life of the related assets are capitalized.

Depreciation of property, plant and equipment is provided using the straight-line method over the estimated useful life of the assets as follows:

	Years
Buildings	20 - 40
Structures	20 - 40
Machinery	5 - 8
Vehicles	5 - 12
Others	5

Capitalization of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an item of qualifying asset that necessarily takes more than 1 year to get ready for its intended use are capitalized as part of the cost of those assets.

Intangible assets

Intangible assets of the Company consist of goodwill, industrial property rights and others, which are stated at cost less accumulated amortization. Amortization is recognized as an expense based on the straight-line method over the estimated useful life of the assets as follows:

	Years
Goodwill	5
Industrial property rights	5 - 15
Others	5

Investments on overseas resources development

The Company recognizes gas and ore exploration project such as the Vietnamese mine concession as part of the Company's overseas resource exploration investment which is classified as a non-current investment in the statement of financial position. Such investment is amortized using reasonable method when commercial production begins.

Discount on bonds

Discount on bonds is presented as a direct deduction from the nominal value of the bonds and is amortized using the effective-interest-rate method over the life of the bonds.

2. Summary of significant accounting policies (cont'd)

Severance and retirement benefits

In accordance with the Employee Retirement Benefit Security Act ("ERBSA") and the Company's employee benefits policy, employees terminating their employment with at least one year of service are entitled to severance and retirement benefits based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision is determined based on the amount that would be payable assuming all employees were to terminate their employment as of the reporting date.

The Company's severance and retirement benefits are partly funded through an insurance plan with Korea Life Insurance, LIG Insurance. Up to March 1999, the Company had previously prepaid a portion of its severance and retirement benefits obligation to the National Pension Service ("NPS"). The insurance deposits and prepayments are presented as a deduction from the provision for severance and retirement benefits.

Leases

A lease is accounted for as either a capital lease or an operating lease. A lease is recognized as a capital lease if it transfers substantially to the Company all the risks and rewards incidental to ownership of the leased asset.

An asset acquired by way of a capital lease arrangement is stated in the statement of financial position at the lower of the fair value or the present value of minimum lease payments at the inception of the lease. The corresponding liability is included in the statement of financial position as a capital lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Capitalized lease assets are depreciated in the same manner as other depreciable property, plant and equipment.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Foreign currency translation

Transactions involving foreign currencies are recorded at the exchange rates prevailing at the time the transactions are made.

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the appropriate exchange rates on the reporting date. The resulting unrealized foreign currency translation gains or losses are credited or charged to current operations.

Revenue recognition

Revenue from the sale of goods is recognized when significant risk and rewards of ownership of goods have passed to the buyer and revenue from services is recognized by reference to the stage of completion. Revenue received from transactions where the Company acts as an agent without assuming the risks and rewards of ownership of the goods are recognized on a net basis.

Income taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. Deferred income taxes are provided using the liability method for the tax effect of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred income tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse, and are classified as current or non-current, respectively, based on the classification of the related asset or liability in the statement of financial position. In addition, current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity.

Impairment of assets

When the recoverable amount of an asset is less than its carrying amount due to obsolescence, physical damage or abrupt decline in the market value of the asset, the decline in value, if material, is deducted from the carrying amount and recognized as an asset impairment loss in the current year.

Valuation of receivables (payables) at present value

Receivables (payables) arising from long-term installment transactions are stated at present value. The difference between the carrying amount and present value of the receivables (payables) is amortized using the effective-interest-rate method and credited (charged) to statement of income over the installment period.

2. **Summary of significant accounting policies (cont'd)**

Derivative financial instruments

Derivative financial instruments are presented as assets or liabilities valued principally at the fair value of the rights or obligations associated with the derivative contracts. The unrealized gain or loss from a derivative transaction with the purpose of hedging the exposure to changes in the fair value of a recognized asset or liability or unrecognized firm commitment is recognized in current operations. For a derivative instrument with the purpose of hedging the exposure to the variability of cash flows of a recognized asset or liability or a forecasted transaction, the hedge-effective portion of the derivative instrument's gain or loss is deferred as other comprehensive income in equity. The ineffective portion of the gain or loss is charged or credited to net income. Derivative instruments that do not meet the criteria for hedge accounting, or contracts for which the Company has not elected hedge accounting are measured at fair value with unrealized gains or losses reported in net income.

Per share amounts

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would have been outstanding assuming the conversion of all dilutive potential common shares.

3. **Significant judgments and accounting estimates**

The preparation of financial statements in accordance with Korean GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. **Restricted deposits**

Restricted deposits as of December 31, 2010 and 2009 consist of the following (Korean won in millions):

	2010		2009	Description
Long-term financial instruments	₩ 13	₩	18	Bank overdraft agreement

5. **Short-term investments**

Short-term investments as of December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010	2009
Short-term financial instruments	₩ 15,000	₩ -
Short-term loans	35	2,582
	₩ 15,035	₩ 2,582

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6. Available-for-sale securities

Available-for-sale securities as of December 31, 2010 and 2009 consist of the following (Korean won in millions):

