

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007



To the Shareholders and Board of Directors of LG Corp.:

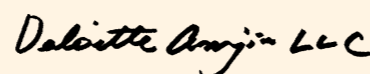
We have audited the accompanying consolidated balance sheets of LG Corp. (the "Company") and its subsidiaries (collectively 'the Group') as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in its shareholders' equity and its cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries, including LG Electronics Inc. whose statements reflect 85.1% and 84.9% (before elimination of intercompany transactions) of the consolidated total assets as of December 31, 2008 and 2007, and 94.1% and 93.2% (before elimination of intercompany transactions) of the consolidated total sales for the years ended December 31, 2008 and 2007. Those financial statements were audited by other auditors whose reports have been furnished us, and our opinion, insofar as it relates to the amounts included for these subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audits 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 other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of their operations, changes in their shareholders' equity 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 operations, changes in shareholders' equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

March 27, 2009



Notice to Readers

This report is effective as of March 27, 2009, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

LG CORP. AS OF DECEMBER 31, 2008 AND 2007

(Unit : KRW one million)

	2008	2007
ASSETS		
CURRENT ASSETS :		
Cash and cash equivalents (Note 24)	₩5,422,394	₩3,679,568
Short-term financial instruments (Note 3)	2,597,206	1,140,353
Short-term investment securities (Note 6)	2,444	5,926
Trade accounts and notes receivable, net (Notes 4 and 24)	9,086,857	8,251,800
Inventories, net (Note 5)	8,866,196	7,586,044
Short-term loans, net (Note 4)	102,884	38,343
Other accounts receivable, net (Notes 4 and 24)	1,312,558	1,287,644
Accrued income, net (Note 4)	350,187	96,247
Advanced payments, net (Note 4)	282,801	239,495
Prepaid expenses	476,820	345,609
Derivative transaction debit (Note 16)	51,331	10,885
Current deferred income tax assets (Note 19)	909,396	923,830
Others	1,056,154	690,862
Total current assets	30,517,228	24,296,606
NON-CURRENT ASSETS :		
Property, plant and equipment, net (Notes 9, 11, 12 and 13)	28,823,367	25,498,089
Long-term financial instruments (Note 3)	191,812	87,449
Long-term investment securities (Note 7)	340,556	229,688
Equity-method investments (Note 8)	620,430	578,347
Long-term trade accounts and notes receivable, net (Note 4)	144,002	113,269
Guarantee deposits	785,141	718,083
Long-term loans, net (Note 4)	86,868	113,656
Long-term prepaid expenses	488,968	395,477
Deferred income tax assets (Note 19)	1,178,654	916,615
Long-term derivative transactions debit (Note 16)	139,325	7,715
Intangible assets, net (Notes 2 and 10)	1,130,798	833,708
Other investments	334,949	291,522
	34,264,870	29,783,618
Total assets	₩ 64,782,098	₩ 54,080,224

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CONSOLIDATED BALANCE SHEETS (CONTINUED)

LG CORP.		AS OF DECEMBER 31, 2008 AND 2007	
(Unit : KRW one million)			
	2008	2007	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES :			
Short-term borrowings (Note 11)	₩7,956,286	₩5,501,320	
Current maturities of long-term debts (Note 11)	3,032,003	2,034,683	
Trade accounts and notes payable (Note 24)	6,144,919	6,290,779	
Other accounts payable (Note 24)	4,550,661	3,134,988	
Advances from customers	419,383	464,601	
Withholdings	643,886	468,074	
Accrued expenses	3,164,800	2,195,930	
Income tax payable (Note 19)	1,175,773	783,982	
Unearned income	88,710	79,865	
Derivative transaction credit (Note 16)	85,126	68,550	
Current deferred income tax liabilities (Note 19)	3,072	981	
Other current liabilities	845,395	111,911	
Total current liabilities	28,110,014	21,135,664	
LONG-TERM LIABILITIES :			
Debentures, net (Note 12)	4,615,991	5,550,001	
Long-term debts, net of current portion (Note 12)	3,791,037	3,018,513	
Long-term other accounts payable (Note 13)	561,971	120,648	
Accrued severance benefits, net (Notes 2 and 14)	588,906	588,272	
Guarantee deposits received	275,499	263,839	
Deferred income tax liabilities (Note 19)	830,008	771,084	
Long-term derivative transaction credit (Note 16)	174,925	130,375	
Other long-term liabilities	99,273	573,219	
	10,937,610	11,015,951	
Total liabilities	39,047,624	32,151,615	
COMMITMENTS AND CONTINGENCIES (Note 15)			
SHAREHOLDERS' EQUITY (Note 17) :			
Capital stock :			
Common stock	862,786	862,786	
Preferred stock	16,573	16,573	
Capital surplus	2,213,553	2,189,063	
Capital adjustments	(57,015)	(60,155)	
Accumulated other comprehensive income (loss)	150,762	(131,985)	
Retained earnings	3,045,008	2,244,831	
Minority interests	19,502,807	16,807,496	
Total shareholders' equity	25,734,474	21,928,609	
Total liabilities and shareholders' equity	₩64,782,098	₩54,080,224	

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

LG CORP.		FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007	
(Unit : KRW one million, except per share amounts)			
	2008	2007	
SALES (Notes 22 and 27)	₩90,222,484	₩76,288,334	
COST OF SALES	67,835,678	58,247,909	
GROSS PROFIT	22,386,806	18,040,425	
SELLING AND ADMINISTRATIVE EXPENSES (Note 26)	15,465,375	12,969,656	
OPERATING INCOME	6,921,431	5,070,769	
NON-OPERATING INCOME :			
Interest income	417,949	271,910	
Dividends income	1,444	2,705	
Rental income	38,391	35,528	
Foreign exchange gains	5,629,362	1,005,658	
Gain on foreign currency translation	658,008	283,337	
Gain on disposal of short-term investment securities	-	6,929	
Gain on disposal of investment securities	62,900	49,094	
Gain on valuation of equity-method investments (Note 8)	93,045	65,793	
Gain on disposal of equity-method investments	125	825	
Gain on disposal of property, plant and equipment	36,054	56,861	
Gain on derivative transactions (Note 16)	253,494	67,972	
Gain on valuation of derivative instruments (Note 16)	293,476	15,361	
Amortization of negative goodwill (Note 10)	112,143	112,164	
Others	289,363	370,598	
	7,885,754	2,344,735	

