

**LG International Corp. and subsidiaries
Consolidated financial statements
Years ended December 31, 2010 and 2009
with independent auditors' report**

ERNST & YOUNG HAN YOUNG

 ERNST & YOUNG

LG International Corp. and subsidiaries
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 consolidated statements of financial position of LG International Corp. ("LGI") and its subsidiaries (collectively, the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the LGI's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of four subsidiaries (seven subsidiaries in 2009), including LG Int'l (HK) Ltd. and equity method investee of GS Retail Co., Ltd., whose financial statements reflect 23% and 26% of the Company's total consolidated assets as of December 31, 2010 and 2009, respectively, and 68% and 45% of the Company's consolidated net income before income taxes for the years ended December 31, 2010 and 2009, respectively. Those 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 subsidiaries, 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 the reports of the 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 consolidated financial position of LG International Corp. and its subsidiaries as of December 31, 2010 and 2009, and the consolidated results of their financial performance and their 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 consolidated financial statements are not intended to present the financial position, results of financial performance 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 consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those who are knowledgeable about Korean accounting principles and auditing standards and their application in practice.



April 28, 2011

This audit report is effective as of April 28, 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 consolidated financial statements and may result in modifications to this report.

LG International Corp. and subsidiaries
Consolidated statements 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 18) | ₩ 193,065 | ₩ 173,582 |
| Short-term financial instruments (Note 18) | 19,215 | 2,922 |
| Trade accounts and notes receivable, net of allowance for doubtful accounts (Notes 11 and 18) | 1,080,799 | 1,191,453 |
| Other accounts receivable, net of allowance for doubtful accounts (Notes 17 and 18) | 98,566 | 99,053 |
| Inventories | 779,307 | 424,815 |
| Accrued income (Note 18) | 22,186 | 19,096 |
| Advance payments | 96,477 | 81,068 |
| Prepaid expenses | 14,269 | 7,604 |
| Derivative assets (Note 17) | 8,170 | 8,960 |
| Deferred income tax assets (Note 14) | 38,173 | 39,807 |
| Other current assets | 23,653 | 4,918 |
| Total current assets | <u>2,373,880</u> | <u>2,053,278</u> |
| Non-current assets: | | |
| Long-term financial instruments | 325 | 42 |
| Available-for-sale securities (Notes 3 and 5) | 31,221 | 29,450 |
| Equity method investments (Notes 4 and 5) | 766,776 | 531,811 |
| Long-term guarantee deposits | 39,920 | 39,254 |
| Investments in overseas resources development (Note 5) | 175,457 | 178,254 |
| Long-term loan receivables (Notes 5 and 18) | 191,120 | 190,001 |
| Deferred income tax assets (Note 14) | 223 | 3,192 |
| Property, plant and equipment (Note 6) | 103,642 | 73,415 |
| Intangible assets (Note 7) | 50,716 | 46,524 |
| Other non-current assets | 7,140 | 7,826 |
| Total non-current assets | <u>1,366,540</u> | <u>1,099,769</u> |
| Total assets | <u>₩ 3,740,420</u> | <u>₩ 3,153,047</u> |

(Continued)

See accompanying notes.

LG International Corp. and subsidiaries
Consolidated statements of financial position (cont'd)
As of December 31, 2010 and 2009
 (Korean won in millions)

| | 2010 | 2009 |
|---|--------------------|--------------------|
| Liabilities and equity | | |
| Current liabilities: | | |
| Trade accounts and notes payable (Notes 11 and 18) | ₩ 1,329,346 | ₩ 1,276,735 |
| Short-term borrowings (Notes 8 and 18) | 440,581 | 294,479 |
| Other accounts payable (Notes 17 and 18) | 178,134 | 187,766 |
| Advances received | 55,980 | 22,614 |
| Withholdings | 18,728 | 8,108 |
| Accrued expenses | 21,851 | 20,112 |
| Income taxes payable | 13,762 | 5,002 |
| Current portion of long-term borrowings, net (Notes 9 and 18) | 130,731 | 189,922 |
| Derivative liabilities (Note 17) | 10,146 | 5,534 |
| Unearned revenue | 76 | 117 |
| Other current liabilities | 1,487 | 1,531 |
| Total current liabilities | 2,200,822 | 2,011,920 |
| Non-current liabilities: | | |
| Long-term borrowings, net (Notes 9 and 18) | 535,665 | 461,893 |
| Severance and retirement benefits (Note 10) | 2,131 | 6,108 |
| Deferred income tax liabilities (Note 14) | 41,178 | 14,108 |
| Other long-term liabilities | 25,760 | 4,572 |
| Total non-current liabilities | 604,734 | 486,681 |
| Total liabilities | 2,805,556 | 2,498,601 |
| Equity: | | |
| Equity attributable to equity holders of the parent: | | |
| Capital stock (Note 12) | 193,800 | 193,800 |
| Capital surplus (Note 12) | 104,017 | 104,017 |
| Capital adjustments (Note 12) | (1,587) | (968) |
| Accumulated other comprehensive income (Notes 3 and 4) | 42,863 | 46,702 |
| Retained earnings (Note 12) | 599,039 | 323,575 |
| | 938,132 | 667,126 |
| Minority interests | (3,268) | (12,680) |
| Total equity | 934,864 | 654,446 |
| Total liabilities and equity | ₩ 3,740,420 | ₩ 3,153,047 |

See accompanying notes.

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

| | 2010 | 2009 |
|---|--------------|--------------|
| Sales (Notes 11 and 20) | ₩ 13,501,084 | ₩ 10,325,581 |
| Cost of sales (Notes 11 and 20) | 12,864,145 | 9,730,837 |
| Gross profit | 636,939 | 594,744 |
| Selling and administrative expenses (Notes 11, 13 and 20) | 443,484 | 408,847 |
| Operating income | 193,455 | 185,897 |
| Other income (expenses): | | |
| Interest income | 19,990 | 25,216 |
| Interest expense | (38,125) | (48,445) |
| Dividend income | 8,985 | 8,430 |
| Gain on foreign currency transactions, net | 3,148 | 2,607 |
| Gain on foreign currency translation, net | 10,671 | 21,334 |
| Loss on disposal of short-term financial instruments | (3) | (14) |
| Gain (loss) on disposal of other investments, net | 118 | (659) |
| Equity in earnings of equity method investments, net (Note 4) | 205,748 | 38,025 |
| Gain on disposal of equity method investments, net | 8,898 | 896 |
| Gain on disposal of available-for-sale securities | 1,628 | 1,249 |
| Loss on disposal of property, plant and equipment, net | (240) | (272) |
| Impairment losses on available-for-sale securities | (786) | - |
| Impairment losses on overseas resources investment | (13,494) | - |
| Loss on disposal of intangible asset | (7,207) | - |
| Reversal of allowance for doubtful accounts | 14 | 96 |
| Loss on disposal of trade accounts receivable | (19,560) | (18,480) |
| Gain (loss) on settlement of derivatives transactions, net | 712 | (71,960) |
| Loss on valuation of derivative instruments, net (Note 17) | (396) | (3,999) |
| Gain (loss) on valuation of firm commitment assets, net (Note 17) | (1,891) | 3,860 |
| Others | 8,973 | (17,370) |
| | 187,183 | (59,486) |
| Income before income taxes | 380,638 | 126,411 |
| Provision for income taxes (Note 14) | 84,091 | 30,070 |
| Net income of subsidiaries before the date of acquisition | 59 | - |
| Net income | ₩ 296,488 | ₩ 96,341 |
| Attributable to: | | |
| Equity holders of the parent | ₩ 285,998 | ₩ 93,445 |
| Minority interests | ₩ 10,490 | ₩ 2,896 |
| Basic earnings per share (korean won, Note 15) | ₩ 7,398 | ₩ 2,417 |

See accompanying notes.