	Number of shares	Ownership (%)	2010		
			Acquisition cost	Fair value ⁽¹⁾	Book value
Marketable securities:					
LG U+ (formerly, LG Dacom)	198,366	0.04	₩ 8,681	₩ 1,422	₩ 1,422
LG Fashion	69,761	0.24	575	2,187	2,187
			9,256	3,609	3,609
Non-marketable securities:					
Korea RAS Laffan LNG ⁽²⁾	1,558,666	5.60	2,410	1,841	2,410
LG International Investments(Canada) Ltd ^(2,3)	5,731,968	100.00	5,891	5,991	5,891
LG International Yakutsk ^(2,4)	-	100.00	-	-	-
Mongolia Resources Investment Limited (Adamas) ^(2,3)	1,141,112	100.00	1,295	1,345	1,295
Hyundai Hysco ⁽²⁾	-	10.00	946	1,797	946
AROMATICs OMAN LLC ^(2,5)	-	1.00	4,779	4,973	4,779
Hebei Woonung trading Limited ^(2,3)	-	100.00	3,346	3,346	3,346
Others	-	-	11,159	5,523	3,580
			29,826	24,816	22,247
			₩ 39,082	₩ 28,425	₩ 25,856
2009					
	Number of shares	Ownership (%)	Acquisition cost	Fair value ⁽¹⁾	Book value
Marketable securities:					
LG U+ (formerly, LG Dacom)	92,312	0.11	₩ 8,681	₩ 1,643	₩ 1,643
LG Fashion	69,761	0.24	575	2,201	2,201
			9,256	3,844	3,844
Non-marketable securities:					
Korea RAS Laffan LNG ⁽²⁾	1,558,666	5.60	2,410	1,823	2,410
LG International Investments(Canada) Ltd ^(2,3)	5,476,003	100.00	5,605	5,856	5,605
SK Eurochem ⁽²⁾	-	10.00	4,348	6,617	4,348
LG International Yakutsk ^(2,3)	-	100.00	5,325	4,730	5,325
Mongolia Resources Investment Limited (Adamas) ^(2,3)	2,000,000	100.00	1,262	1,262	1,262
Hyundai Hysco ⁽²⁾	-	10.00	946	1,797	946
Others	-	-	9,793	4,618	2,974
			29,689	26,703	22,870
			₩ 38,945	₩ 30,547	₩ 26,714

6. Available-for-sale securities(cont'd)

(*1) Net asset values of non-marketable equity securities are computed based on the most recent available financial statements, some of which have not been audited or reviewed.

(*2) Non-marketable equity securities are carried at cost due to the lack of reliable information necessary for determining the fair market value of the securities.

(*3) Equity method investees with total assets of less than ₩10 billion as of December 31, 2009 were classified as available-for-sale securities, rather than being accounted for as an equity method investment, considering the materiality of the movements of the investments during the year.

(*4) Equity method investees with total assets has raised more than ₩10 billion, due to equity method application it became more vital change fluctuation of investment in Equity securities. Therefore available-for-sale securities was classified equity-method investments.

(*5) During this year, disposed of some of possessing shares of AROMATICS OMAN LLC, the company lost significant influence on the investee. Remained shares were substituted for available-for-sale securities.

The changes in the unrealized holding gain on valuation of available-for-sale securities for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010			
	Jan. 1, 2010	Loss on valuation	Deferred income taxes	Dec. 31, 2010
LG U+	₩ 680	₩ (220)	₩ 65	₩ 525
LG Fashion	1,105	(14)	39	1,130
AROMATICS OMAN LLC(*1)	-	(92)	20	(72)
	₩ 1,785	₩ (326)	₩ 124	₩ 1,583

(*1) During this year, AROMATICS OMAN LLC was substituted for available-for-sale securities from equity-method investments. Therefore the change in share of other comprehensive of the investee was substituted for the unrealized holding gain on valuation of available-for-sale securities.

	2009			
	Jan. 1, 2009	Loss on valuation	Deferred income taxes	Dec. 31, 2009
LG U+	₩ 843	₩ (188)	₩ 25	₩ 680
LG Fashion	594	701	(190)	1,105
	₩ 1,437	₩ 513	₩ (165)	₩ 1,785

7. Equity method investments

Investments in equity securities accounted for using the equity method as of December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010				
	Number of shares	Ownership (%)	Acquisition cost	Proportionate net asset value ^(*)	Book value
LG Int'l (America), Inc.	80,000	100.00	₩ 10,813	₩ 35,946	₩ 35,668
LG Int'l (Japan), Ltd.	90,000	100.00	401	39,876	39,805
LG Int'l (HK), Ltd.	77,968	100.00	24	18,435	17,966
LG Int'l (S'pore) Pte. Ltd.	5,000,000	100.00	3,288	21,769	21,654
LG Int'l (Deutschland) GmbH	9,510	100.00	9,051	5,028	4,202
LG Int'l (China), Corp.	-	100.00	6,129	11,338	11,338
LG Int'l (Aust) Pty. Ltd.	5,496,881	100.00	3,154	8,396	8,396
LG Properties (S'pore) Pte. Ltd.	60,537,470	70.00	42,907	-	-
Philco Resources Ltd.	3,630,000	60.00	4,310	7,867	7,867
Korea Commercial Vehicle Co., Ltd.	140,000	100.00	1,499	-	-
PT. Tutul Batubara Utama	1,800,000	75.00	1,790	-	-
Resource Investment (H.K) Ltd.	-	100.00	53,175	67,462	67,462
Pixdix	6,000,000	100.00	29,572	21,151	21,151
Indonesia Renewable Resources	11,000,000	100.00	13,017	38,976	38,976
LG TIMOR SEA Ltd.	-	100.00	-	-	-
BATUBARA GLOBAL ENERGY	10,000,000	100.00	11,722	28,303	28,273
KUMAH Steel Co., Ltd	98,900	51.00	9,923	4,023	8,551
LG Holdings (HK), Ltd.	35,000,000	25.00	57,104	49,971	49,971
GS Retail	4,923,648	31.97	124,184	395,695	395,695
AROMATICS OMAN LLC ^(**)	-	-	-	-	-
Others	-	-	146,781	104,467	121,450
			₩ 597,164	₩ 858,703	₩ 878,425

(*1) Net assets values of non-marketable equity securities are computed based on the most recent available financial statements, some of which have not been audited or reviewed.

(*2) In 2010, the company disposed of some of possessing shares of AROMATICS OMAN LLC and lost significant influence over the investee. So the company substituted the investment for available-for-sale securities.