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CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)

LG CORP.		FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007	
(Unit : KRW one million, except per share amounts)			
	2008	2007	
NON-OPERATINGEXPENSES:			
Interest expense	₩777,936	₩869,956	
Foreign exchange losses	5,886,901	761,963	
Loss on foreign currency translation	2,030,708	218,915	
Donations	45,059	44,325	
Loss on valuation of equity-method investments (Note 8)	78,872	37,641	
Loss on disposal of short-term investment securities	11	1,306	
Loss on valuation of short-term investment securities	60	676	
Loss on disposal of investment securities	8,440	2,726	
Impairment loss on investment securities	2,180	21,923	
Loss on disposal of property, plant and equipment	93,278	124,572	
Impairment loss on property, plant and equipment	125,544	97,595	
Loss on redemption of debentures	13	19,500	
Other bad debt expense	12,396	10,563	
Loss on derivative transactions (Note 16)	520,471	90,996	
Loss on valuation of derivative instruments (Note 16)	170,146	94,136	
Loss on disposal of trade accounts receivable	299,838	351,100	
Others	697,014	234,478	
	10,748,867	2,982,371	
INCOME BEFORE INCOME TAX - CONTINUING OPERATIONS	4,058,318	4,433,133	
INCOME TAX EXPENSE FOR CONTINUING OPERATIONS (Note 19)	1,092,157	792,544	
SUBSIDIARIES' NET LOSS BEFORE ACQUISITION	(634)	(6,538)	
INCOME AFTER INCOME TAX - CONTINUING OPERATIONS	2,966,795	3,647,127	
LOSS FOR DISCONTINUED OPERATIONS (Note 28)			
(Income tax effect: 2007 - ₩5,687 million)	-	14,992	
NET INCOME	₩2,966,795	₩3,632,135	
Parent interests' share in income	₩912,115	₩922,356	
Minority interests' share in income	₩2,054,680	₩2,709,779	
PER SHARE DATA (Note 20):			
Parent interests' share in income per common share - continuing operations	₩5,208	₩5,289	
Minority interests' share in income per common share	₩5,208	₩5,267	

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

LG CORP.		FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007					
(Unit : KRW one million)							
	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Minority interests	Total
Balance at January 1, 2007	₩879,359	₩2,227,584	₩(65,842)	₩(201,610)	₩1,385,954	₩14,169,085	₩18,394,530
Dividends to shareholders	-	-	-	-	(87,702)	(201,417)	(289,119)
Balance after appropriations	879,359	2,227,584	(65,842)	(201,610)	1,298,252	13,967,668	18,105,411
Net income	-	-	-	-	922,356	2,709,779	3,632,135
Changes in the scope of consolidation	-	(33,916)	6,619	-	1,739	345,954	320,396
Change in valuation of available-for-sale securities, net	-	-	-	(9,894)	-	8,196	(1,698)
Loss on valuation of investment securities, net	-	-	-	42,778	-	(33,721)	9,057
Loss on valuation of derivatives instruments for cash flow hedge	-	-	-	(3,344)	-	(7,033)	(10,377)
Overseas operations translation adjustments	-	-	-	40,085	19,730	(157,302)	(97,487)
Others	-	(4,605)	(932)	-	2,754	(26,045)	(28,828)
Balance as of December 31, 2007	₩879,359	₩2,189,063	₩(60,155)	₩(131,985)	₩2,244,831	₩16,807,496	₩21,928,609
	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Minority interests	Total
Balance at January 1, 2008	₩879,359	₩2,189,063	₩(60,155)	₩(131,985)	₩2,244,831	₩16,807,496	₩21,928,609
Dividends to shareholders	-	-	-	-	(131,470)	(527,587)	(659,057)
Balance after appropriations	879,359		(60,155)	(131,985)	2,113,361	16,279,909	21,269,552
Net income	-	-	-	-	912,115	2,054,680	2,966,795
Disposal of treasury stocks	-	4,548	4,505	-	-	-	9,053
Changes in the scope of consolidation	-	29,638	-	-	-	249,719	279,357
Change in valuation of available-for-sale securities, net	-	-	-	(5,923)	-	(11,877)	(17,800)
Loss on valuation of investment securities, net	-	-	-	11,549	-	59,597	71,146
Loss on valuation of derivatives instruments for cash flow hedge	-	-	-	(13,565)	-	26,946	13,381
Overseas operations translation adjustments	-	-	-	263,358	-	839,274	1,102,632
Others	-	(9,696)	(1,365)	27,328	19,532	4,559	40,358
Balance as of December 31, 2008	₩879,359	₩2,213,553	₩(57,015)	₩150,762	₩3,045,008	₩19,502,807	₩25,734,474

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

LG CORP.		FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007	
(Unit : KRW one million)			
	2008	2007	
CASH FLOWS FROM OPERATING ACTIVITIES :			
Net income	₩2,966,795	₩3,632,135	
Adjustments to reconcile net income to net cash provided by operating activities :			
Provision for severance benefits	452,326	509,055	
Depreciation and amortization	5,477,166	5,898,395	
Bad debt expense	94,938	112,438	
Other bad debt expense	12,396	9,922	
Loss on foreign currency translation, net	1,350,607	3,792	
Loss on disposal of trade accounts receivable	299,838	350,004	
Loss (gain) on disposal of short-term investment securities, net	11	(5,623)	
Loss on valuation of short-term investment securities, net	60	676	
Gain on disposal of investment securities, net	(54,460)	(46,368)	
Gain on disposal of equity-method investments	(125)	(825)	
Impairment loss on investment securities, net	741	21,923	
Gain on valuation of equity-method investments, net	(14,173)	(28,152)	
Loss on disposal of property, plant and equipment, net	55,874	77,127	
Impairment loss on property, plant and equipment	126,271	98,469	
Amortization of discounts on debentures	37,652	57,856	
Loss on redemption of debentures	13	19,500	
Amortization of negative goodwill	(112,143)	(112,164)	
Loss on derivative transactions, net	282,809	21,918	
Loss (gain) on valuation of derivative instruments, net	(123,330)	78,775	
Others, net	1,449,675	1,161,379	
	9,336,146	8,228,097	