LG International Corp. and subsidiaries
Consolidated statements of changes in stockholders' 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 | Minority interests | Total |
|--|---------------|-----------------|---------------------|--|-------------------|--------------------|-----------|
| As of January 1, 2009 (as previously stated) | ₩ 193,800 | ₩ 104,017 | ₩ (968) | ₩ 58,394 | ₩ 231,942 | ₩ (16,421) | ₩ 570,764 |
| Cumulative effects of accounting changes | - | - | - | - | 5,295 | - | 5,295 |
| As of January 1, 2009 (as restated) | ₩ 193,800 | ₩ 104,017 | ₩ (968) | ₩ 58,394 | ₩ 237,237 | ₩ (16,421) | ₩ 576,059 |
| Dividends | - | - | - | - | (7,732) | - | (7,732) |
| Net income for the year | - | - | - | - | 93,445 | 2,896 | 96,341 |
| Loss on valuation of available-for-sale securities | - | - | - | 814 | - | - | 814 |
| Equity adjustments in equity method | - | - | - | (3,086) | - | 2,357 | (729) |
| Foreign currency translation adjustments | - | - | - | (9,420) | - | (919) | (10,339) |
| Change in consolidation scope | - | - | - | - | 625 | (593) | 32 |
| As of December 31, 2009 | ₩ 193,800 | ₩ 104,017 | ₩ (968) | ₩ 46,702 | ₩ 323,575 | ₩ (12,680) | ₩ 654,446 |
| As of January 1, 2010 (as previously stated) | ₩ 193,800 | ₩ 104,017 | ₩ (968) | ₩ 46,702 | ₩ 323,575 | ₩ (12,680) | ₩ 654,446 |
| Dividends | - | - | - | - | (7,732) | - | (7,732) |
| Net income for the year | - | - | - | - | 285,998 | 10,490 | 296,488 |
| Gain on valuation of available-for-sale securities | - | - | - | 1,335 | - | 9 | 1,344 |
| Equity adjustments in equity method | - | - | - | 12,758 | - | 705 | 13,463 |
| Foreign currency translation adjustments | - | - | - | (17,371) | - | (6,549) | (23,920) |
| Asset revaluation surplus | - | - | - | (561) | - | - | (561) |
| Other capital adjustments | - | - | (619) | - | - | - | (619) |
| Change in consolidation scope | - | - | - | - | (2,802) | 4,757 | 1,955 |
| As of December 31, 2010 | ₩ 193,800 | ₩ 104,017 | ₩ (1,587) | ₩ 42,863 | ₩ 598,039 | ₩ (3,268) | ₩ 934,864 |

See accompanying notes.

LG International Corp. and subsidiaries
Consolidated 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 | ₩ 296,488 | ₩ 96,341 |
| Adjustments to reconcile net income to net cash provided by (used in) | | |
| operating activities: | | |
| Provision for severance and retirement benefits | 6,427 | 5,888 |
| Depreciation | 5,454 | 7,558 |
| Allowance for doubtful accounts | 6,875 | 1,239 |
| Amortization of intangible assets | 5,876 | 9,131 |
| Amortization of bonds | 209 | 152 |
| Gain on foreign currency translation, net | (7,036) | (15,948) |
| Equity in earnings of equity method investments, net | (205,748) | (38,025) |
| Loss on disposal of trade accounts receivable | 19,560 | 18,480 |
| Gain on disposal of available-for-sale securities, net | (1,628) | (1,249) |
| Loss (gain) on disposal of equity method investments | (8,898) | 896 |
| Loss on disposal of property, plant and equipment, net | 240 | 272 |
| Impairment losses on available-for-sale securities | 786 | - |
| Impairment losses on overseas investment | 13,494 | - |
| Loss on valuation of derivative instruments, net | 396 | 3,999 |
| Loss (gain) on valuation of firm commitment assets, net | 1,891 | (3,860) |
| Others, net | 8,918 | 22,393 |
| Changes in operating assets and liabilities: | | |
| Trade accounts and notes receivable | 116,774 | 151,002 |
| Other accounts receivable | 48,685 | 197,840 |
| Accrued income | (6,309) | (4,478) |
| Inventories | (394,035) | 236,788 |
| Advance payments | (8,843) | 20,748 |
| Prepaid expenses | 7,362 | 819 |
| Deferred income tax assets | 31,347 | (4,169) |
| Trade accounts and notes payable | 58,036 | (35,333) |
| Other accounts payable | (31,571) | (135,138) |
| Withholdings | 10,034 | (6,204) |
| Accrued expenses | 1,539 | (3,948) |
| Advances received | 35,003 | (13,197) |
| Unearned revenue | (3,023) | 39 |
| Income taxes payable | 6,091 | (17,922) |
| Payment of severance and retirement benefits | (4,672) | (3,712) |
| Deferred income tax liabilities | 12 | 1,389 |
| Others, net | (17,111) | 596 |
| Total adjustments | (305,865) | 396,056 |
| Net cash provided by (used in) operating activities | ₩ (9,377) | ₩ 492,397 |

(Continued)
See accompanying notes.

LG International Corp. and subsidiaries
Consolidated 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 in short-term financial instruments, net | ₩ (14,732) | ₩ 31,310 |
| Increase of investment in overseas resources development, net | 40,353 | (3,235) |
| Proceeds from disposal of equity method investments | 52,740 | 1,027 |
| Proceeds from disposal of available-for-sale securities | 6,687 | 1,851 |
| Acquisition of available-for-sale securities | (5,265) | (5,650) |
| Increase in long-term loan receivables, net | (3,053) | (55,955) |
| Proceeds from disposal of property, plant and equipment | 1,712 | 1,720 |
| Dividend income from equity method investments | 9,044 | 3,254 |
| Acquisition of equity method investments | (122,271) | (40,915) |
| Payment of long-term guarantee deposits | (440) | (576) |
| Acquisition of property, plant and equipment | (11,350) | (12,909) |
| Acquisition of intangible assets | (6,195) | (5,507) |
| Others, net | (507) | 2,776 |
| Net cash used in investing activities | (53,277) | (82,809) |
| Cash flows from financing activities: | | |
| Drawdown from short-term borrowings | 6,174,564 | - |
| Drawdown from long-term borrowings | 71,824 | 217,891 |
| Proceeds from issuance of bonds | 39,793 | 89,558 |
| Increase in long-term withholding, net | 4,487 | - |
| Repayment of short-term borrowings | (6,000,733) | (488,340) |
| Repayment of long-term borrowings | (42,098) | (71,407) |
| Repayment of current portion of long-term borrowings | (170,676) | (186,469) |
| Payment of dividends | (7,732) | (8,080) |
| Others, net | 2 | 2 |
| Net cash provided by (used in) financing activities | 69,431 | (446,845) |
| Net increase in cash and cash equivalents | | |
| from change in consolidation scope | 3,510 | 863 |
| Net increase (decrease) in cash and cash equivalents | 10,287 | (36,394) |
| Net foreign exchange differences | 9,196 | (49,688) |
| Cash and cash equivalents at the beginning of the year | 173,582 | 259,664 |
| Cash and cash equivalents at the end of the year | ₩ 193,065 | ₩ 173,582 |

See accompanying notes.

LG International Corp. and subsidiaries
Notes to consolidated financial statements
Years ended December 31, 2010 and 2009

1. Organization and business

The organization and business of LG International Corp. ("LGI"), the parent company, and its consolidated subsidiaries, which consist of three domestic subsidiaries including Korea Commercial Vehicle Co., Ltd. and 14 foreign subsidiaries including LG International (America) Inc., (collectively, the "Company") are described below.

The parent company

LGI was incorporated on November 26, 1953 under the laws of the Republic of Korea. LGI is a member of the LG group, which consist of numerous companies under common management control.

Lucky Industry was established in November 1953 as an import and export specialty company amongst the Lucky Group and changed its name to Bando Corporation in April 1956, and to Lucky-Goldstar International Corp. and to LG International Corp. in January 1984 and March 1995, respectively.

LGI is currently engaged in the import and export business, overseas resource and business development, and other business activities. LGI has 7 directly owned overseas subsidiaries, 23 liaison offices and 21 overseas branch offices as of December 31, 2010.

In January 1976, LGI listed its common shares on Korea Exchange. Also on November 12, 1976, LGI was designated as a general trading company by the Korean government. As of December 31, 2010, LGI's outstanding capital stock amounted to ₩193,800 million.