7. Equity method Investments(cont'd)

The details of changes in carrying amount of equity method investments for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010					
	Jan. 1, 2010	Acquisition	Equity in earnings (losses) of investee	Share of changes in equity	Dividends	Dec. 31, 2010
LG Int'l (America), Inc.	₩ 32,794	₩ -	₩ 3,733	₩ (859)	₩ -	₩ 35,668
LG Int'l (Japan), Ltd.	26,904	-	19,212	2,700	(9,011)	39,805
LG Int'l (HK), Ltd.	16,040	-	7,603	(260)	(5,417)	17,966
LG Int'l (S'pore) Pte. Ltd.	18,636	-	2,012	1,006	-	21,654
LG Int'l (Deutschland) GmbH	5,928	-	(1,151)	(575)	-	4,202
LG Int'l (China), Corp.	9,881	-	1,361	96	-	11,338
LG Int'l (Aust) Pty. Ltd.	4,723	-	2,765	908	-	8,396
Philco Resources Ltd. ⁽¹⁾	-	-	17,141	(122)	-	7,867
Korea Commercial Vehicle Co., Ltd. ⁽²⁾	-	35,000	(19,312)	-	-	-
PT. Tutui Batubara Utama ⁽³⁾	-	-	(1,114)	(195)	-	-
Resource Investment (H.K), Ltd.	57,782	-	9,517	163	-	67,462
Pixdix	23,346	-	(2,195)	-	-	21,151
Indonesia Renewable Resources	13,017	33,319	(7,909)	549	-	38,976
LG TIMOR SEA Ltd. ⁽⁴⁾	-	-	(13,994)	236	-	-
PT. Batubara Global Energy	4,233	10,815	13,680	(455)	-	28,273
KUMAH Steel	-	9,016	82	(547)	-	8,551
LG Holdings (HK), Ltd.	47,811	-	1,949	211	-	49,971
GS Retail.	212,107	-	191,314	152	(7,878)	395,695
AROMATICS OMAN LLC.	46,106	(48,713)	-	2,607	-	-
Others ⁽⁵⁾	82,023	58,496	(17,938)	(416)	(1,740)	121,450
	<u>₩601,331</u>	<u>₩ 97,933</u>	<u>₩ 206,756</u>	<u>₩ 5,199</u>	<u>₩ (24,046)</u>	<u>₩ 878,425</u>

LG International Corp.
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7. Equity method investments(cont'd)

	2009					
	Jan. 1, 2009	Acquisition	Equity in earnings (losses) of investee	Share of changes in equity	Dividends	Dec. 31, 2009
LG Int'l (America), Inc.	₩ 34,379	₩ -	₩ 863	₩ (2,448)	₩ -	₩ 32,794
LG Int'l (Japan), Ltd.	30,547	-	10,137	(2,462)	(11,318)	26,904
LG Int'l (HK), Ltd.	25,621	-	9,652	(1,598)	(17,635)	16,040
LG Int'l (S'pore) Pte. Ltd.	16,736	-	4,498	(2,598)	-	18,636
LG Int'l (Deutschland) GmbH	6,048	-	247	(367)	-	5,928
LG Int'l (China), Corp.	13,035	-	364	(693)	(2,825)	9,881
LG Int'l (Aust) Pty. Ltd.	5,166	-	(1,634)	1,191	-	4,723
Philco Resources Ltd. (⁽¹⁾)	-	-	7,608	87	-	-
PT. Tutui Batubara Utama(⁽²⁾)	-	-	(7,114)	(180)	-	-
Resource Investment (H.K), Ltd.	59,096	-	2,573	(3,887)	-	57,782
Pixdix	26,555	-	(3,209)	-	-	23,346
Indonesia Renewable Resources	-	13,017	-	-	-	13,017
LG Holdings (HK), Ltd.	56,505	-	(3,238)	(5,456)	-	47,811
GS Retail	174,433	-	39,885	250	(2,461)	212,107
AROMATICS OMAN LLC	47,486	6,967	(550)	(7,797)	-	46,106
Others(⁽⁴⁾)	63,584	25,252	(16,112)	8,299	(675)	86,256
	<u>₩ 559,191</u>	<u>₩ 45,236</u>	<u>₩ 43,970</u>	<u>₩ (17,659)</u>	<u>₩ (34,914)</u>	<u>₩ 601,331</u>

(*1) The Company has suspended the application of equity method for its investment in Philco Resources Ltd. (RAPU RAPU) as the carrying amount of the investment has already been reduced to nil due to cumulative equity losses.

(*2) Korea Commercial Vehicle Co., Ltd. increased capital amounting to 35 billion won this year. As a result, the unrecognized loss of Korea Commercial Vehicle Co., Ltd. as of 2009 was adjusted in retained earnings.

(*3) The Company has suspended the application of equity method for its investment in PT. TUTUI BATUBARA UTAMA as the carrying amount of the investment has already been reduced to nil due to cumulative equity losses. And the Company generated net loss too in 2010. Long-term loan receivable from PT. TUTUI BATUBARA UTAMA was provided with allowance for equity loss of ₩1,114(2009: 7,114) million and share of change in other comprehensive loss ₩195(2009: 180) million since the equity losses of the investee exceeded the Company's interest in the investee.

(*4) For the investments in LG TIMOR SEA, Ltd., the Company recognized equity loss of ₩13,994 million on long-term loan receivable and share of changes in other comprehensive income of ₩236 million, as the cumulative equity losses in the investments exceeded the Company's interests in the investees.

(*5) For the investments in De Zwarte Ponk B.V., the Company recognized equity loss of ₩248 million and ₩5,854 million, in 2010 and 2009, respectively and changes in equity adjustment of equity method investments of ₩86 million in 2010, as an allowance on long-term loan receivable from the investees, as the cumulative equity losses in the investments exceeded the Company's interests in the investees. For the investments in FOSCO B.V., the Company recognized equity loss of ₩1,062 million and ₩948 million in 2010 and 2009, respectively and changes in equity adjustment of equity method investments of ₩199 million in 2010, due to the same reason of the investments in De Zwarte Ponk B.V.