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CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

LG CORP.		FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007	
(Unit : KRW one million)			
	2008	2007	
CHANGES IN OPERATING ASSETS AND LIABILITIES :			
Increase in trade accounts and notes receivable	₩(681,565)	₩(427,531)	
Increase in other accounts receivable	(13,111)	(394,186)	
Increase in inventories	(1,176,652)	(231,004)	
Increase in accrued income	(275,201)	(38,565)	
Increase in advanced payments	(28,188)	(63,232)	
Increase in prepaid expenses	(77,545)	(49,160)	
Increase in other current assets	(437,000)	(144,286)	
Increase in long-term prepaid expenses	(162,825)	(116,378)	
Increase in long-term trade accounts and notes receivable	(211,054)	(161,320)	
Change in deferred income tax, net	(184,069)	(421,890)	
Decrease in trade accounts and notes payable	(535,356)	(87,166)	
Increase (decrease) in other accounts payable	1,417,484	(890,293)	
Decrease in advances from customers	(63,736)	(40,654)	
Increase (decrease) in withholdings	151,709	(45,193)	
Increase in accrued expenses	933,657	313,644	
Increase in income tax payable	388,185	367,539	
Increase in unearned income	5,270	15,000	
Decrease in other current liabilities	(1,200,708)	(543,306)	
Accrued severance benefits transferred from affiliated company	2,214	2,691	
Increase in severance insurance deposits	(73,601)	(187,595)	
Decrease in contributions to the National Pension Fund	2,211	3,295	
Payment of severance benefits	(366,689)	(351,344)	
Others	500,187	437,597	
	(2,086,383)	(3,053,337)	
Net cash provided by operating activities	10,216,558	8,806,895	
CASH FLOWS FROM INVESTING ACTIVITIES :			
Acquisition of short-term financial instruments, net	(1,731,426)	(894,684)	
Disposal (acquisition) of short-term investment securities, net	5,305	(1,904)	
Collection (extension) of short-term and long-term loans, net	(37,539)	17,037	
Disposal of long-term financial instruments, net	233,649	37,512	
Disposal of investment securities	89,724	393,926	
Acquisition of investment securities	(231,989)	(287,801)	
Acquisition of equity-method investments, net	(50,248)	(377,941)	
Decrease (increase) in guarantee deposits, net	(29,504)	236,528	
Decrease (increase) in other investments, net	(3,240)	16,576	
Disposal of property, plant and equipment	649,102	277,157	
Acquisition of property, plant and equipment	(8,189,791)	(5,071,208)	
Acquisition of intangible assets, net	(307,779)	(189,469)	

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CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

LG CORP.		FOR YEARS ENDED DECEMBER 31, 2008 AND 2007	
(Unit : KRW one million)			
	2008	2007	
Disposal (acquisition) of derivatives, net	(254,731)	9,439	
Net cash used in investing activities	(9,858,467)	(5,834,832)	
CASH FLOWS FROM FINANCING ACTIVITIES :			
Payment of short-term borrowings, net	₩ 2,304,544	₩ 269,356	
Payment of dividends	(659,057)	(422,894)	
Repayment of current maturities of long-term debts	(2,209,795)	(2,855,292)	
Proceeds from debentures	582,833	1,904,597	
Repayment of debentures	(88,308)	(758,053)	
Proceeds from long-term debts	1,07,477	1,318,604	
Repayment of long-term debts	(140,754)	(856,555)	
Increase (decrease) in other long-term liabilities, net	222,684	(395,211)	
Change in overseas operations translation adjustments	189,745	8,732	
Increase (decrease) in cash from consolidated capital transaction	(10)	199,341	
Others	74,741	(20,736)	
Net cash used in financing activities	(1,334,100)	(2,146,823)	
CASH FLOWS FROM CHANGES IN THE SCOPE OF CONSOLIDATION	50,635	62,283	
CASH FLOWS FROM CHANGES IN THE RESTATEMENT OF SUBSIDIARIES	-	21,100	
NET INCREASE IN CASH AND CASHEQUIVALENTS	1,742,826	908,623	
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	3,679,568	2,770,945	
CASH AND CASH EQUIVALENTS, AT END OF YEAR	₩ 5,422,394	₩ 3,679,568	

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LG CORP.		FOR YEARS ENDED DECEMBER 31, 2008 AND 2007	
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1. THE CONSOLIDATED COMPANIES AND EQUITY METHOD INVESTEEES

The accompanying consolidated financial statements include the accounts of LG Corp. and its 160 and 149 subsidiaries in 2008 and 2007, respectively (collectively 'the Group').

The Holding Company

As a holding company, LG Corp. ('the Company'), formerly known as LG Chem Investment Ltd. (LGCI), merged with LG Electronics Investment Ltd. (LGEI) and the real estate and investment division of LG MRO and changed its name from LG Chem Investment Ltd. to LG Corp. in March 2003. On July 1, 2004, the Company spun-off and incorporated GS Corp. (formerly GS Holdings Corp.) as a holding company. Accordingly, investments in GS Home Shopping Inc., GS-Caltex Oil Corp. and GS Mart Co., Ltd. and certain buildings were transferred to GS Corp. (formerly GS Holdings Corp.). Thereafter, GS Corp. (formerly GS Holdings Corp.) and its subsidiaries received an approval from the Fair Trade Commission on their breakaway from the LG Group on January 27, 2005.

In February 1970, the Company's shares were listed on the Korea Exchange.

As of December 31, 2008, the Company has an outstanding capital stock of ₩ 879,359 million, including preferred stock of ₩ 16,573 million, as a result of the several issuances of new shares of stock, mergers and spin-off transactions.