Consolidated subsidiaries

Consolidated subsidiaries as of December 31, 2010 are as follows:

| | Reporting Date | Percentage of ownership (%) | Number of shares |
|------------------------------------|-------------------|--------------------------------|------------------|
| LG Int'l (America) Inc. | Dec. 31 | 100.00 | 80,000 |
| LG Int'l (Japan) Ltd. | Dec. 31 | 100.00 | 90,000 |
| LG Int'l (HK) Ltd. | Dec. 31 | 100.00 | 77,968 |
| LG Int'l (S'pore) Pte., Ltd. | Dec. 31 | 100.00 | 5,000,000 |
| LG Int'l (Deutsch) GmbH | Dec. 31 | 100.00 | 9,510 |
| LG Int'l (Aust) Pty Ltd. | Dec. 31 | 100.00 | 5,496,881 |
| LG Int'l (China) Corp. | Dec. 31 | 100.00 | - |
| LG Properties (S'pore) Pte., Ltd. | Dec. 31 | 70.00 | 60,537,470 |
| Philco Resources Ltd. | Dec. 31 | 60.00 | 3,630,000 |
| PT. Tutul Batubara Utama | Dec. 31 | 75.00 | 1,800,000 |
| Resource Investment (H.K) Ltd. | Dec. 31 | 100.00 | - |
| PT. Indonesia Renewable Resources | Dec. 31 | 100.00 | 26,000,000 |
| KUMAH Steel Co., Ltd | Dec. 31 | 51.00 | 96,900 |
| PT. Batubara Global Energy (BGE) | Dec. 31 | 100.00 | 10,000,000 |
| LG TIMOR SEA., Ltd. | Dec. 31 | 100.00 | - |
| Korea Commercial Vehicle Co., Ltd. | Dec. 31 | 100.00 | 140,000 |
| Pixdix | Dec. 31 | 100.00 | 6,000,000 |

LG International Corp. and subsidiaries
Notes to consolidated financial statements
Years ended December 31, 2010 and 2009

1. Organization and business (cont'd)

Consolidated subsidiaries (cont'd)

The principal activities of the consolidated subsidiaries and their business relationships with LGI are summarized as follows:

| | Principal activities | Business relationships |
|------------------------------------|--|--|
| LG Int'l (America) Inc. | Marketing of merchandise and agent for export and import | Agent for export and import, and supplier of goods |
| LG Int'l (Japan) Ltd. | " | " |
| LG Int'l (HK) Ltd. | " | " |
| LG Int'l (S'pore) Pte. Ltd. | " | " |
| LG Int'l (Deutsch) GmbH | " | " |
| LG Int'l (Aust) Pty. Ltd. | Coal mining | Overseas resources developer |
| LG Int'l (China) Corp. | Marketing of merchandise and agent for export and import | Agent for export and import, and supplier of goods |
| LG Properties (S'pore) Pte. Ltd. | Overseas real estate development | Overseas resources developer |
| Philco Resources Ltd. | Copper mining | " |
| PT. Tutui Batubara Utama | Coal mining | " |
| Resource Investment (H.K) Ltd. | Coal mining | " |
| Indonesia Renewable Resources | Industrial Planting | " |
| KUMAH Steel Co., Ltd | Manufacturing of Steel frames | " |
| PT. Batubara Global Energy(BGE) | Flaming coal | " |
| LG TIMOR SEA., Ltd. | Oil & Gas | " |
| Korea Commercial Vehicle Co., Ltd. | Manufacturing and marketing of vehicles and construction equipment | Agent for export and import, and supplier of goods |
| Pbxdx | Wholesale & retail of optical Instruments | Wholesale & retail of optical Instruments |

Changes in consolidation scope

The following table presents the information of subsidiaries newly included in the consolidated financial statements in 2010:

| Subsidiary name | Reason for inclusion |
|----------------------------------|----------------------|
| KUMAH Steel Co., Ltd. | Acquired in 2010 |
| PT. Batubara Global Energy (BGE) | " |
| LG TIMOR SEA., Ltd.. | " |

LG International Corp. and subsidiaries
Notes to consolidated financial statements
Years ended December 31, 2010 and 2009

1. Organization and business (cont'd)

Consolidated subsidiaries (cont'd)

The summary of the consolidated subsidiaries' financial position as of December 31, 2010, and the results of their financial performance for the year then ended included in the accompanying consolidated financial statements, are as follows (Korean won in millions):

| | Total assets | | Equity | | Revenues | | Net income (loss) | |
|--|--------------|-----------|--------|-----------|----------|-------------|-------------------|----------|
| LG International Corp. | ₩ | 2,307,358 | ₩ | 981,125 | ₩ | 6,069,895 | ₩ | 287,879 |
| LG Int'l (America) Inc. | | 86,210 | | 35,946 | | 215,032 | | 4,744 |
| LG Int'l (Japan) Ltd. | | 714,247 | | 39,876 | | 4,858,505 | | 19,210 |
| LG Int'l (HK) Ltd. | | 323,475 | | 18,435 | | 2,461,932 | | 7,052 |
| LG Int'l (S'pore) Pte. Ltd. | | 217,031 | | 21,769 | | 1,222,439 | | 2,148 |
| LG Int'l (Deutsch) GmbH | | 181,988 | | 5,028 | | 694,778 | | (444) |
| LG Int'l (Aust) Pty. Ltd. | | 39,902 | | 11,219 | | 36,538 | | 1,886 |
| LG Int'l (China) Corp. | | 40,272 | | 12,200 | | 70,373 | | 1,348 |
| LG Properties (S'pore) Pte. Ltd. | | 71,126 | | 700 | | - | | (255) |
| Philco Resources Ltd. | | 97,365 | | 28,758 | | - | | 27,947 |
| PT. Tutui Batubara Utama | | 9,628 | | (13,365) | | 11,160 | | (1,246) |
| Resource Investment (H.K) Ltd. | | 64,623 | | 64,623 | | - | | 9,517 |
| Indonesia Renewable Resources | | 48,780 | | 38,976 | | - | | (7,909) |
| KUMAH Steel Co., Ltd. | | 40,568 | | 8,283 | | 109,397 | | (703) |
| PT. Batubara Global Energy(BGE) | | 160,687 | | 36,369 | | 402,257 | | 13,944 |
| LG TIMOR SEA., Ltd. | | 8,332 | | (13,758) | | - | | (13,968) |
| Korea Commercial Vehicle Co., Ltd | | 29,028 | | (482) | | 33,370 | | (10,476) |
| Pixdix | | 40,497 | | 21,151 | | 119,216 | | (2,195) |
| Elimination of intercompany transactions | | (738,697) | | (341,990) | | (2,803,808) | | (41,991) |
| | ₩ | 3,740,420 | ₩ | 934,863 | ₩ | 13,501,084 | ₩ | 296,488 |

2. Summary of significant accounting policies

Basis of consolidated financial statement preparation

The Group maintains their 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 Group 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 consolidated 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 consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language consolidated financial statements.

The financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the Republic of Korea, including Statements of Korea Accounting Standards ("SKAS") 1 to 25 (excluding SKAS 14 and 24), and the summary of significant account policies used for the preparation of the consolidated financial statements are as follows:

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

The investment accounts of the parent company and the corresponding capital accounts of the subsidiaries have been eliminated at the acquisition date in consolidation. If the acquisition date of the subsidiaries is different from the year-end date, the closest year-end date of the subsidiaries is deemed as the acquisition date.

The difference between the cost of investment and the acquired proportionate interest in the fair value of identifiable assets and liabilities at the date of acquisition is accounted for as goodwill or negative goodwill. Goodwill is amortized over its useful life of within 20 years using the straight-line method. Negative goodwill arising from identifiable non-monetary tangible assets is amortized over the useful life of those assets. The remaining portion of negative goodwill in excess of the fair value of acquired identifiable non-monetary tangible assets is recognized as income immediately.

The parent company reflects only its share of the subsidiaries' post-acquisition retained earnings and other equity accounts after acquiring or gaining control of the subsidiaries. In addition, the difference between the cost of investment for new shares and fair value of net assets acquired arising from subsequent changes in the parent company's equity interest in a subsidiary from issuance of additional shares or stock dividends by the subsidiary is treated as a reduction or increment of the Group's capital surplus.

All significant inter-company transactions and account balances among consolidated companies are eliminated in consolidation. Unrealized gains or losses included in inventories and property, plant and equipment arising from transactions between consolidated companies are eliminated based on the average gross profit rates of the selling company. The related accounts receivable and accounts payable are also eliminated. Unrealized gains or losses arising from sales by the parent company to its subsidiaries are fully eliminated. Unrealized gains or losses arising from sales by the subsidiaries to the parent company or among the subsidiaries are fully eliminated and the minority interests are allocated for their share of unrealized gains or losses.

Accounts of foreign subsidiaries are maintained in the currencies of the countries in which they conduct their operations. In translating their foreign currency financial statements into Korean won, income and expenses are translated at the average exchange rate during the year and assets and liabilities are translated at the exchange rate prevailing on the reporting date. The resulting net translation gains or losses are recorded as a foreign currency translation adjustment in other comprehensive income or loss within equity. Cash and cash equivalent at the beginning of the year and at the end of the year in consolidated statements of cash flows are translated using the exchange rate as of December 31, 2009 and 2010, respectively, while other items are translated at the average exchange rate during the year. Resulting translation gains and losses are recognized as net foreign exchange differences in the consolidated statement of cash flows.

Minority interest in consolidated subsidiaries is presented as a separate component of stockholders' equity in the consolidated statements of financial position. Losses are attributed to the minority interest even if that results in a deficit balance, unless the minority interest has a binding agreement of not being able to absorb the full losses, where the excess of such losses will be absorbed by the parent company.