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7. Equity method investments(cont'd)

The changes in carrying amount of goodwill and negative goodwill for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010			
	Jan. 1,2010	Additions	Amortization	Dec. 31,2010
Goodwill	₩ 30,032	₩ 4,954	₩ (11,959)	₩ 23,027
Negative goodwill	3,620	-	(3,620)	-

	2009			
	Jan. 1,2009	Additions	Amortization	Dec. 31,2009
Goodwill	₩ 15,675	₩ 19,142	₩ (4,785)	₩ 30,032
Negative goodwill	936	3,620	(936)	3,620

The changes in share of other comprehensive income of the investees for the years ended December 31, 2010 and 2009 are as follows:

	2010			
	Jan. 1, 2010	Net changes	Deferred tax effect	Dec. 31, 2010
LG Int'l (America), Inc.	₩ 11,311	₩ (858)	₩ -	₩ 10,453
LG Int'l (Japan), Ltd.	4,959	2,699	(450)	7,208
LG Int'l (HK), Ltd.	1,931	(260)	113	1,784
LG Int'l (S'pore) Pte. Ltd.	2,576	1,007	-	3,583
LG Int'l (Deutschland) GmbH	3,790	(574)	-	3,216
LG Int'l (UK), Ltd.	1,408	-	42	1,450
LG Int'l (China), Corp.	3,051	95	67	3,213
LG Int'l (Aust) Pty. Ltd.	2,526	908	(126)	3,308
LG Properties (S'pore) Pte. Ltd.	(1,315)	-	(38)	(1,353)
Philco Resources Ltd.	(3,264)	(122)	(68)	(3,454)
PT. Tutui Batubara Utama	(106)	(195)	40	(261)
Resource Investment (H.K), Ltd.	1,864	163	18	2,045
Pixdix	(144)	-	-	(144)
LG Holdings (HK), Ltd.	11,175	211	278	11,664
GS Retail	3,389	152	66	3,607
AROMATICS OMAN LLC	(2,607)	2,607	-	-
Others	15,254	(634)	226	14,846
	₩ 55,798	₩ 5,199	₩ 168	₩ 61,165

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7. Equity method investments(cont'd)

	2009			
	Jan. 1, 2009	Net changes	Deferred tax effect	Dec. 31, 2009
LG Int'l (America), Inc.	₩ 13,759	₩ (2,448)	₩ -	₩ 11,311
LG Int'l (Japan), Ltd.	7,023	(2,462)	398	4,959
LG Int'l (HK), Ltd.	3,234	(1,598)	295	1,931
LG Int'l (S'pore) Pte. Ltd.	5,174	(2,598)	-	2,576
LG Int'l (Deutschland) GmbH	4,157	(367)	-	3,790
LG Int'l (UK), Ltd.	1,858	-	(450)	1,408
LG Int'l (China), Corp.	3,680	(693)	64	3,051
LG Int'l (Aust) Pty. Ltd.	1,670	1,191	(335)	2,526
LG Properties (S'pore) Pte. Ltd.	(1,353)	-	38	(1,315)
Philco Resources Ltd.	(3,427)	87	76	(3,264)
PT. Tutui Batubara Utama	31	(180)	43	(106)
Resource Investment (H.K), Ltd.	4,950	(3,887)	801	1,864
Pixdix	(144)	-	-	(144)
LG Holdings (HK), Ltd.	15,755	(5,456)	876	11,175
GS Retail	3,293	250	(154)	3,389
AROMATICS OMAN LLC	4,048	(7,797)	1,142	(2,607)
Others	(4)	11,468	(2,775)	8,689
	₩ 73,021	₩ (17,659)	₩ 435	₩ 55,798

The elimination of unrealized gains (losses) arising from inter-company transactions for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010		
	Inventories	Property, plant and equipment	Total
LG Int'l (America), Inc.	₩ 277	₩ -	₩ 277
LG Int'l (Japan), Ltd.	70	-	70
LG Int'l (HK), Ltd.	469	-	469
LG Int'l (S'pore) Pte. Ltd.	115	-	115
LG Int'l (Deutschland) GmbH	826	-	826
BGE.	31	-	31
Korea Commercial Vehicle Co., Ltd.	156	-	156
KUMAH Steel	3	-	3
	₩ 1,947	₩ -	₩ 1,947

LG International Corp.
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7. Equity method investments(cont'd)

	2009		
	Inventories	Property, plant and equipment	Total
LG Int'l (America), Inc.	₩ (721)	₩ -	₩ (721)
LG Int'l (Japan), Ltd.	644	-	644
LG Int'l (HK), Ltd.	1,020	-	1,020
LG Int'l (S'pore) Pte. Ltd.	(21)	-	(21)
LG Int'l (Deutschland) GmbH	118	-	118
Korea Commercial Vehicle Co., Ltd.	196	-	196
GS Retail Co., Ltd	-	24,955	24,955
	₩ 1,236	₩ 24,955	₩ 26,191

As of December 31, 2010, the unrecognized losses of the respective equity method investees from which the application of the equity method of accounting was suspended as the Company's share in the cumulative losses of the investees exceeded the Company's interest in the investees are as follows (Korean won in millions):

	2010
LG Int'l (UK), Ltd.	₩ 76
LG Properties (S'pore) Pte. Ltd.	10,816
Korea Commercial Vehicle Co., Ltd.	638
PT. Tutui Batubara Utama	463
Fosco BV	613
	₩ 12,406

The summary of financial position of the investees as of December 31, 2010, and the results of their operations for the year then ended, are presented as follows (Korean won in millions):

	Total assets	Total liabilities	Sales	Net income (loss)
LG Int'l (America), Inc.	₩ 151,832	₩ 115,886	₩ 908,835	₩ 4,744
LG Int'l (Japan), Ltd.	714,247	674,372	4,793,571	19,210
LG Int'l (HK), Ltd.	323,475	305,040	2,429,082	7,052
LG Int'l (S'pore) Pte. Ltd.	217,031	195,262	1,206,128	2,148
LG Int'l (Deutschland) GmbH	181,988	176,960	685,507	(444)
LG Int'l (China), Corp.	39,410	28,072	69,434	1,352
LG Int'l (Aust) Pty. Ltd.	40,175	31,779	36,050	379
LG Properties (S'pore) Pte. Ltd.	58,897	74,063	-	2,054
Philco Resources Ltd.	81,719	68,608	-	26,964
Korea Commercial Vehicle Co., Ltd.	29,028	29,509	32,925	(10,476)
PT. Tutui Batubara Utama	9,628	22,993	11,011	(1,256)
Resource Investment (H.K) Ltd.	67,462	-	-	9,517
Pixdix	40,497	19,346	117,625	(2,195)
Indonesia Renewable Resources	46,780	7,803	-	(7,909)