Consolidated Companies

Consolidated subsidiaries as of December 31, 2008 and 2007 are as follows :

	Percentage of ownership (%)		Number of shares owned	
	2008	2007	2008	2007
CONSOLIDATED SUBSIDIARIES :				
DOMESTIC SUBSIDIARIES :				
LG Electronics Inc.	34.80	34.80	50,341,430	50,341,430
LG Chem Ltd.	33.53	33.53	25,226,000	25,226,000
LG Telecom Ltd.	37.37	37.37	103,614,396	103,614,396
LG Dacom Corporation	30.04	30.04	25,018,906	25,018,906
LG Household & Health Care Ltd.	34.03	34.03	5,315,500	5,315,500
LG Life Science Co., Ltd.	30.43	30.43	5,044,114	5,044,114
Siltron Inc.	51.00	51.00	3,418,141	3,418,141
LG CNS Co., Ltd.	82.67	82.67	72,072,492	72,072,492
Serveone Co., Ltd.	100.00	100.00	5,000,000	5,000,000
LG MMA Corp.	50.00	50.00	1,200,000	1,200,000
LG N Sys Co., Ltd.	100.00	100.00	2,000,000	2,000,000
Lusem Co., Ltd.	64.81	64.81	1,400,000	1,400,000
LG Management Development Institute	100.00	100.00	1,200,000	1,200,000
LG Sports Ltd.	100.00	100.00	600,000	600,000
LG Display Co., Ltd. (formerly LG Philips LCD Co., Ltd.)	37.90	37.90	135,625,000	135,625,000
LG Innotek Co., Ltd.	69.80	69.80	6,017,400	6,017,400
Hi Plaza Inc.	100.00	100.00	7,440,000	7,440,000
LG Micron Ltd.	36.00	36.00	2,699,702	2,699,702
Hi Business Logistics	100.00	100.00	720,000	720,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Percentage of ownership (%)		Number of shares owned	
	2008	2007	2008	2007
LG SMBA Alliance Fund	50.00	50.00	(*1)	(*1)
Innovation Investment	83.33	83.33	(*1)	(*1)
LG Dow Polycarbonate Ltd.	50.00	50.00	7,025,785	7,025,785
Dacom Multimedia Internet, Inc.	88.06	88.06	8,351,406	8,351,406
DACOM Crossing Co., Ltd.	51.00	51.00	3,390,582	3,390,582
LG Powercom	40.87	45.43	54,516,667	54,516,667
V-ENS Co., Ltd.	100.00	100.00	360,000	360,000
Coca-Cola Beverage Co.	90.00	100.00	176,562,200	176,562,200
Biztech & Ektimo, Inc. (*2)	61.00	-	1,016,416	-
LG Solar Energy Inc. (*2)	100.00	-	928,000	-
GIIR Corporation (*3)	35.00	-	5,798,593	-
HS Ad Co., Ltd. (*3)	100.00	-	5,000,000	-
M.Hub Inc. (*3)	50.62	-	203,000	-
Alchemedia Co., Ltd. (*3)	51.00	-	102,000	-
Bugs Com Ad Co., Ltd. (*3)	70.00	-	140,000	-
OVERSEAS SUBSIDIARIES :				
LG Electronics Austria GmbH (LGEAG)	100.00	100.00	(*1)	(*1)
LG Electronics Alamaba, Inc. (LGEAI)	100.00	100.00	266	266
LG Electronics Almaty Kazak Co., Ltd.(LGEAK)	100.00	100.00	(*1)	(*1)
LG Electronics Australia Pty., Ltd. (LGEAP)	100.00	100.00	2,685,000	2,685,000
Arcelic-LG Klima Sanayi Ve Ticarte A.S. (LGEAT)	50.00	50.00	144,000	144,000
LG Electronics Da Amazonia Ltda. (LGEAZ)	100.00	100.00	(*1)	(*1)
LG Electronics Colombia, Ltda. (LGECEB)	100.00	100.00	(*1)	(*1)
LG Electronics (China) Co., Ltd. (LGECH)	100.00	100.00	(*1)	(*1)
LG Electronics Canada, Inc. (LGECL)	100.00	100.00	42,900	42,900
LG Electronics Inc. Chile Limitada (LGECL)	100.00	100.00	(*1)	(*1)
LG Electronics Czech S.R.O. (LGECEZ)	100.00	100.00	(*1)	(*1)
LG Electronics Deutschland GmbH. (LGEDG)	100.00	100.00	(*1)	(*1)
LG Electronics Egypt S.A.E. (LGEEG)	95.00	95.00	136,800	136,800
Eic Properties Pte. Ltd.	38.20	38.20	13,052,940	13,052,940
LG Electronics Espana S.A. (LGEES)	100.00	100.00	472,967	472,967
LG Goldstar France S.A.R.L. (LGEFS)	100.00	100.00	69,848	69,848
LG Electronics Gulf FZE (LGEGF)	100.00	100.00	40	40
LG Electronics HK Ltd. (LGEHK)	100.00	100.00	6,752,817	6,752,817
LG Electronics Nature (Hangzhou) Recording Media Co., Ltd. (LGEHN)	70.00	70.00	(*1)	(*1)
LG Electronics Hellas S.A. (LGEHS)	100.00	100.00	1,600,000	1,600,000
Huizhou LG Electronics Inc. (LGEHZ)	80.00	80.00	-	-
LG Electronics India (PVT.) Ltd. (LGEIL)	100.00	100.00	113,128,726	113,128,726
PT LG Electronics Indonesia (LGEIN)	100.00	100.00	51,920	51,920
LG Electronics Italy S.P.A. (LGEIS)	100.00	100.00	18,785,000	18,785,000
LG Electronics JIT Europe B.V (LGEJE)	100.00	100.00	180	180