Consolidated net income of the Company is apportioned between net income attributable to equity holders of the parent and that attributable to minority interests taking into account unrealized gains or losses on intercompany transactions, goodwill or negative goodwill and foreign exchange differences on intercompany transactions.

The financial statements of the consolidated subsidiaries are prepared using the same reporting date as the parent company, using consistent accounting policies.

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.

LG International Corp. and subsidiaries
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2. Summary of significant accounting policies (cont'd)

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.

Factoring of trade receivables

The difference between book value and disposal price arising from factoring of trade receivables is recorded in current operations if the rights and obligations associated with the trade receivables have actually transferred.

Inventories

Inventories are valued at the lower of cost or net realizable value, with cost being determined using the specific identification method. Perpetual inventory system is used to record inventories, in which inventories are adjusted to physical inventory counts that are performed periodically.

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. When the circumstances that previously caused the inventories to be written down cease to exist or there is an increase in net realizable value, the amount of the write-down is reversed to the extent of the original write-down amount so that the new carrying amount is the lower of cost and revised net realizable value. The reversal is recognized as a deduction from cost of sales.

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 Group 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 Group 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.

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

Investments in securities (cont'd)

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 Group 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 Group has significant influence are accounted for using the equity method. Under the equity method of accounting, the Group's initial investment in an investee is recorded at acquisition cost. Subsequently, the carrying amount of the investment is adjusted to reflect the Group'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 Group on the statement of financial position. If the Group's share of losses of the investee equal or exceed its interest in the investee, it suspends recognizing its share of further losses. However, if the Group 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 Group'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 within 20 years using the straight-line method. Conversely, negative goodwill represents the excess of the Group'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.

The Group's share in the investee's unrealized profits and losses resulting from transactions between the Group and its investee are eliminated.

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 |

LG International Corp. and subsidiaries
Notes to consolidated financial statements
Years ended December 31, 2010 and 2009

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

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 one 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 proprietary 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:

| | <u>Years</u> |
|-------------------------------|--------------|
| Goodwill | 5 |
| Industrial proprietary rights | 5 – 15 |
| Others | 3.5 – 20 |

Investments in overseas resources development

The Company recognizes gas and ore exploration projects 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 a 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.

Severance and retirement benefits

In accordance with the Employee Retirement Benefit Security Act ("ERBSA") of Korea and the Company's domestic 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, Kyobo Life Insurance, LIG Insurance and Woori Bank. 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.

For foreign subsidiaries where applicable, the provision for severance and retirement benefits is recorded in accordance with the regulations of their respective countries.

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.

LG International Corp. and subsidiaries
Notes to consolidated financial statements
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2. Summary of significant accounting policies (cont'd)

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 including export and import related agent activities, are recognized on a net basis. The sales of goods later refundable are recognized upon delivery of goods to the customers.

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.

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

Deferred tax assets and liabilities are classified as current or non-current assets or liabilities based on the classification of underlying assets and liabilities, and deferred tax assets and liabilities should be offset if the entity has a legally enforceable right to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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.

When the recoverable value subsequently exceeds the carrying amount, the impairment loss is reversed to the extent that the revised book value does not exceed the book value that would have been recorded without the impairment. In case of available-for-sale securities, impairment loss is reversed to the extent of impairment loss initially recorded.

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.

LG International Corp. and subsidiaries
Notes to consolidated financial statements
Years ended December 31, 2010 and 2009

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.

Use of estimates

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

LG International Corp. and subsidiaries
Notes to consolidated financial statements
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3. Available-for-sale securities

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

| | | 2010 | | | | |
|---|------------------|---------------|------------------|---|------------|--|
| | Number of shares | Ownership (%) | Acquisition Cost | Fair value/Net asset value ⁽¹⁾ | Book value | |
| Marketable securities: | | | | | | |
| LG Uplus Corp. | | | | | | |
| (Formerly, LG Dacom) | 198,366 | 0.04 | W 8,681 | W 1,422 | W 1,422 | |
| LG Fashion Corp. | 69,761 | 0.24 | 575 | 2,187 | 2,187 | |
| E.I.C Properties Pte. Ltd. | 5,296,350 | 15.50 | 2,001 | 3,842 | 3,842 | |
| Posco C&C | | 0.00 | 200 | 291 | 291 | |
| | | | 11,457 | 7,742 | 7,742 | |
| 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 and 3) | 5,731,968 | 100.00 | 5,891 | 5,991 | 5,891 | |
| Mongolia Resources Investment Limited (Adamas) ^(2 and 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 and 4) | - | 1.00 | 4,779 | 4,973 | 4,779 | |
| Hebei International Trade Co., Ltd. ^(2 and 3) | - | 100.00 | 3,346 | 3,346 | 3,346 | |
| Others | - | - | 17,099 | 6,754 | 4,812 | |
| | | | 35,766 | 26,047 | 23,479 | |
| | | | W 47,223 | W 33,789 | W 31,221 | |
| 2009 | | | | | | |
| | Number of shares | Ownership (%) | Acquisition Cost | Fair value/Net asset value ⁽¹⁾ | Book value | |
| Marketable securities: | | | | | | |
| LG Uplus Corp. | | | | | | |
| (Formerly, LG Dacom) | 92,312 | 0.11 | W 8,681 | W 1,643 | W 1,643 | |
| LG Fashion Corp. | 69,761 | 0.24 | 575 | 2,201 | 2,201 | |
| E.I.C Properties Pte. Ltd. | 5,296,350 | 15.50 | 2,894 | 2,427 | 2,427 | |
| | | | 12,150 | 6,271 | 6,271 | |
| 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 and 3) | 5,476,003 | 100.00 | 5,605 | 5,856 | 5,605 | |
| SK Eurochem Sp. z o.o. ⁽²⁾ | - | 10.00 | 4,348 | 6,617 | 4,348 | |
| LG International Yakutsk ^(2 and 3) | - | 100.00 | 5,325 | 4,730 | 5,325 | |
| Mongolia Resources Investment Limited (Adamas) ^(2 and 3) | 2,000,000 | 100.00 | 1,262 | 1,262 | 1,262 | |
| Hyundai Hysco ⁽²⁾ | - | 10.00 | 946 | 1,797 | 946 | |

| | 2009 | | | | |
|--------|------------------|---------------|------------------|---|------------|
| | Number of shares | Ownership (%) | Acquisition Cost | Fair value/Net asset value ^(*) | Book value |
| Others | - | - | 10,102 | 4,927 | 3,283 |
| | | | 29,998 | 27,012 | 23,179 |
| | | | W 42,148 | W 33,283 | W 29,450 |

(*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 W10 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) As a result of disposal of some common shares of Aromatics Oman LLC in 2010, the Company lost significant influence on this investee. So the Company reclassified the remaining shares of Aromatics Oman LLC from equity-method investments to 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 | Gain on valuation | Deferred tax effect | Dec. 31 | |
| LG Uplus Corp. (Formerly, LG Dacom) | W 553 | W (221) | W 65 | W 524 | |
| LG Fashion Corp. | 1,232 | (14) | 39 | 1,130 | |
| E.I.C Properties Pte. Ltd. | 1,318 | 1,519 | - | 2,837 | |
| Posco C&C | - | 19 | - | 19 | |
| Aromatic Oman LLC | - | (92) | 20 | (72) | |
| | W 3,103 | W 1,211 | W 124 | W 4,438 | |

| | 2009 | | | | |
|--|---------|-------------------|---------------------|---------|--|
| | Jan. 1 | Gain on valuation | Deferred tax effect | Dec. 31 | |
| LG Uplus Corp. (Formerly, LG Dacom) | W 716 | W (188) | W 25 | W 553 | |
| LG Fashion Corp. | 721 | 701 | (190) | 1,232 | |
| E.I.C Properties Pte. Ltd. | 852 | 466 | - | 1,318 | |
| | W 2,289 | W 979 | W (165) | W 3,103 | |

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4. 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 |
| GS Retail | 4,923,648 | 31.97 | ₩ 124,184 | ₩ 395,695 | ₩ 395,695 |
| LG Holdings (HK) Ltd. | 35,000,000 | 25.00 | 57,104 | 49,971 | 49,971 |
| Others | - | - | 432,796 | 259,056 | 321,110 |
| | | | ₩ 614,084 | ₩ 704,722 | ₩ 766,776 |

| | 2009 | | | | |
|-----------------------------------|------------------|---------------|------------------|--|------------|
| | Number of shares | Ownership (%) | Acquisition Cost | Proportionate net asset value ^(*) | Book value |
| GS Retail | 4,923,648 | 31.97 | ₩ 124,184 | ₩ 237,062 | ₩ 212,107 |
| LG Holdings (HK) Ltd. | 35,000,000 | 25.00 | 57,104 | 47,811 | 47,811 |
| Aromatics Oman LLC ^(*) | - | 10.00 | 49,806 | 49,725 | 46,106 |
| Kernhem B.V | 54 | 30.00 | 4,200 | 4,423 | 4,706 |
| Others | - | - | 185,869 | 189,304 | 221,081 |
| | | | ₩ 421,163 | ₩ 528,325 | ₩ 531,811 |

(*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) As a result of disposal of some common shares of Aromatics Oman LLC in 2010, the Company lost significant influence on this investee. So the Company reclassified the remaining shares of Aromatics Oman LLC from equity-method investments to available-for-sale securities.