7. Equity method Investments(cont'd)

	Total assets	Total liabilities	Sales	Net income (loss)
LG TIMOR SEA Ltd.	8,332	22,090	-	(13,720)
PT.Batubara Global Energy	129,191	100,888	390,888	14,411
KUMAH Steel	40,214	32,326	107,937	(1,008)
LG Holdings (HK),Ltd.	199,883	-	-	7,806
GS Retail Co., Ltd	2,400,349	1,162,710	3,473,383	520,290
Others	1,673,607	1,369,019	1,439,267	(57,233)
	₩ 6,453,745	₩ 4,436,726	₩ 15,701,643	₩ 521,686

The summary of modifications to financial statements of investee company are presented as follows (Korean won in millions).

2010					
	Closing date	Net assets	Settled amount ^(*)	After modification net assets	Share of company
GS Retail	2010.12.31	1,392,395	(154,756)	1,237,639	395,695
2009					
	Closing date	Net assets	Settled amount ^(*)	After modification net assets	Share of company
GS Retail.	2009.12.31	987,560	(246,046)	741,514	237,062

(*1) Revaluation surplus of lands of GS Retail Co., Ltd is modified to reconcile accounting policies of companies.

8. Overseas resources development

Overseas resources development as of December 31, 2010 and 2009 consist of the following (Korean won in millions):

2010				
	Loan receivables	Available-for- sale securities	Equity method investments	Investments in overseas resources development
Korea RAS Laffan LNG	₩ -	₩ 2,410	₩ -	₩ -
Ko-Uz Gas Chemical Investment Ltd.	-	-	-	-
Resource Investment (H.K.) Limited	-	-	67,462	-
Mongolia resources Investment Limited (Adamas)	-	1,295	-	-
LG International Investments (Canada) Ltd.	-	5,891	-	-
JPDA (LG TIMOR SEA)	21,676	-	-	-
LG Int'l (Aust) Pty. Ltd.	27,425	-	8,396	-
Philco Resources Ltd. (Rapu Rapu Project) ^(*)	35,144	-	7,867	-

8. Overseas resources development (cont'd)

	2010			
	Loan receivables	Available-for-sale securities	Equity method investments	Investments in overseas resources development
Erel Ltd.	-	-	49	-
Kernhem B.V. (ADA OIL)	53,456	-	16,194	-
KC KAZAKH B.V. (ZHAMBLY)	18,963	65	-	-
DZP B.V. (BLOCK-8) ^(*)	32,920	-	-	-
FOSCO (Egizkara)	20,816	-	-	-
NW Konys	22,778	-	17,806	-
OMAN BUKHA	-	-	-	63,668
VIETNAM 11-2	-	-	-	70,166
MGE,BGE	10,425	-	28,273	-
PT. TUTUI BATUBARA UTAMA	₩ 9,908	₩ -	₩ -	₩ -
MINERA COROCOBRE S.A	-	1,084	-	-
Indonesia Renewable Resource	7,631	-	38,976	-
PT. GREEN Global lestari	31,548	-	3,372	-
Overseas resources development fund	-	85	-	-
Korea Carbon International	-	-	694	-
United Copper & Moly Co.,Ltd.	-	-	20,725	-
Sal de Vida	-	-	3,000	-
Hebei wooneung trading Co.,Ltd.	-	3,346	-	-
Heung Kuk investment fund	-	270	-	-
	₩ 292,690	₩ 14,446	₩ 212,814	₩ 133,834

	2009			
	Loan receivables	Available-for-sale securities	Equity method investments	Investments in overseas resources development
Korea RAS Laffan LNG	₩ -	₩ 2,410	₩ -	₩ -
Ko-Uz Gas Chemical Investment Ltd.	-	634	-	-
Resource Investment (H.K.) Limited	-	-	57,782	-
Mongolia resources Investment Limited (Adamas)	-	1,262	-	-
LG International Investments (Canada) Ltd.	-	5,605	-	-
JPDA (LG TIMOR SEA)	17,991	-	-	-
LG Int'l (Aust) Pty. Ltd.	25,928	-	4,722	-
Philco Resources Ltd. (Rapu Rapu Project) ^(*)	36,030	-	-	-
Erel Ltd.	-	-	2,875	-
Kernhem B.V. (ADA OIL)	54,376	-	25,753	-

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8. Overseas resources development (cont'd)

	2009			
	Loan receivables	Available-for-sale securities	Equity method investments	Investments in overseas resources development
KC KAZAKH B.V. (ZHAMBLY)	13,289	65	-	-
DZP B.V. (BLOCK-8)	31,341	-	-	-
FOSCO (Egizkara)	18,506	-	-	-
OMAN BUKHA	-	-	-	109,427
VIETNAM 11-2	-	-	-	68,828
MGE,BGE	28,294	-	4,233	-
BATUBARA GLOBAL ENERGY	10,158	-	-	-
PT. TUTUI BATUBARA UTAMA	-	-	-	-
MINERA COROCOBRE S.A	-	444	-	-
Indonesia Renewable Resource	-	-	13,017	-
PT. GREEN Global lestari	-	-	2,342	-
	₩ 235,913	₩ 10,420	₩ 110,724	₩ 178,255

(*1) Long-term loan receivable from TIMOR SEA Ltd., PT. Tutui Batubara Utama, KAZAKH BLOCK-8 and KAZAKH EGIZKARA were provided with allowances for their equity losses of ₩31,146 million, since the cumulative equity losses in the investments exceeded the Company's interests in the investees.