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Percentage of ownership (%)		Number of shares owned	
	2008	2007	2008	2007
LG Electronics Japan Inc. (LGEJP)	100.00	100.00	1,380,000	1,380,000
LG Electronics Latvia, LLC (LGELV)	100.00	100.00	(*1)	(*1)
LG Electronics (Kunshan) Computer Co.,Ltd. (LGEKS)	100.00	100.00	(*1)	(*1)
LG Electronics Mlawa Sp.zo.o (LGEMA)	100.00	100.00	412,616	412,616
LG Electronics Morocco SARL (LGEML)	100.00	100.00	315,213	315,213
LG Electronics Magyar KFT. (LGEML)	100.00	100.00	(*1)	(*1)
LG Electronics Monterrey Mexico S.A. de C.V (LGEML)	100.00	100.00	88,031	70,162
LG Electronics Mobile Research U.S.A., LLC (LGEML)	100.00	100.00	(*1)	(*1)
LG Electronic Romania S.R.L (LGERO)	100.00	100.00	2,052,000	2,052,000
LG Electronics Mexico S.A. DECV (LGEML)	100.00	100.00	893,084	714,328
LG Electronics Mexicali S.A.de C.V. (LGEML)	100.00	100.00	513,626	899,625
LG Electronics (Nanjing) Plasma Co., Ltd. (LGENP)	100.00	100.00	(*1)	(*1)
LG Electronics Nanjing Display Co., Ltd. (LGEND)	70.00	70.00	(*1)	(*1)
LG Electronics Philippine Inc. (LGEPI)	100.00	100.00	739,036	739,036
LG Electronics Polska Sp.Z.O.O. (LGEPL)	100.00	100.00	28,366	28,366
NanJing LG Panda Appliances Co., Ltd. (LGEPN)	70.00	70.00	(*1)	(*1)
LG Electronics Peru S.A. (LGEPR)	100.00	100.00	59,626,822	59,626,822
LG Electronics Panama S.A. (LGEPS)	100.00	100.00	193,747	193,747
LG Electronics Portugal S.A. (LGEPT)	100.00	100.00	(*1)	(*1)
Qingdao LG Langchao Digital Communication Co., Ltd.	70.00	70.00	(*1)	(*1)
LG Electronics Qinhuangdao Inc. (LGEQH)	100.00	100.00	(*1)	(*1)
LG Electronics (China) Research and Development Center Co., Ltd. (LGERD)	100.00	100.00	(*1)	(*1)
LG Electronics Russia Inc. (LGERI)	95.02	95.02	2,290	2,290
LG Electronics Raynosa, S.A.de C.V. (LGEIS)	100.00	100.00	72,000	72,000
LG Electronics S.A. (PTY) Ltd. (LGESA)	100.00	100.00	293,344,000	293,344,000
LG Electronics European Holdings B.V. (LGEEL)	100.00	100.00	6,544	6,544
Shanghai LG Electronics Co., Ltd. (LGESH)	70.00	70.00	(*1)	(*1)
LG Electronics De Sao Paulo Ltda (LGESP)	100.00	100.00	(*1)	(*1)
LGE Sweden AB (LGESW)	100.00	100.00	76,157	76,157
LG Electronics (Shenyang) Inc. (LGESY)	78.87	78.87	(*1)	(*1)
LG Electronics Tianjin Appliances Co., Ltd. (LGETA)	80.00	80.00	(*1)	(*1)
LG Electronics Thailand Co., Ltd. (LGETH)	100.00	100.00	6,138,995	6,138,995
Taizhou LG Electronics Refrigeration Co., Ltd. (LGETR)	100.00	100.00	(*1)	(*1)
LG Electronics Taistar Taiwan Co., Ltd. (LGETT)	99.94	99.94	52,859,202	52,892,542
LG Electronics United Kingdom Ltd. (LGEUK)	100.00	100.00	192,000	192,000
LG Electronics USA Inc. (LGEUS)	100.00	100.00	32,884	32,884
LG Electronics Vietnam Co., Ltd. (LGEVN)	100.00	100.00	(*1)	(*1)
LG Electronics Wroclaw Sp. z o.o (LGEWR)	100.00	100.00	181,018	181,018
Langchao LG Digital Mobile Communication Co., Ltd. (LGEYT)	72.00	72.00	(*1)	(*1)
LG Electronics MobileComm U.S.A., Inc (LGEML)	100.00	100.00	10,000	10,000
LG Electronics (M) SND. BHD (LGEML)	100.00	100.00	28,515,181	28,515,181

	Percentage of ownership (%)		Number of shares owned	
	2008	2007	2008	2007
LG Electronics Singapore Pte Ltd. (LGESL)	100.00	100.00	11,084,000	11,084,000
LG Electronics Overseas Trading FZE	100.00	100.00	1	1
LG Soft India PVT Ltd. (LGSII)	100.00	100.00	9,946,000	9,946,000
Zenith Electronics Co. (Zenith)	100.00	100.00	2,000	2,000
Beijing LG Building Development Co., Ltd.	100.00	100.00	(*1)	(*1)
LG Holdings (HK) Ltd.	50.00	50.00	102,000,000	102,000,000
Goldstar MobileComm. France S.A.S.U	100.00	100.00	400,000	400,000
LG Electronics RUS, LLC	100.00	100.00	(*1)	(*1)
LG Electronics Benelux Sales B.V.	100.00	100.00	18,000	18,000
LG Electronics European Logistics & Service B.V.	100.00	100.00	2,784,000	2,784,000
LG Electronics European Shared Service Center B.V.	100.00	100.00	150,000	150,000
LG Innotek Huizhou Inc. (LGITHZ)	100.00	100.00	(*1)	(*1)
PT. LG Innotek Indonesia (LGITIN)	100.00	100.00	5,000	5,000
LG Innotek USA Inc. (LGITUS)	100.00	100.00	100.00	100.00
LG Innotek Yantai Co. Ltd. (LGITYT)	100.00	100.00	(*1)	(*1)
LG Innotek Poland., Ltd.	100.00	100.00	175,438	95,742
LG Philips LCD America Inc.	100.00	100.00	5,000,000	5,000,000
LG Philips LCD Japan Co., Ltd.	100.00	100.00	1,900	1,900
LG Philips LCD Germany GmbH	100.00	100.00	960,000	960,000
LG Philips LCD Taiwan Co., Ltd.	100.00	100.00	11,549,994	11,549,994
LG Philips LCD Nanjing Co., Ltd.	100.00	100.00	(*1)	(*1)
LG Philips LCD Hong Kong Co., Ltd.	100.00	100.00	115,000	115,000
LG Philips LCD Shanghai Co., Ltd.	100.00	100.00	(*1)	(*1)
LG Philips LCD Poland Sp. zo.o	80.00	80.00	4,103,277	4,103,277
LG Philips LCD Guangzhou Co., Ltd.	100.00	100.00	(*1)	(*1)
LG Philips LCD Shenzhen Co., Ltd. (*4)	100.00	100.00	(*1)	(*1)
LG Micron (Fujian) Electronics Co., Ltd.	80.00	80.00	(*1)	(*1)
LG Vina Chemical Co.	40.00	40.00	1,520,000	1,520,000
LG India Holdings Inc.	100.00	100.00	126,746,122	126,746,122
Tianjin LG-Dagu Chemical Co., Ltd.	75.00	75.00	(*1)	(*1)
Tianjin LG New Building Materials Co., Ltd.	100.00	100.00	(*1)	(*1)
LG Chem Hong Kong, Ltd.	100.00	100.00	6,500,000	6,500,000
LG Chemical America Inc.	100.00	100.00	3,420	3,420
LG Solid Source LLC	51.00	51.00	(*1)	(*1)
LG Chemical (Guangzhou)	100.00	100.00	(*1)	(*1)
LG Chem Information & Electronics Materials	100.00	100.00	(*1)	(*1)
LG Chem Industrial Materials	100.00	100.00	6,160	6,160
LG Chem Taiwan, Ltd.	100.00	100.00	6,922,566	6,922,566
LG Chem Display Materials Co., Ltd.	100.00	100.00	(*1)	(*1)
Tianjin LG Bohai Chemical Co., Ltd.	75.00	75.00	(*1)	(*1)
LG Chem (China) Investment Co., Ltd	100.00	100.00	(*1)	(*1)
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	100.00	100.00	(*1)	(*1)

