

**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**

**Contents**

	<b>Page</b>
Independent auditors' report	1
Consolidated statements of financial position	2-3
Consolidated statements of income	4
Consolidated statements of changes in stockholders' equity	5
Consolidated statements of cash flows	6-7
Notes to consolidated financial statements	8-36

**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>
<b>Assets</b>		
<b>Current assets:</b>		
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	<u>23,653</u>	<u>4,918</u>
<b>Total current assets</b>	<b>2,373,880</b>	<b>2,053,278</b>
<b>Non-current assets:</b>		
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	<u>7,140</u>	<u>7,826</u>
<b>Total non-current assets</b>	<b>1,366,540</b>	<b>1,099,769</b>
<b>Total assets</b>	<b>₩ 3,740,420</b>	<b>₩ 3,153,047</b>

(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
<b>Liabilities and equity</b>		
<b>Current liabilities:</b>		
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
<b>Total current liabilities</b>	<b>2,200,822</b>	<b>2,011,920</b>
<b>Non-current liabilities:</b>		
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
<b>Total non-current liabilities</b>	<b>604,734</b>	<b>486,681</b>
<b>Total liabilities</b>	<b>2,805,556</b>	<b>2,498,601</b>
<b>Equity:</b>		
<b>Equity attributable to equity holders of the parent:</b>		
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)
<b>Total equity</b>	<b>934,864</b>	<b>654,446</b>
<b>Total liabilities and equity</b>	<b>₩ 3,740,420</b>	<b>₩ 3,153,047</b>

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)

	<b>2010</b>	<b>2009</b>
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	<u>636,939</u>	<u>594,744</u>
Selling and administrative expenses (Notes 11, 13 and 20)	<u>443,484</u>	<u>408,847</u>
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)
	<u>187,183</u>	<u>(59,486)</u>
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	<u>59</u>	<u>-</u>
Net income	<u>₩ 296,488</u>	<u>₩ 96,341</u>
Attributable to:		
Equity holders of the parent	<u>₩ 285,998</u>	<u>₩ 93,445</u>
Minority interests	<u>₩ 10,490</u>	<u>₩ 2,896</u>
Basic earnings per share (korean won, Note 15)	<u>₩ 7,398</u>	<u>₩ 2,417</u>

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)	-	(2,802)
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
<b>Cash flows from operating activities:</b>		
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	(4,159)
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
<b>Cash flows from investing activities:</b>		
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	<u>(53,277)</u>	<u>(82,809)</u>
<b>Cash flows from financing activities:</b>		
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	<u>69,431</u>	<u>(446,845)</u>
<b>Net increase in cash and cash equivalents from change in consolidation scope</b>	<u>3,510</u>	<u>863</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	10,287	(36,394)
<b>Net foreign exchange differences</b>	9,196	(49,688)
<b>Cash and cash equivalents at the beginning of the year</b>	<u>173,582</u>	<u>259,664</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>₩ 193,065</u>	<u>₩ 173,582</u>

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		46,780		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  
Notes to consolidated financial statements  
Years ended December 31, 2010 and 2009

---

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:

	<u>Years</u>
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**  
**Years ended December 31, 2010 and 2009**

**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**  
**Years ended December 31, 2010 and 2009**

**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 <sup>(1)</sup>	Book value
<b>Marketable securities:</b>					
LG Uplus Corp. (Formerly, LG Dacom)	198,366	0.04	₩ 8,681	₩ 1,422	₩ 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
<b>Non-marketable securities:</b>					
Korea RAS Laffan LNG <sup>(2)</sup>	1,558,666	5.60	2,410	1,841	2,410
LG International Investments (Canada) Ltd. <sup>(2 and 3)</sup>	5,731,968	100.00	5,891	5,991	5,891
Mongolia Resources Investment Limited (Adamas) <sup>(2 and 3)</sup>	1,141,112	100.00	1,295	1,345	1,295
Hyundai Hysco <sup>(2)</sup>	-	10.00	946	1,797	946
Aromatics Oman LLC <sup>(2 and 4)</sup>	-	1.00	4,779	4,973	4,779
Hebei International Trade Co., Ltd. <sup>(2 and 3)</sup>	-	100.00	3,346	3,346	3,346
Others	-	-	17,099	6,754	4,812
			35,766	26,047	23,479
			₩ 47,223	₩ 33,789	₩ 31,221
<b>2009</b>					
	Number of shares	Ownership (%)	Acquisition Cost	Fair value/Net asset value <sup>(1)</sup>	Book value
<b>Marketable securities:</b>					
LG Uplus Corp. (Formerly, LG Dacom)	92,312	0.11	₩ 8,681	₩ 1,643	₩ 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
<b>Non-marketable securities:</b>					
Korea RAS Laffan LNG <sup>(2)</sup>	1,558,666	5.60	2,410	1,823	2,410
LG International Investments (Canada) Ltd. <sup>(2 and 3)</sup>	5,476,003	100.00	5,605	5,856	5,605
SK Eurochem Sp. z o.o. <sup>(2)</sup>	-	10.00	4,348	6,617	4,348
LG International Yakutsk <sup>(2 and 3)</sup>	-	100.00	5,325	4,730	5,325
Mongolia Resources Investment Limited (Adamas) <sup>(2 and 3)</sup>	2,000,000	100.00	1,262	1,262	1,262
Hyundai Hysco <sup>(2)</sup>	-	10.00	946	1,797	946