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

| | Total assets | Total liabilities | Revenues | Net income |
|-----------------------|--------------|-------------------|--------------|------------|
| GS Retail | ₩ 2,400,349 | ₩ 1,162,710 | ₩ 3,473,383 | ₩ 520,290 |
| LG Holdings (HK) Ltd. | 199,883 | - | - | 7,806 |
| Others | 9,744,247 | 6,367,499 | 9,025,239 | 465,144 |
| | ₩ 12,344,479 | ₩ 7,530,209 | ₩ 12,498,622 | ₩ 993,240 |

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 | Acquisition | Equity in earnings (losses) of investee | Equity adjustments in equity method | Dividends | Changes in consolidation scope | Dec. 31 |
| GS Retail | ₩ 212,107 | ₩ - | ₩ 191,314 | ₩ 152 | ₩ (7,878) | ₩ - | ₩ 395,695 |
| LG Holdings (HK) Ltd. | 47,811 | - | 1,949 | 211 | - | - | 49,971 |
| Others ^(*) | 271,893 | 61,013 | 12,485 | 5,587 | (1,739) | (28,129) | 321,110 |
| | ₩ 531,811 | ₩ 61,013 | ₩ 205,748 | ₩ 5,950 | ₩ (9,617) | ₩ (28,129) | ₩ 766,776 |

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(*1) For the investments in De Zwarte Ponk B.V. and FOSCO B.V., carrying amounts of investments in those investees were fully written down due to the Company's share in the accumulated losses of these investees. As the De Zwarte Ponk B.V. incurred loss in current year, allowance for doubtful account was reserved against the related loan amounting to ₩248 million (₩5,854 million in 2009) and ₩86 million was recorded as equity adjustments in equity method in other comprehensive income. For the investment in FOSCO B.V., allowance for doubtful account amounting to ₩1,062 million (₩948 million in 2009) was reserved against the related loan, and ₩199 million was recorded in other comprehensive income as equity adjustments in equity method.

| | 2009 | | | | | | |
|-----------------------|-----------|-------------|---|-------------------------------------|-----------|--------------------------------|-----------|
| | Jan. 1 | Acquisition | Equity in earnings (losses) of investee | Equity adjustments in equity method | Dividends | Changes in consolidation scope | Dec. 31 |
| GS Retail | ₩ 174,433 | ₩ - | ₩ 39,885 | ₩ 250 | ₩ (2,481) | ₩ - | ₩ 212,107 |
| LG Holdings (HK) Ltd. | 56,505 | - | (3,238) | (5,456) | - | - | 47,811 |
| Aromatics Oman LLC | 47,486 | 6,967 | (550) | (7,797) | - | - | 46,106 |
| Kemhem B.V. | 605 | - | (7,367) | 11,468 | - | - | 4,706 |
| Others ^(*) | 176,809 | 118,565 | 9,295 | (1,487) | (675) | (85,334) | 221,081 |
| | ₩ 455,838 | ₩ 123,532 | ₩ 38,025 | ₩ (3,022) | ₩ (3,136) | ₩ (85,334) | ₩ 531,811 |

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 | Changes in consolidation scope | Additions | Amortization | Dec. 31 |
| Goodwill | ₩ 54,083 | ₩ - | ₩ 31,992 | ₩ (5,877) | ₩ 80,198 |
| Negative goodwill | 32,520 | - | - | (15,068) | 17,452 |

| | 2009 | | | | |
|-------------------|----------|--------------------------------|-----------|--------------|----------|
| | Jan. 1 | Changes in consolidation scope | Additions | Amortization | Dec. 31 |
| Goodwill | ₩ 39,070 | ₩ (821) | ₩ 19,142 | ₩ (3,308) | ₩ 54,083 |
| Negative goodwill | 41,395 | - | 3,620 | (12,495) | 32,520 |

The changes in equity adjustments in equity method recorded in other comprehensive income (loss) of the investees for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

| | 2010 | | | | |
|-----------------------|---------|-------------|--------------------------------|---------------------|----------|
| | Jan. 1 | Net changes | Changes in consolidation scope | Deferred tax effect | Dec. 31 |
| GS Retail | ₩ 3,389 | ₩ 153 | ₩ - | ₩ 65 | ₩ 3,607 |
| LG Holdings (HK) Ltd. | 11,175 | 211 | - | 278 | 11,164 |
| Others | (8,594) | 12,226 | - | (175) | 3,457 |
| | ₩ 5,970 | ₩ 12,590 | ₩ - | ₩ 168 | ₩ 18,728 |

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4. Equity method investments (cont'd)

| | 2009 | | | | |
|-----------------------|----------|-------------|--------------------------------|---------------------|----------|
| | Jan. 1 | Net changes | Changes in consolidation scope | Deferred tax effect | Dec. 31 |
| GS Retail | ₩ 3,293 | ₩ 250 | ₩ - | ₩ (154) | ₩ 3,389 |
| LG Holdings (HK) Ltd. | 15,755 | (5,456) | - | 876 | 11,175 |
| Aromatics Oman LLC | 4,048 | (7,797) | - | 1,142 | (2,607) |
| Kemhem B.V. | (4) | 11,468 | - | (2,775) | 8,689 |
| Others | (14,036) | (3,845) | 2,789 | 416 | (14,676) |
| | ₩ 9,056 | ₩ (5,380) | ₩ 2,789 | ₩ (495) | ₩ 5,970 |

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

| | Property, plant and equipment | |
|-----------|-------------------------------|----------|
| | 2010 | 2009 |
| GS Retail | ₩ - | ₩ 24,955 |

5. Overseas resources development

Direct investments and other indirect investments (represented by investments in loan receivables, available-for-sale securities and equity-method investments) in 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 | W - | W 2,410 | W - | W - |
| Ko-Uz Gas Chemical Investment Ltd. | - | - | - | - |
| Resource Investment (HK) Ltd. | - | - | 67,462 | - |
| Mongolia Resources Investment Limited (Adamas) | - | 1,295 | - | - |
| LG International Investments (Canada) Ltd. | - | 5,891 | - | - |
| JPDA (LG Timor Sea) | - | - | - | 8,138 |
| LG Int'l(Aust) Pty., Ltd. | - | 1,158 | - | 33,485 |
| Philco Resources Ltd. | 22,459 | - | 53,327 | - |
| 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 |
| Batubara Global Energy | 131 | - | - | - |
| PT. Tutui Batubara Utama(TBU) | - | - | - | - |
| MINERA COROCOBRE S.A | - | 1,084 | - | - |
| Indonesia Renewable Resource | - | - | 46,374 | - |
| PT. GREEN Gloval Iestari | 31,548 | - | 3,372 | - |
| Oversea Resources Development Fund | - | 85 | - | - |
| Korea Carbon International | - | - | 694 | - |
| United Copper & Moly LLC | - | - | 20,725 | - |
| Sal de Vida | - | - | 3,000 | - |
| Hebei International Trade Co., Ltd. | - | 3,346 | - | - |
| Heungkuk Investment Fund | - | 270 | - | - |
| | W 203,071 | W 15,604 | W 229,003 | W 175,457 |

(*) Allowance for doubtful account amounting to ₩7,826 million was reserved against the long-term loan receivable from DZP B.V. (Block-8) and FOSCO (Egizkara) due to the Company's equity in accumulated loss of these investees exceeded the Company's interests in these investees.