	Percentage of ownership (%)		Number of shares owned	
	2008	2007	2008	2007
LG Chem Europe GmbH	100.00	100.00	(*1)	(*1)
Ningbo LG-Yongxing Chemical Co., Ltd.	75.00	75.00	(*1)	(*1)
LG Chem Poland Sp.Z.O.O	100.00	100.00	(*1)	(*1)
Beijing LG Household Chemical Co., Ltd.	78.00	78.00	8,915,400	8,915,400
Hangzhou LG Cosmetics Co., Ltd.	81.71	81.71	5,720,000	5,720,000
LG Vina Cosmetics J/V Co., Ltd.	60.00	60.00	2,700,000	2,700,000
LG Household & Health Care International Trading (Shanghai) Co., Ltd	100.00	100.00	2,950,000	2,950,000
LG Siltron America, Inc.	100.00	100.00	3,000,000	3,000,000
LG CNS China Inc.	100.00	100.00	(*1)	(*1)
LG Electronics Africa, LLC (*2)	100.00	-	3	-
HI LOGISTICS Europe B.V. (*2)	100.00	-	12,000	-
LG Electronics Argentina S.A. (*2)	100.00	-	36,925,000	-
LG Electronics Egypt Cairo SAE (*2)	100.00	-	13,510	-
LG Chemical India Pvt. Ltd.	100.00	-	(*1)	-
Serveone (Nanjing).Co., Ltd. (*2)	100.00	-	(*1)	-
Suzhou Raken Technology co., Ltd. (*4)	51.00	-	(*1)	-
Beijing Yuanzhimeng Advertising Co., Ltd. (*3)	70.00	-	700	-
LG Electronics Ticaret A.S. (*4)	100.00	-	39,620,000	-
CCKBC (Netherlands) Holding BV (*5)	-	100.00	-	25,050
CCKBC (Netherlands) Holding BV (*5)	-	100.00	-	25,050
Global Professional Sourcing Co., Ltd. (*6)	-	70.00	-	700,000
LG CNS Europe B.V (*7)	-	100.00	-	5,000
LG CNS America Inc. (*7)	-	100.00	-	100

(*1) There are no issued and outstanding shares of the investees due to the local laws or these are not corporations.

(*2) As its total assets exceeded ₩7,000 million as of December 31, 2007, these subsidiaries are included in the scope of consolidation for 2008.

(*3) In 2008, this subsidiary was newly acquired through participated in paid-in capital increase of GHIR Corporation and was included in consolidated subsidiaries.

(*4) As it was established with capital stock less than ₩7,000 million during 2008, it was not qualified as subsidiary for consolidation.

(*5) These subsidiaries were going to be liquidated till 3 months later; thus, excluded from consolidated subsidiaries.

(*6) As of December 31, 2008, this subsidiary was liquidated and was excluded from consolidated subsidiaries.

(*7) As its total assets decreased to less than ₩7,000 million as of December 31, 2007, these subsidiaries are excluded from the scope of consolidation for 2008.

Summary of Significant Financial Data

A summary of significant financial data of the controlling company and its subsidiaries included in the accompanying consolidated financial statements as of and for the years ended December 31, 2008 and 2007 are as follows :

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the year ended December 31, 2008

In millions of Korean won

Company	Total assets	Shareholders' equity	Sales	Net income(loss)
LG Corp.	₩6,956,279	₩6,231,418	₩992,452	₩912,032
LG Electronics Inc. (*1)	42,372,296	14,792,573	63,280,391	438,535
LG Chem Ltd. (*1 and 2)	9,735,573	5,052,658	16,697,078	1,002,585
LG Telecom Ltd. (*2)	3,858,463	1,967,079	4,797,951	283,559
LG Dacom Corporation (*1)	3,607,968	2,039,006	2,581,992	120,289
LG Household & Health Care Ltd. (*1 and 2)	1,257,296	525,680	1,967,694	119,333
LG Life Science Co., Ltd.	388,029	277,702	281,891	15,164
G II R Inc. (*1)	289,748	105,198	210,598	(2,245)
Siltron Inc. (*2)	1,307,713	488,581	872,439	3,635
LG CNS Co., Ltd.	996,527	432,705	2,001,581	115,402
Serveone Co., Ltd.	1,158,830	265,033	2,037,504	75,505
LG MMA Corp.	526,675	232,868	409,266	30,192
LG N Sys Co., Ltd.	253,139	85,017	630,381	15,929
Lusem Co., Ltd.	81,844	45,259	261,440	15,026
Others	358,538	93,406	479,322	10,702
Elimination and other consolidation procedures	(8,366,820)	(6,899,709)	(7,279,496)	(2,243,528)
Total	₩64,782,098	₩25,734,474	₩90,222,484	₩912,115

(*1) The financial data of the intermediary parents such as LG Electronics Inc., LG Chem Ltd., LG Dacom Corporation, LG Household & Health Care Ltd. and G II R Inc. are based on their consolidated financial statements.

(*2) The financial statements are not adjusted to reconcile the differences in accounting policies.