9. property, plant and equipment

Changes in the net book value of property, plant and equipment for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010					
	Jan. 1, 2010	Additions	Disposals	Transfers ^(*)	Depreciation	Dec. 31, 2010
Land	₩ 16,132	₩ -	₩ -	₩ -	₩ -	₩ 16,132
Buildings	21,119	-	-	629	(863)	20,885
Structures	1,004	-	(108)	236	(56)	1,076
Machinery	1,916	35	(15)	8,313	(1,352)	8,897
Vehicles	2,484	226	(19)	-	(409)	2,282
Other	3,109	489	(39)	50	(1,128)	2,481
Construction-in-progress	7,448	9,497	-	(11,468)	-	5,477
	₩ 53,212	₩ 10,247	₩ (181)	₩ (2,240)	₩ (3,808)	₩ 57,230

(*1) Construction-in-progress was transferred to intangible asset in the amount of ₩2,240 million.

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9. property, plant and equipment (cont'd)

	2009						Dec. 31, 2009
	Jan. 1, 2009	Additions	Disposals	Transfers ^(*)	Depreciation		
Land	₩ 16,132	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 16,132
Buildings	24,030	9	-	780	(3,700)		21,119
Structures	1,059	-	-	-	(55)		1,004
Machinery	1,369	176	(508)	1,490	(611)		1,916
Vehicles	2,736	254	(75)	-	(431)		2,484
Other	3,863	490	(25)	-	(1,219)		3,109
Construction-in-progress	4,440	9,235	(3,224)	(3,003)	-		7,448
	₩ 53,629	₩ 10,164	₩ (3,832)	₩ (733)	₩ (6,016)		₩ 53,212

The value of the Company's land, as determined by the Government of the Republic of Korea for tax administration purposes, was ₩ 24,905 million and ₩ 24,058 million as of December 31, 2010 and 2009, respectively. Property, plant and equipment and inventories are insured against fire and other casualty losses for up to ₩ 178,334 million, and US\$ 30,200,000 as of December 31, 2010

10. Leases

The Company has entered into operating leases of helicopters. Future rentals payable under such operating leases as of December 31, 2010 are as follows:

	Future rentals payable	
2011	₩	1,875
2012		1,794
2013		1,399
2014		928
2015 and thereafter		-
	₩	5,996

11. Intangible assets

Changes in the net book value of intangible assets for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010				
	Jan. 1, 2010	Additions	Transfer	Amortization	Dec. 31, 2010
Industrial property rights	49	-	-	(13)	36
Others	5,936	46	2,240	(2,761)	5,461
	₩ 5,985	₩ 46	₩ 2,240	₩ (2,774)	₩ 5,497

	2009				
	Jan. 1, 2009	Additions	Transfer	Amortization	Dec. 31, 2009
Goodwill	₩ 680	₩ -	₩ -	₩ (680)	₩ -
Industrial property rights	13	-	45	(9)	49
Others	7,540	179	688	(2,471)	5,936
	₩ 8,233	₩ 179	₩ 733	₩ (3,160)	₩ 5,985

All amortization expense for the years ended December 31, 2010 and 2009 has been charged to selling and administrative expenses.

12. Short-term borrowings

Short-term borrowings as of December 31, 2010 and 2009 consist of the following (Korean won in millions):

	Annual interest rate (%) as of Dec. 31, 2010	2010	2009
Banker's usance	0.96~1.52	₩ 15,690	₩ 14,126

The Company holds bank overdraft agreements with commercial banks for a total credit limit of up to ₩48,000 million as of December 31, 2010. Long-term financial instruments are provided as collateral for the overdraft agreements.

13. Long-term borrowings

The details of bonds issued as of December 31, 2010 and 2009 are as follows (Korean won in millions):

	Annual interest rate (%) as of Dec. 31, 2010	2010	2009
Non-guaranteed debentures	5.18 ~ 6.10	₩ 130,000	₩ 130,000
Less discount on bonds		(366)	(368)
Less current portion		-	(40,000)
		₩ 129,634	₩ 89,632

Long-term loans of the Company as of December 31, 2010 and 2009 are as follows (Korean won in millions):

Financial institution	Annual interest rate (%) as of Dec. 31, 2010	2010	2009
Local currency:			
Korea Mining Promotion Corporation	(Special energy fund rate - 2.25)~5.00	₩ 5,451	₩ 6,185
Export-import Bank of Korea	6M Koribor + 2.6	15,000	20,000
Korea Development Bank	Industrial Financial Debentures + 3.65	17,700	17,700
Industrial Reforestation Federation	1.50	3,196	-
		41,347	43,885
Less current portion		(11,162)	(5,992)
		₩ 30,185	₩ 37,893

12. Long-term borrowings (cont'd)

Financial institution	Annual interest rate (%) as of Dec. 31, 2010	2010	2009
Foreign Currency:			
Petroleum Development Fund	(Special energy fund rate - 2.25)~5.50	₩ 70,429	₩ 71,426
Korea Mining Promotion Corporation	(Special energy fund rate - 2.25)~5.00	₩ 11,008	₩ 13,965
Export-import Bank of Korea	6ML+ (0.55~5.80)	257,901	297,812
Calyon Bank	6ML + 1.20	56,390	57,811
		395,728	441,014
Less current portion		(119,344)	(143,936)
		₩ 276,384	₩ 297,078

The repayment schedules of long-term loans and bonds as of Dec. 31, 2010 are as follows (Korean won in millions):

Year	Long-term loans (in local currency)	Long-term loans (in foreign currency)	Bonds	Total
2011	11,162	119,344	-	130,506
2012	8,838	84,320	90,000	183,158
2013	6,259	50,914	40,000	97,173
2014	6,259	39,281	-	45,540
2015	6,506	29,946	-	36,452
2016 and thereafter	2,323	71,923	-	74,246
	41,347	395,728	130,000	567,075

14. Severance and retirement benefits

Changes in net carrying amount of severance and retirement benefits for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010	2009
As of January 1,	₩ 22,605	₩ 21,217
Provision during the year	5,457	5,378
Payments during the year	(4,099)	(3,384)
Transfer in(out)	(4,265)	(606)
As of December 31,	19,698	22,605

The Company deposited 98.50% and 80.42% of its severance and retirement benefits obligation as of December 31, 2010 and 2009, respectively, with insurance companies and offset the deposit against its liability for severance and retirement benefits.

15. Assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies as of December 31, 2010 and 2009 are as follows:

	2010		2009	
	Foreign currencies	Korean won equivalent (in millions)	Foreign currencies	Korean won equivalent (in millions)
Assets:				
Cash and cash equivalents	US\$ 80,073	₩ 91,196	US\$ 12,950	₩ 15,120
	EUR 3,103	4,697	EUR 5,090	8,521
	Others	1,940	Others	238
Short-term investments	US\$ -	-	US\$ 2,000	2,335
Trade accounts receivable	US\$ 324,986	370,127	US\$ 277,864	324,434
	JPY 721,779	10,084	JPY 522,443	6,598
	EUR 11,895	18,005	EUR 2,362	3,955
	Others	1,570	Others	34,720
Other accounts receivable	US\$ 23,821	27,130	US\$ 50,155	58,561
	JPY 203,879	2,848	JPY 5,233	66
	EUR 1,371	2,075	EUR 1,376	2,304
	Others	422	Others	273
Accrued income	US\$ 22,395	25,506	US\$ 15,750	18,390
	Others	369	Others	1,016
Long-term loan receivables	US\$ 243,470	277,288	US\$ 185,643	212,639
	Others	28,752	Others	27,175
		<u>₩ 862,009</u>		<u>₩ 716,345</u>
Liabilities:				
Trade accounts payable	US\$ 432,549	₩ 492,630	US\$ 308,351	₩ 360,030
	JPY 876,611	12,247	JPY 487,676	6,158
	EUR 24,844	37,604	EUR 9,111	15,254
	Others	147	Others	10,406
Other accounts payable	US\$ 34,765	39,594	US\$ 28,011	32,706
	JPY 83,692	1,169	JPY 2,267	29
	EUR 1,357	2,054	EUR 1,036	1,735
	Others	200	Others	330
Borrowings	US\$ 363,459	411,417	US\$ 393,053	454,949
	Others	-	Others	191
		<u>₩ 997,062</u>		<u>₩ 881,788</u>

16. Related party disclosures

The subsidiaries of the Company are as follows:

<u>Subsidiary</u>
LG Int'l (America), Inc.
LG Int'l (Japan)
LG Int'l (HK) Ltd.
LG Int'l (S'pore) Pte. Ltd.
LG Int'l (Deutschland) GmbH
LG Int'l (China) Limited
LG Int'l (Aust) Pty. Ltd.
LG Properties (S'pore) Pte. Ltd.
Philco Resources Ltd.
Korea Commercial Vehicle Co., Ltd.
PT. Tutui Batubara Utama
Resource Investment (H.K) Ltd.
Pixdix
Indonesia Renewable Resources
KOMAH STEEL
PT. Batubara Global Energy(BGE)
LG TIMOR SEA.,Ltd.

Compensation for key management personnel for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	<u>2010</u>		<u>2009</u>	
Short-term salaries	₩	8,566	₩	7,522
Long-term salaries		5,547		5,600
Severance and retirement benefits		5,123		1,644
	₩	<u>19,236</u>	₩	<u>14,766</u>

Key management personnel include registered directors and executive officers who have the authority and responsibilities for planning, operation and control of the business of the Company.

Significant transactions with related parties for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	<u>2010</u>		<u>2009</u>	
	Sales	Purchases	Sales	Purchases
LG Int'l (America), Inc.	₩ 337,778	₩ 25,761	₩ 212,319	₩ 17,390
LG Int'l (Japan)	132,181	39,730	51,746	20,560
LG Int'l (HK) Limited	178,483	354,253	135,592	395,556
LG Int'l (S'pore) Pte. Ltd.	220,083	139,677	68,304	143,942
LG Int'l (Deutschland) GmbH	584,353	4,901	289,490	12,758
LG Int'l (China) Limited	103	-	10,394	133
LG Int'l (Aust) Pty. Ltd.	2,184	-	97	-
Philco Resources.,Ltd.	1,865	-	-	-
PT. Tutui Batubara Utama	688	-	39	-
Pixdix	331	5	249	5

16. Related party disclosures (cont'd)

	2010		2009	
	Sales	Purchases	Sales	Purchases
Korea Commercial Vehicle Co., Ltd.	21,363	-	13,182	26
PT. Batubara Global Energy (BGE)	1,216	152,211	8	16,849
PT. Indonesia Renewable Resources	133	-	-	-
LG TIMOR SEA., Ltd	245	-	-	1
LG International Yakutsk., Ltd	304	-	-	2
Twin wine Inc.	216	-	204	-
ADA Oil LLP	132	5	-	-
De Zwarte Ponk B.V.	767	-	-	-
EPC Munai	86	57	463	153
Erel., Ltd	-	-	-	15
Fosco B.V	371	-	-	-
GS-Haipong	64	-	-	-
Kernhem B.V	1,336	-	-	-
KUMAH Steel	4,945	19,457	-	-
LG BOHAI	133,274	-	101,852	5,051
LG Int'l(U.K.), Ltd.	-	-	555	3
OPP	4,863	131,011	5,694	135,933
POS-IPC PVT. LTD	37,425	-	23,744	-
PT. Green global lestari	1,331	-	-	-
Galaz & Company LLP	461	-	-	-
Tianjin LG DAGU Chem. Co., Ltd.	11,764	1,199	19,184	2,256
Other related parties	709,246	913,638	479,844	561,778
	₩ 2,387,591	₩ 1,781,906	₩ 1,412,960	₩ 1,312,411