5. Overseas resources development (cont'd)

| | 2009 | | | |
|---|---------------------|-----------------------------------|------------------------------|--|
| | Loan receivables | Available-for- sale securities | Equity-method investments | Investments in overseas resources development |
| Korea RAS Laffan LNG | W - | W 2,410 | W - | W - |
| Ko-Uz Gas Chemical Investment Ltd. | - | 634 | - | - |
| Resource Investment (HK) Ltd. | - | - | - | - |
| Mongolia Resources Investment Limited (Adamas) | - | 1,262 | - | - |
| LG International Investments (Canada) Ltd. | - | 5,605 | - | - |
| JPDA (LG Timor Sea) | 17,991 | - | - | - |
| Erel Ltd. | - | - | 2,875 | - |
| Kernhem B.V. (ADA Oil) | 54,376 | - | 25,753 | - |
| KC Kazakh B.V. (Zhambyl) | 13,289 | 65 | - | - |
| DZP B.V. (Block-8) ⁽¹⁾ | 31,341 | - | - | - |
| Fosco (Egizkara) ⁽¹⁾ | 18,506 | - | - | - |
| Oman Bukha | - | - | - | 109,427 |
| Vietnam 11-2 | - | - | - | 68,828 |
| Batubara Global Energy | 28,294 | - | 4,233 | - |
| PT. Tutui Batubara Utama(TBU) | - | - | - | - |
| MINERA COROCOBRE S.A | - | 444 | - | - |
| PT. GREEN Gloval Iestari | - | - | 2,342 | - |
| | W 163,797 | W 10,420 | W 35,203 | W 178,255 |

6. Property, plant and equipment

| | Cost | | Accumulated Depreciation | |
|--------------------------|-----------|-----------|--------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Land | W 27,430 | W 21,077 | W - | W - |
| Buildings | 46,510 | 40,954 | (16,599) | (14,909) |
| Structures | 20,973 | 4,731 | (3,424) | (325) |
| Machinery and equipment | 21,257 | 6,014 | (7,383) | (2,798) |
| Vehicles | 4,832 | 4,683 | (2,055) | (1,861) |
| Construction in-progress | 6,000 | 8,979 | - | - |
| Other | 19,458 | 18,207 | (13,357) | (11,337) |
| | W 146,460 | W 104,645 | W (42,818) | W (31,230) |

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6. Property, plant and equipment (cont'd)

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 | Additions | Disposals | Transfers | Depreciation | Others | Dec. 31 | |
| Land | ₩ 21,077 | ₩ - | ₩ - | ₩ (1,845) | ₩ - | ₩ 8,198 | ₩ 27,430 | |
| Buildings | 26,044 | 84 | - | 829 | (1,087) | 4,241 | 29,911 | |
| Structures | 4,406 | 350 | (108) | 2,081 | (56) | 10,876 | 17,549 | |
| Machinery and equipment | 3,217 | 65 | (15) | 8,313 | (1,360) | 3,854 | 13,874 | |
| Vehicles | 2,822 | 226 | (49) | - | (433) | 211 | 2,777 | |
| Other | 8,979 | 9,527 | - | (12,812) | - | 308 | 6,000 | |
| Construction in-progress | 6,870 | 1,088 | (40) | (421) | (2,518) | 1,112 | 6,101 | |
| | ₩ 73,415 | ₩ 11,350 | ₩ (212) | ₩ (4,055) | ₩ (5,454) | ₩ 28,598 | ₩ 103,842 | |

| 2009 | | | | | | | | |
|--------------------------|----------|-----------|-----------|-----------|--------------|----------|----------|--|
| | Jan. 1 | Additions | Disposals | Transfers | Depreciation | Others | Dec. 31 | |
| Land | ₩ 19,280 | ₩ - | ₩ (71) | ₩ (484) | ₩ - | ₩ 2,352 | ₩ 21,077 | |
| Buildings | 27,435 | 171 | - | 1,148 | (3,920) | 1,210 | 26,044 | |
| Structures | 1,059 | 533 | - | 2,849 | (55) | 20 | 4,406 | |
| Machinery and equipment | 1,408 | 1,255 | (508) | 1,685 | (634) | 11 | 3,217 | |
| Vehicles | 2,856 | 345 | (88) | - | (506) | 215 | 2,822 | |
| Other | 4,971 | 1,355 | (307) | - | (2,443) | 3,294 | 8,979 | |
| Construction in-progress | 4,440 | 9,250 | (3,778) | (6,412) | - | 5,479 | 6,870 | |
| | ₩ 61,449 | ₩ 12,909 | ₩ (4,752) | ₩ (1,214) | ₩ (7,558) | ₩ 12,581 | ₩ 73,415 | |

The value of the Company's domestic land, as determined by the Government of the Republic of Korea for tax administration purposes, as of December 31, 2010 and 2009 is as follows (Korean won in millions):

| 2010 | | | | 2009 | | | |
|------------|--------|--------------------------|--------|------------|--------|--------------------------|--------|
| Book value | | Publicly announced value | | Book value | | Publicly announced value | |
| ₩ | 27,430 | ₩ | 37,077 | ₩ | 17,730 | ₩ | 26,500 |

LGI entered into operating leases for its helicopters (included in vehicles) with Shinhan Capital and Lotte Capital. Future rentals payable under such operating leases as of December 31, 2010 are as follows:

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

As of December 31, 2010, inventories, certain property, plant and equipment and accounts receivable are insured against fire and other casualty losses for up to ₩258,781 million and US\$1,412,394,186.

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7. 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 | Additions | Transfer | Amortization | Others | Dec. 31 |
| Goodwill | ₩ 8,311 | ₩ 765 | ₩ - | ₩ (5,351) | ₩ 4,784 | ₩ 8,509 |
| Industrial proprietary rights | 51 | 1 | (12) | (1) | 3 | 42 |
| Others | 38,162 | 5,429 | (15,810) | (525) | 14,909 | 42,165 |
| | ₩ 46,524 | ₩ 6,195 | ₩(15,822) | ₩ (5,877) | ₩ 19,696 | ₩50,716 |

| 2009 | | | | | | |
|-------------------------------|----------|-----------|----------|--------------|---------|---------|
| | Jan. 1 | Additions | Transfer | Amortization | Others | Dec. 31 |
| Goodwill | ₩ 11,395 | ₩ - | ₩ - | ₩ (3,990) | ₩ 906 | ₩ 8,311 |
| Industrial proprietary rights | 13 | - | 44 | (9) | 3 | 51 |
| Others | 31,603 | 5,507 | 687 | (5,132) | 5,497 | 38,162 |
| | ₩ 43,011 | ₩ 5,507 | ₩ 731 | ₩ (9,131) | ₩ 6,406 | ₩46,524 |

8. 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 |
|----------------------------|---|-----------|-----------|
| | | | |
| Short-term operating loans | LIBOR+0.96 ~ 6.49 | ₩ 424,891 | ₩ 272,750 |
| Banker's usance | 0.96 ~ 1.52 | 15,690 | 21,729 |
| | | ₩ 440,581 | ₩ 294,479 |

The Company entered into bank overdraft agreements with Woori Bank and other seven banks as of December 31, 2010. In relation to bank overdraft agreement, long-term financial instruments are provided as collateral.

9. Long-term borrowings

Long-term borrowings 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 |
| Industrial Bank of Korea | 3.96~4.40 | 1,588 | - |
| Korea Development Bank | LIBOR + 0.6 | 17,700 | 17,700 |
| Export-import Bank of Korea | 6M Koribor + 2.6 | 15,000 | 20,000 |
| Forestry Cooperative In Korea | 1.50 | 3,196 | - |
| | | 42,835 | 43,885 |
| Less current portion | | (11,316) | (5,992) |
| | | ₩ 31,619 | ₩ 37,893 |
| Foreign currency: | | | |
| Petroleum Development Fund | (Special energy fund rate - 2.25 ~ 5.00) | ₩ 70,429 | ₩ 71,426 |
| Korea Mining Promotion Corporation | (Special energy fund rate - 2.25 ~ 5.00) | 34,438 | 40,955 |
| Export-import Bank of Korea | 6ML + (0.55 ~ 5.80) | 257,901 | 297,812 |
| Woori Bank | 6ML + 1.50 | 11,449 | - |
| Korea Development Bank | 6ML + 1.09 | 8,376 | 10,293 |
| Calyon Bank | 6ML + 1.20 | 56,390 | 57,811 |
| Industrial Bank of Korea | 2.67 | 1,034 | - |
| GS E&C and Others | LIBOR + (0.50~3.00) | 51,809 | - |
| | | 491,826 | 478,297 |
| Less current portion | | (119,414) | (143,936) |
| | | ₩ 372,412 | ₩ 334,361 |

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

| | Annual interest rate (%) in 2010 | 2010 | 2009 |
|---------------------------|----------------------------------|-----------|-----------|
| Non-guaranteed debentures | 5.18 ~ 8.21 | ₩ 132,000 | ₩ 130,000 |
| Less discount on bonds | | (366) | (368) |
| Less current portion | | - | (40,000) |
| | | ₩ 131,634 | ₩ 89,632 |

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9. Long-term borrowings (cont'd)

The repayment schedules of long-term borrowings and bonds as of December 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 | ₩ | 11,316 | ₩ | 119,414 | ₩ - | ₩ 130,730 |
| 2012 | | 8,876 | | 84,802 | 92,000 | 185,678 |
| 2013 | | 6,259 | | 51,396 | 40,000 | 97,655 |
| 2014 | | 6,259 | | 47,658 | - | 53,917 |
| 2015 | | 6,506 | | 29,946 | - | 36,452 |
| 2016 and thereafter | | 3,719 | | 158,610 | - | 162,329 |
| | ₩ | 42,935 | ₩ | 491,826 | ₩ 132,000 | ₩ 666,761 |

10. 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, | ₩ 24,854 | ₩ 23,208 |
| Provision during the year | 6,427 | 5,888 |
| Payments during the year | (4,672) | (3,712) |
| Transfer in (out) | (4,411) | (606) |
| Others | 363 | 76 |
| | 22,561 | 24,854 |
| Presented net of: | | |
| Insurance deposits | (20,321) | (18,602) |
| Accumulated prepayments to the NPS | (109) | (144) |
| As of December 31, | ₩ 2,131 | ₩ 6,108 |

The Company funded 90.07% and 74.84% of its severance and retirement benefits obligation as of December 31, 2010 and 2009, respectively, with insurance companies and offset the deposits against its liability for severance and retirement benefits.