As of and for the year ended December 31, 2007

In millions of Korean won

Company	Total assets	Shareholders' equity	Sales	Net income
LG Corp.	₩5,598,838	₩5,082,584	₩1,021,522	₩901,298
LG Electronics Inc. (*1)	34,584,427	12,827,955	53,426,741	1,228,921
LG Chem Ltd. (*1 and 2)	8,550,754	4,043,946	13,524,809	688,636
LG Telecom Ltd. (*2)	3,628,721	1,773,171	4,585,520	275,289
LG Dacom Corporation (*1)	3,273,440	1,899,458	2,196,588	133,856
LG Household & Health Care Ltd. (*1 and 2)	1,198,145	388,191	1,707,961	79,978
LG Life Science Co., Ltd.	409,949	261,126	256,403	18,546
Siltron Inc. (*2)	1,052,153	508,630	830,494	167,893
LG CNS Co., Ltd.	827,642	380,147	1,738,776	114,163
Serveone Co., Ltd.	981,117	213,245	1,588,886	56,219
LG MMA Corp.	457,737	215,705	326,463	33,996
LG N Sys Co., Ltd.	194,635	70,788	515,170	17,739
Lusem Co., Ltd.	81,820	31,313	213,254	9,610
Others	170,074	57,914	310,201	13,827
Elimination and other consolidation procedures	(6,929,228)	(5,825,564)	(5,134,936)	(2,817,615)
Total	₩54,080,224	₩21,928,609	₩76,288,334	₩922,356

(*1) The financial data of the intermediary parents such as LG Electronics Inc., LG Chem Ltd., LG Dacom Corporation and LG Household & Health Care Ltd. were based on their consolidated financial statements.

(*2) The financial statements are not adjusted to reconcile the differences in accounting policies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Group in the preparation of the accompanying consolidated financial statements are summarized below.

Basis of Consolidated Financial Statement Presentation

The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, results of operations, changes in shareholders' equity or cash flows, is not presented in the accompanying consolidated financial statements.

Application of the Statements of Korea Accounting Standards ("SKAS")

The Korean Accounting Standards Board has published a series of Statements of Korea Accounting Standards ("SKAS"). As SKAS No. 1 through 25 (except for No. 14 and No 24) were effective for the Group on January 1, 2008, the Group adopted these standards in its financial statements as of and for the year ended December 31, 2008.

The accompanying consolidated financial statements were approved by the management on March 25, 2009.

Through December 31, 2008, certain SKASs were amended, and interpretations and opinions were released. A summary of the amended SKASs, Interpretations and Opinions, which have been adopted by the Company, is as follows :

SKAS No. 5 "Property, Plant and Equipment (revised)"

SKAS No. 9 "Convertible Securities (revised)"

SKAS No. 15 "Investments in Associates (revised)"

SKAS No. 16 "Income Taxes (revised)"

SKAS No. 20 "Related Party Disclosures (revised)"

Interpretation 53-70 "Accounting for Derivative Instruments (revised)"

Opinion on Financial Reporting Practice 2008-2 "Accounting when a foreign currency contract which was deemed a forecasted transaction and to which cash flow hedge accounting was applied becomes a firm commitment."

The significant accounting standards followed by the group in the preparation of its 2008 consolidated financial statements are the same as the principals in the preparation of 2007, except for the application of amended and newly released statements above.

Application of Accounting Policy

The consolidated financial statements are recorded based on non-consolidated financial statements that are recorded according to SKAS by each consolidated subsidiary. However, the accounting policy of the controlling company is applied to similar case or transaction in order to identify the accounting policy of consolidated subsidiaries with the controlling company unless the differences from the accounting policy between the controlling company and subsidiaries are not significant. In addition, the controlling company adopts the same closing date of consolidated subsidiaries for the consolidated financial statements.

Elimination of Investment and Capital Accounts

The investment account of the controlling company is eliminated against the corresponding capital accounts of its consolidated subsidiaries. The Company records differences between the investment account and corresponding capital accounts of subsidiaries as goodwill or negative goodwill in accordance with the Accounting Standards for Business Combination. The goodwill is amortized over the relevant years not to exceed 20 years using the straight-line method. The negative goodwill is amortized over the weighted average useful life of amortizable assets using the straight-line method less than the sum of fair value of non-monetary identifiable assets of subsidiaries. The amount that exceeds the sum of fair value of non-monetary identifiable assets of subsidiaries is accounted for as non-operating income at the date of acquisition.

In 2008, the changes of goodwill and negative goodwill that occurred from consolidated adjustment entry and not reflected in the non-consolidated financial statements are as follows :

In millions of Korean won

	Goodwill	Negative goodwill
2008.1.1	₩33,470	₩-
Increase (including changes in the scope of consolidation and others)	4,292	-
Amortization	(33,957)	-
2008.12.31	₩3,805	₩-

Accounting for Changes in Share of Subsidiaries

After obtaining control over the subsidiary, the differences between the investment account and corresponding capital accounts of subsidiaries arising from additional acquisition of interest in a subsidiary, increased paid-in capital, stock dividend, and capital increase by transfer of capital stock without compensation are reflected in the consolidated capital surplus and in case of insufficiency, the remaining is deducted from the consolidated retained earnings. After the disposal of a portion of the stocks of subsidiaries to non-subsidiary parties and the subsidiary still belongs to consolidated companies, the gain or loss on disposal of the subsidiary's stock is accounted for as the same above.

Elimination of Intercompany Unrealized Income

Unrealized income included in inventories, property, plant and equipment, and other assets as a result of intercompany transactions is eliminated based on the average gross profit ratio of the corresponding company. Unrealized income arising from sales by the controlling company to the consolidated subsidiaries is fully eliminated and charged to the equity of the controlling company. Unrealized income arising from sales by the consolidated subsidiaries to the controlling company or between consolidated subsidiaries is charged to the equity of the controlling company to the extent of the controlling company's percentage of ownership.

Translation of Foreign Currency Financial Statements

Accounts and records of the overseas subsidiaries are maintained in foreign currencies. For presentation in the accompanying consolidated financial statements, the assets and liabilities of the overseas subsidiaries have been translated at exchange rates as of the balance sheet date and the equity of the overseas subsidiaries at the acquisition date has been translated at exchange rates as of the acquisition date. Also, the change of the equity and profit and loss calculated after the acquisition date that are not associated with retained earnings have been translated at the transaction date. Resulting differences are accounted for as an overseas operation translation debit or credit in the accumulated other comprehensive income (loss), a component of shareholders' equity.