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

PUBLIC  
268 FILE

	2009				
	Number of shares	Ownership (%)	Acquisition Cost	Fair value/Net asset value <sup>(*)</sup>	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

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

**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 <sup>(*)</sup>	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
			<u>₩ 614,084</u>	<u>₩ 704,722</u>	<u>₩ 766,776</u>
	2009				
	Number of shares	Ownership (%)	Acquisition Cost	Proportionate net asset value <sup>(*)</sup>	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 <sup>(*)</sup>	-	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
			<u>₩ 421,163</u>	<u>₩ 528,325</u>	<u>₩ 531,811</u>

(\*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
	<u>₩ 12,344,479</u>	<u>₩ 7,530,209</u>	<u>₩ 12,498,622</u>	<u>₩ 993,240</u>

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 <sup>(*)</sup>	271,893	61,013	12,485	5,587	(1,739)	(28,129)	321,110
	<u>₩ 531,811</u>	<u>₩ 61,013</u>	<u>₩ 205,748</u>	<u>₩ 5,950</u>	<u>₩ (9,617)</u>	<u>₩ (28,129)</u>	<u>₩ 766,776</u>

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

(\*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	₩ (2,461)	₩ -	₩ 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 <sup>(*)</sup>	176,809	116,565	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

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

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) <sup>(*)</sup>	32,920	-	-	-
Fosco (Egizkara) <sup>(*)</sup>	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	-	-
	<b>W 203,071</b>	<b>W 15,604</b>	<b>W 229,003</b>	<b>W 175,457</b>

(\*1) 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) <sup>(1)</sup>	31,341	-	-	-
Fosco (Egizkara) <sup>(1)</sup>	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	-
	<b>W 163,797</b>	<b>W 10,420</b>	<b>W 35,203</b>	<b>W 178,255</b>

**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)
	<b>W 146,460</b>	<b>W 104,645</b>	<b>W (42,818)</b>	<b>W (31,230)</b>

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

**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
	<u>₩ 73,416</u>	<u>₩ 11,360</u>	<u>₩ (212)</u>	<u>₩ (4,055)</u>	<u>₩ (5,454)</u>	<u>₩ 28,598</u>	<u>₩ 103,842</u>

  

	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	9,260	(3,778)	(6,412)	-	5,479	6,870
	<u>₩ 61,449</u>	<u>₩ 12,909</u>	<u>₩ (4,752)</u>	<u>₩ (1,214)</u>	<u>₩ (7,558)</u>	<u>₩ 12,581</u>	<u>₩ 73,415</u>

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	-
	<u>₩ 5,996</u>

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.

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

**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
	<u>₩ 46,524</u>	<u>₩ 6,195</u>	<u>₩(15,822)</u>	<u>₩ (5,877)</u>	<u>₩ 19,696</u>	<u>₩50,716</u>
	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
	<u>₩ 43,011</u>	<u>₩ 5,507</u>	<u>₩ 731</u>	<u>₩ (9,131)</u>	<u>₩ 6,406</u>	<u>₩46,524</u>

**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
Banker's usance	0.96 ~ 1.52	15,690	21,729
		<u>₩ 440,581</u>	<u>₩ 294,479</u>

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.

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

**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

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

**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		Long-term loans		Bonds	Total
	(in local currency)		(in foreign currency)			
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.

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

**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
<b>Equity-method investees:</b>				
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
<b>Other related parties :</b>	<b>5,818,580</b>	<b>4,388,358</b>	<b>4,695,567</b>	<b>3,472,216</b>
	<b>₩ 6,010,974</b>	<b>₩ 4,520,631</b>	<b>₩ 4,847,263</b>	<b>₩ 3,615,612</b>

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
<b>Equity-method investees:</b>				
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
<b>Other related parties :</b>	<b>697,684</b>	<b>551,687</b>	<b>799,220</b>	<b>515,022</b>
	<b>₩ 861,282</b>	<b>₩ 557,893</b>	<b>₩ 939,428</b>	<b>₩ 532,156</b>

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

**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.

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

**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	52,666	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
	<u>₩ 443,484</u>	<u>₩ 408,847</u>



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

**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	<u>₩ 84,091</u>	<u>₩ 30,070</u>

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	<u>380,638</u>	<u>126,411</u>
Effective income tax rate	<u>22.09%</u>	<u>23.78%</u>

**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	<u>₩ 7,398</u>	<u>₩ 2,417</u>

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.