11. Related party disclosures

Transactions between LGI and subsidiaries and among the consolidated subsidiaries, and outstanding balance related to these transactions which were all eliminated during consolidation are as follows (Korean won in millions):

| Seller | Buyer | Sales | | Purchases | | Receivables | | Payables | |
|--------------|--------------|------------|----------|-----------|----------|-------------|----------|----------|---------|
| | | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| LGI | Subsidiaries | ₩1,482,627 | ₩591,811 | ₩736,646 | ₩588,391 | ₩419,833 | ₩293,307 | ₩113,230 | ₩38,641 |
| Subsidiaries | Subsidiaries | 264,945 | 41,253 | 264,945 | 40,927 | 33,950 | 19,974 | 33,950 | 19,542 |

As of December 31, 2010, LGI is contingently liable in the amount of ₩405,163 million (US\$355,749 thousand) for guarantees issued for the indebtedness of its subsidiaries.

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11. Related party disclosures (cont'd)

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

| | 2010 | | 2009 | |
|---------------------------------|-------------|-------------|-------------|-------------|
| | Sales | Purchases | Sales | Purchases |
| Equity-method investees: | | | | |
| LG International Yakutsk., Ltd. | ₩ 304 | ₩ - | ₩ - | ₩ - |
| Twinwine Co., Ltd. | 216 | - | 204 | - |
| Tianjin LG Dagu Chem Co., Ltd | 11,764 | 1,199 | 19,184 | 2,256 |
| PT. Green global lestari | 1,331 | - | - | - |
| LG BOHAI | 133,274 | - | 101,852 | 5,051 |
| POS-IPC | 37,425 | - | 23,744 | - |
| Oman Polypropylene LLC | 4,863 | 131,011 | 5,694 | 135,933 |
| De Zwarte Ponk B.V, | 767 | - | - | - |
| KERNHEM B.V. | 1,336 | - | - | - |
| FOSCO B.V. | 371 | - | - | - |
| ADA Oil LLP | 132 | 6 | - | - |
| Other equity-method investees | 611 | 57 | 1,018 | 156 |
| Other related parties : | 5,818,580 | 4,388,358 | 4,695,567 | 3,472,216 |
| | ₩ 6,010,974 | ₩ 4,520,631 | ₩ 4,847,263 | ₩ 3,615,612 |

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

| | 2010 | | 2009 | |
|--------------------------------|-------------|-----------|-------------|-----------|
| | Receivables | Payables | Receivables | Payables |
| Equity-method investees: | | | | |
| LG International Yakutsk., Ltd | ₩ 6,760 | ₩ - | ₩ - | ₩ - |
| Twinwine Co., Ltd. | - | - | 17 | - |
| Tianjin LG Dagu Chem Co., Ltd | - | - | - | 137 |
| PT. Green global lestari | 32,880 | - | - | - |
| LG BOHAI | - | - | - | 8 |
| POS-IPC | 278 | - | 47 | - |
| Oman Polypropylene LLC | 4,972 | 6,203 | 40,132 | 16,956 |
| De Zwarte Ponk B.V, | 38,444 | - | 32,272 | - |
| KERNHEM B.V. | 54,763 | - | 46,426 | - |
| FOSCO B.V. | 23,317 | - | 19,020 | - |
| ADA Oil LLP | 39 | 3 | - | - |
| Other equity-method investees | 2,145 | - | 2,294 | 33 |
| Other related parties : | 697,684 | 551,687 | 799,220 | 515,022 |
| | ₩ 861,282 | ₩ 557,893 | ₩ 939,428 | ₩ 532,156 |

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12. Capital stock, capital surplus and capital adjustments

There is no change in capital stock of LGI during the years ended December 31, 2010 and 2009. Details of capital stock of LGI 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

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 |
| Asset revaluation surplus | 39,178 | 39,178 |
| Other capital surplus | 17,732 | 17,732 |
| | ₩ 104,016 | ₩ 104,016 |

In conformity with the Asset Revaluation Law, LGI 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. Capital surplus may not be utilized for cash dividends, but may used to offset a future deficit, if any, or may be transferred to capital stock.

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) |

As of December 31, 2010, LGI holds 100,751 shares of treasury stock amounting to ₩968 million with a par value of ₩504 million. LGI re-acquired its common stock to stabilize its stock price in the market. LGI 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 on the statement of financial position.

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13. Selling and administrative expense

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 | ₩ 77,961 | ₩ 73,893 |
| Provision for severance and retirement benefits | 6,427 | 5,971 |
| Employee benefits | 13,896 | 13,550 |
| Travel expenses | 8,402 | 6,345 |
| Communication expenses | 2,458 | 2,179 |
| Utility expenses | 1,190 | 684 |
| Taxes and dues | 15,539 | 4,365 |
| Rental expenses | 9,912 | 8,935 |
| Depreciation of property, plant and equipment | 5,454 | 7,465 |
| Repairs expenses | 780 | 4,873 |
| Insurance | 6,543 | 4,129 |
| Entertainment expenses | 4,954 | 3,953 |
| Advertising and marketing expenses | 14,056 | 13,950 |
| Custody charges | 5,058 | 3,932 |
| Samples expenses | 225 | 202 |
| Packaging cost | 20 | 6 |
| Transportation expenses | 125,015 | 115,302 |
| Commission | 52,686 | 52,765 |
| Sales commissions | 48,438 | 45,003 |
| Purchases commissions | 1,923 | 1,981 |
| Supplies expenses | 623 | 549 |
| Publication expenses | 363 | 1,213 |
| Vehicles maintenance expenses | 1,239 | 1,167 |
| Loading and unloading expenses | 3,752 | 3,008 |
| Training expenses | 2,630 | 2,114 |
| Conference expenses | 331 | 317 |
| Customs clearance expenses | 579 | 688 |
| Amortization of intangible assets | 5,876 | 9,131 |
| Expenses for overseas branch office | 20,279 | 19,938 |
| Allowance for doubtful accounts | 6,875 | 1,239 |
| | ₩ 443,484 | ₩ 408,847 |

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14. Income taxes

The major components of provision for income taxes for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

| | 2010 | 2009 |
|--|----------|----------|
| Current income taxes | ₩ 53,749 | ₩ 33,121 |
| Deferred income taxes arising from tax effect of temporary differences | 31,673 | (3,321) |
| Deferred income taxes recognized directly to equity | (1,331) | 270 |
| Provision for income taxes | ₩ 84,091 | ₩ 30,070 |

The effective income tax rates for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

| | 2010 | 2009 |
|----------------------------|----------|----------|
| Provision for income taxes | ₩ 84,091 | ₩ 30,070 |
| Income before income taxes | 380,638 | 126,411 |
| Effective income tax rate | 22.09% | 23.78% |

15. Per share amounts

The Company's per share amounts for the years ended December 31, 2010 and 2009 are computed as follows (Korean won):

| | 2010 | 2009 |
|---|-------------------|------------------|
| Net income attributable to common stock | ₩ 285,997,770,225 | ₩ 93,444,572,131 |
| Weighted-average number of shares of common stock outstanding | 38,659,249 | 38,659,249 |
| Basic earnings per share | ₩ 7,398 | ₩ 2,417 |

The Company has no potentially dilutive securities as of December 31, 2010 and 2009.

16. Commitments and contingencies

(a) As of December 31, 2010, LGI is contingently liable for outstanding guarantees issued on behalf of certain foreign affiliated companies amounting to ₩405,163 million (US\$ 355,749 thousand). In addition, outstanding guarantees provided by financial institutions for LGI's obligations as of December 31, 2010 amounted to ₩130,346 million. In connection with opening of import letters of credit, LGI has also been provided with payment guarantees from several financial institutions.