Outstanding balances with related parties as of December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010		2009	
	Receivables	Payables	Receivables	Payables
LG Int'l (America), Inc.	₩ 13,978	₩ 2,572	₩ 21,405	₩ 3,896
LG Int'l (Japan)	10,221	6,021	7,214	3,684
LG Int'l (HK) Ltd.	9,014	61,054	7,908	10,007
LG Int'l (S'pore) Pte. Ltd.	40,114	17,487	8,347	18,875
LG Int'l (Deutschland) GmbH	49,073	562	56,983	2,197
LG Int'l (China) Limited	89	-	34	-
LG Int'l (Aust) Pty. Ltd.	27,543	1	25,984	15
Philco Resources Limited	39,302	-	36,030	-
PT. Tutui Batubara Utama	11,066	-	10,190	-
Korea Commercial Vehicle Co., Ltd.	28,237	-	60,028	-

16. Related party disclosures (cont'd)

	2010		2009	
	Receivables	Payables	Receivables	Payables
PT. Batubara Global Energy (BGE)	10,310	17,663	19,425	14,532
PT. Indonesia Renewable Resources	7,779	5	-	-
LG TIMOR SEA.,Ltd	22,119	48	18,149	-
LG International Yakutsk.,Ltd	6,760	-	1,553	-
Twin wine Inc.	-	-	17	-
ADA Oil LLP	39	3	-	-
De Zwarte Ponk B.V.	38,444	-	32,272	-
EPC Muna	12	-	-	21
Erel.,Ltd	-	-	-	-
Fosco B.V	23,317	-	19,020	-
GS-Haipong	1,672	-	2,294	-
Kernhem B.V	54,763	-	46,426	-
KUMAH Steel	402	1,961	-	-
LG BOHAI	-	-	-	8
LG Int'l(U.K)., Ltd.	-	-	-	12
OPP	4,972	6,203	40,132	16,956
POS-IPC PVT. LTD	278	-	47	-
PT. Green global lestari	32,880	-	-	-
Galaz & Company LLP	461	-	-	-
Tianjin LG DAGU Chem. Co., Ltd	-	-	-	137
Other related parties	71,368	110,959	103,548	70,120
	<u>₩ 504,213</u>	<u>₩ 224,539</u>	<u>₩ 517,006</u>	<u>₩ 140,460</u>

17. Capital stock

There is no change in capital stock of the Company during the years ended December 31, 2009 and 2009. Details of capital stock of the Company as of December 31, 2010 and 2009 are as follows:

Number of shares authorized : 80,000,000 shares
 Par value per share : ₩5,000
 Number of common shares issued : 38,760,000 shares in 2010 and 2009

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18. Capital surplus and capital adjustments

Capital surplus of the Company as of December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010		2009
Additional paid-in capital	₩ 47,106	₩	47,106
Revaluation surplus	39,178		39,178
Other capital surplus	17,732		17,732
	₩ 104,016	₩	104,016

Asset revaluation surplus

In conformity with the Asset Revaluation Law, the Company revalued a substantial portion of its property, plant and equipment on July 1, 1998, based primarily on current replacement costs. The revaluation increments amounting to ₩87,151 million, net of revaluation taxes and foreign currency translation adjustments carried over from the previous year, were credited to asset revaluation surplus.

19. Retained earnings

Retained earnings of the Company as of December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010		2009
Appropriated:			
Legal reserve	₩ 24,895	₩	24,122
Business rationalization reserve	1,511		1,511
Financial structure improvement reserve	13,693		13,693
	40,099		39,326
Unappropriated	561,431		297,745
	₩ 601,530	₩	337,071

Legal reserve

In accordance with the Korean Commercial Code, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of paid-in capital. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

Capital adjustments of the Company as of December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010		2009
Treasury stock	₩ (968)	₩	(968)

Treasury stock

As of December 31, 2010, the Company has 100,751 shares of common stock in the amount of ₩968 million with a par value of ₩504 million, which were repurchased by the Company to stabilize its stock price in the market. The Company sold a portion of its treasury shares and recorded a gain on disposal of treasury stock, net of the income tax effects, amounting to ₩17,732 million as of December 31, 2010, as other capital surplus within equity.

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20. Sales and cost of sales

The sales and cost of sales for the years ended December 31, 2010 and 2009 are made up of the following (Korean won in millions):

	2010		2009	
	Sales	Cost of sales	Sales	Cost of sales
Export of merchandise	₩ 5,146,729	₩ 4,917,219	₩ 3,519,533	₩ 3,219,284
Sales of merchandise	779,552	733,847	689,739	661,553
Commission received	143,614	-	106,803	-
	<u>₩ 6,069,895</u>	<u>₩ 5,651,066</u>	<u>₩ 4,316,075</u>	<u>₩ 3,880,817</u>

21. Selling and administrative expenses

Details of selling and administrative expenses for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

	2010	2009
Salaries	₩ 52,722	₩ 51,413
Provision for severance and retirement benefits	5,457	5,378
Employee benefits	7,402	7,510
Travel expenses	5,687	4,289
Communication expenses	1,420	1,272
Utility expenses	594	93
Taxes and dues	1,257	3,710
Rental expenses	2,890	2,555
Depreciation of property, plant and equipment	3,808	6,016
Repairs expenses	648	612
Insurance	5,494	3,062
Entertainment expenses	2,790	2,124
Advertising and marketing expenses	9,445	8,733
Custody charges	1,231	513
Samples expenses	143	126
Packaging cost	20	6
Transportation expenses	93,107	81,297
Commission	29,446	34,636
Sales commissions	44,151	32,820
Supplies expenses	210	191
Publication expenses	270	1,133
Vehicles maintenance expenses	522	534
Loading and unloading expenses	3,591	1,812
Training expenses	2,473	1,886
Conference expenses	84	58
Customs clearance expenses	247	278
Amortization of intangible assets	2,774	3,160
Expenses for overseas branch office	18,016	17,938
Bad debt expenses	255	560
	<u>₩ 296,154</u>	<u>₩ 273,715</u>