(b) LGI has provided its customers, creditors and guarantors with 7 checks and 45 notes as collaterals for LGI's guarantees and loans as of December 31, 2010.

(c) As of December 31, 2010, LGI is contingently liable for trade accounts receivable sold under factoring arrangements with financial institutions but not yet matured amounting to ₩612,849 million, including letters of credit.

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16. Commitments and contingencies (cont'd)

(d) As of December 31, 2010, LGI has several pending lawsuits with total claims against LGI amounting to approximately ₩110 million. The outcomes of the pending lawsuits cannot presently be determined.

(e) As of December 31, 2010, LGI has a license agreement with LG Corp. for the use of "LG" brand.

(f) LGI and newly incorporated entity, LG Fashion Corporation, are jointly and severally liable for the obligations of LGI existing before the spin-off.

17. Derivative financial instruments

The outstanding balances of unsettled derivative financial instruments of the Company as of December 31, 2010 and 2009 are presented as follows (Korean won in millions):

| | 2010 | | 2009 | |
|----------------------------|-------------------|-------------------|-------------------|-------------------|
| | Gain on valuation | Loss on valuation | Gain on valuation | Loss on valuation |
| Currency forward contracts | ₩ 1,008 | ₩ 1,299 | ₩ 1,132 | ₩ 1,270 |
| Commodity futures | 10,146 | 10,252 | 5,547 | 9,408 |
| | ₩ 11,154 | ₩ 11,551 | ₩ 6,679 | ₩ 10,678 |

The outstanding commodity futures as of December 31, 2010 are as follows:

| | Position | Quantity (ton) | Contract Price | Gain on valuation (*) | Loss on valuation (*) |
|--------------------|----------|----------------|----------------|-----------------------|-----------------------|
| Aluminum futures | Buy | 37,200 | US\$ 86,289 | ₩ 559 | ₩ 5,676 |
| | Sell | 2,950 | 6,987 | - | 232 |
| Cathode futures | Buy | 4,000 | 30,369 | 9,259 | - |
| Cathode futures | Sell | 2,500 | 22,988 | 97 | 1,322 |
| Tin futures | Buy | 190 | 4,955 | 177 | 61 |
| | Sell | 705 | 18,126 | 54 | 965 |
| Copper concentrate | Buy | - | - | - | - |
| | Sell | 2,150 | 18,821 | - | 1,996 |
| | | 49,695 | US\$ 188,535 | ₩ 10,146 | ₩ 10,252 |

The Company's commitments to sell or buy commodities and the related commodity futures are both measured and recorded at fair value in the statement of financial position. The resulting gains and losses were recognized in current operations.

(*) The difference between gain (loss) on valuation and derivative assets (liabilities) recognized in the statement of financial position is attributable to foreign adjustment currency translation.

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17. Derivative financial instruments (cont'd)

As of December 31, 2010, in order to hedge against the risk of fluctuations in foreign exchange rates, the Company has entered into the following currency forward contracts (Korean won in millions and foreign currencies in thousands):

| | Position | Notional amount | | Gain on valuation | | Loss on valuation | |
|------|----------|-----------------|---------|-------------------|-------|-------------------|-------|
| US\$ | Sell | US\$ | 32,527 | ₩ | 786 | ₩ | - |
| US\$ | Buy | US\$ | 217,284 | | 65 | | 913 |
| AUD | Sell | AUD | 24,500 | | 69 | | - |
| EUR | Sell | EUR | 14,971 | | 24 | | 64 |
| EUR | Buy | EUR | 13,148 | | 64 | | 322 |
| | | | | ₩ | 1,008 | ₩ | 1,299 |

18. Monetary assets and liabilities denominated in foreign currencies

Monetary assets and liabilities denominated in foreign currencies of the parent company 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 |
| 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 |
| Short-term investments | US\$ | - | | - | US\$ | 2,000 | | 2,335 |
| 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 | - | - | | 1,016 |
| Long-term loan receivables | US\$ | 243,470 | | 277,288 | US\$ | 185,643 | | 212,639 |
| | Others | - | | 28,752 | Others | - | | 27,175 |
| | | | ₩ | 862,009 | | | ₩ | 716,345 |

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18. Monetary assets and liabilities denominated in foreign currencies (cont'd)

| | 2010 | | 2009 | |
|------------------------|--------------------|-------------------------------------|--------------------|-------------------------------------|
| | Foreign currencies | Korean won equivalent (in millions) | Foreign currencies | Korean won equivalent (in millions) |
| 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> |

19. Comprehensive Income

The details of comprehensive income for the years ended December 31, 2010 and 2009 are as follows (Korean won in millions):

| | 2010 | 2009 |
|---|------------------|-----------------|
| Net income | ₩ 296,488 | ₩ 96,341 |
| Other comprehensive income (loss): | | |
| Gain (loss) on valuation of available-for-sale securities (Tax effect: ₩124 in 2010, ₩(165) in 2009) | 1,344 | 814 |
| Equity adjustments in equity method (Tax effect: ₩168 in 2010, ₩1,677 in 2009) | 13,463 | (729) |
| Foreign currency translation adjustments (Tax effect: ₩(1,781) in 2010, ₩(1,242) in 2009) | (23,920) | (10,339) |
| Asset revaluation surplus (Tax effect: ₩158 in 2010) | (561) | - |
| | <u>(9,674)</u> | <u>(10,253)</u> |
| Comprehensive income | <u>₩ 286,814</u> | <u>₩ 86,087</u> |
| Attribute to : | | |
| Equity holders of the parent | ₩ 282,159 | ₩ 81,753 |
| Minority interests | <u>₩ 4,655</u> | <u>₩ 4,334</u> |

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20. Segment Information

The Company has three reportable business segments - resources/material, industrial goods, distribution - with each segment representing a strategic business unit that offers different products and serves different markets.

The following table presents the financial information of the Company by business segments for the years ended December 31, 2010 and 2009 (Korean won in millions):

| | 2010 | | | | |
|---|------------------------|---------------------|--------------|------------------------------|--------------|
| | Resources/ Material | Industrial goods | Distribution | Consolidation elimination | Total |
| Sales | ₩ 2,949,927 | ₩ 13,181,160 | ₩ 173,806 | ₩ (2,803,809) | ₩ 13,501,084 |
| Cost of sales | 2,673,296 | 12,781,011 | 151,357 | (2,741,519) | 12,864,145 |
| Selling and administrative expenses | 147,140 | 325,482 | 34,766 | (63,904) | 443,484 |
| Operating income (loss) | ₩ 129,491 | ₩ 74,667 | ₩ (12,317) | ₩ 1,614 | ₩ 193,455 |

| | 2009 | | | | |
|---|------------------------|---------------------|--------------|------------------------------|--------------|
| | Resources/ Material | Industrial goods | Distribution | Consolidation elimination | Total |
| Sales | ₩ 2,293,883 | ₩ 9,075,953 | ₩ 158,373 | ₩ (1,202,628) | ₩ 10,325,581 |
| Cost of sales | 2,077,187 | 8,660,319 | 135,050 | (1,141,719) | 9,730,837 |
| Selling and administrative expenses | 101,959 | 337,492 | 31,054 | (61,658) | 408,847 |
| Operating income (loss) | ₩ 114,737 | ₩ 78,142 | ₩ (7,731) | ₩ 751 | ₩ 185,897 |

The following table presents the sales of the Company by geographical segments for the years ended December 31, 2010 and 2009 (Korean won in millions):

| Fiscal year | Korea | America | Europe | Asia | Others | Consolidation elimination | Total |
|----------------|------------|------------|------------|------------|----------|------------------------------|-------------|
| 2010 | ₩3,909,229 | ₩1,218,517 | ₩1,497,683 | ₩8,904,444 | ₩775,019 | ₩(2,803,808) | ₩13,501,084 |
| 2009 | ₩3,616,288 | ₩ 404,525 | ₩ 949,358 | ₩5,926,744 | ₩631,614 | ₩(1,202,628) | ₩10,325,581 |

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21. Adoption of K-IFRS

As all listed companies are required to adopt Korea International Financial Reporting Standards ("K-IFRS") from the fiscal year 2011, the Company is in the process of preparation for the implementation of K-IFRS as of the reporting date.

The Company operates a separate team for the purpose of preparation of K-IFRS adoption. The team periodically reports its result of progress to the management. The team has completed the analysis of the differences between K-IFRS and K-GAAP and prepared its plan for solution development and implementation. Based on the results of analysis of accounting differences and elective accounting treatments identified, the Company is currently preparing its monthly financial statements in accordance with K-IFRS to analyze the impact of such elective accounting treatments and to determine its choice of K-IFRS accounting policies to be finally adopted.