Reclassification of Financial Statements of Consolidated Subsidiaries

For convenience of consolidation, certain accounts in the financial statements of consolidated subsidiaries were reclassified and changed to conform to consolidated financial statement presentation. Such reclassifications had no effect on the net income or net equity of subsidiaries.

Cash, Cash Equivalents and Short-Term Financial Instruments

Cash and cash equivalents include currency, checks issued by others, other currency equivalents, current deposits, passbook deposits and cash equivalents, which are securities and short-term money market instruments that can be easily converted into cash and whose risk of value fluctuation arising from changes of interest rate is not material. Only investments with maturities (or date of redemption) of three months or less from the acquisition date are included as cash equivalents.

Revenue Recognition

Revenue generated from sale of goods is recognized upon delivery; however, revenue is recognized when the terms of the sales have been fully met if there are sales terms related with post-delivery. Revenue recognition on service or construction contract (contract of service directly related with construction, removal or restoration of an asset, contract of environmental restoration project related with asset removal, or lotting-out of apartment building based on purchase offer including advanced sale) is recognized based on percentage-of-completion method. However, application of percentage-of-completion method on advanced sales such as lotting-out of apartment is limited to the contracts which are already closed. When loss from service or construction contract is probable, the loss is immediately recognized as provision for construction losses and charged to cost of sales or cost of construction in the same period. In addition, when the Group has an obligation for construction warranty after the construction or service is completed, total estimated construction warranty expense is included in cost of construction or service in the fiscal year during which the construction is completed or service is rendered, and records the provision for construction warranty liability on the balance sheet.

Allowance for Doubtful Accounts

The Group provides an allowance for doubtful accounts to cover estimated losses on receivables (trade accounts receivables, other accounts receivables, loans and others), based on collection experience and analysis of the collectability of individual outstanding receivables.

Inventories

Inventories are stated at the lower of cost or market value, with cost being determined by the moving-average method or the weighted-average method, except for materials-in-transit for which cost is determined by the specific identification method. When the market value of inventories (net realizable value for finished goods or merchandise and current replacement cost for raw materials) is less than the carrying value, the carrying value is stated at the lower of cost or market. The Group applies the lower of cost or market method by group of inventories and loss on inventory valuation is presented as a deduction from inventories and charged to cost of sales. The valuation loss is recorded as cost of sales. If, however, the circumstances which cause the valuation loss cease to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The reversal is a deduction from cost of sales. For the years ended December 31, 2008 and 2007, ₩356,818 million and ₩131,640 million, respectively, are recorded as valuation loss.

Valuation of Investment Securities (except for equity-method investments)

Debt and equity securities are initially stated at the market value of consideration given for acquisition (market value of securities acquired if market value of consideration given is not available) plus incidental costs attributable to the acquisition of the securities and are classified into trading, available-for-sale and held-to-maturity securities depending on the purpose and nature of acquisition. The Group presents trading securities as short-term investments, and available-for-sale securities and held-to-maturity securities as short-term investments or long-term investment securities depending on their nature in the balance sheet. The moving average method for equity securities and the specific identification method for debt securities are used to determine the cost of securities for the calculation of gain (loss) on disposal of those securities.

The following is the specific valuation method applied for debt and equity securities :

1) Trading securities

Securities that are bought and held principally for the purpose of selling them in the near term with active and frequent buying and selling, including securities which consist of a portfolio of securities with the clear objective of generating profits on short-term differences in price, are classified as trading securities. Trading securities are recorded at their fair value and unrealized gains or losses from trading securities are recorded as gain (loss) on valuation of trading securities included in the non-operating income (expense).

2) Held-to-maturity security

Debt securities that have fixed or determinable payments with a fixed maturity are classified as held-to-maturity securities only if the Group has both the positive intent and ability to hold those securities to maturity. However, debt securities, whose maturity dates are due within one year from the balance sheet date, are classified as current assets. After initial recognition, held-to-maturity securities are stated at amortized cost in the balance sheet. When held-to-maturity securities are measured at amortized costs, the difference between their acquisition cost and face value is amortized using the effective interest rate method and the amortization is included in the cost and interest income.

When the possibility of not being able to collect the principal and interest of held-to-maturity securities according to the terms of the contracts is highly likely, the difference between the recoverable amount (the present value of expected cash flows using the effective interest rate upon acquisition of the securities) and book value is recorded as loss on impairment of held-to-maturity securities included in the non-operating expense and the held-to-maturity securities are stated at the recoverable amount after impairment loss. If the value of impaired securities subsequently recovers and the recovery can be objectively related to an event occurring after the impairment loss was recognized, the reversal of impairment loss is recorded as reversal of impairment loss on held-to-maturity securities included in non-operating income. However, the resulting carrying amount after the reversal of impairment loss shall not exceed the amortized cost that would have been measured, at the date of the reversal, if no impairment loss was recognized.

3) Available-for-sale securities

Debt and equity securities that do not fall under the classifications of trading or held-to-maturity securities are categorized and presented as available-for-sale securities included in investment assets. However, if an available-for-sale security matures or it is certain that such security will be disposed of within one year from the balance sheet dates, it is classified as a current asset. Available-for-sale securities are recorded at fair value. Unrealized gain or loss from available-for-sale securities are presented as gain or loss on valuation of available-for-sale securities included in accumulated other comprehensive income (loss) under shareholders' equity. In addition, accumulated gain or loss on valuation of available-for-sale securities is reflected in either gain or loss on disposal of available-for-sale securities or loss on impairment of available-for-sale securities upon disposal or recognition of impairment of the securities.

However, available-for-sale equity securities that are not marketable and whose fair value cannot be reliably measured are recorded at acquisition cost. When there is objective evidence that the available-for-sale securities are impaired and the recoverable amount is lower than the cost (amortized cost for debt securities) of the available-for-sale securities, an impairment loss is recognized as loss on impairment of available-for-sale securities in non-operating expense and the related unrealized gain or loss remaining in shareholders equity is adjusted to the impairment loss. If the value of impaired securities subsequently recovers and the recovery can be objectively related to an event occurring after the impairment loss was recognized, the reversal of impairment loss can be recognized up to the previously recorded impairment loss as a reversal of loss on impairment of available-for-sale securities in non-operating income. However, if the fair value increases after the impairment loss is recognized but does not relate to the recovery of impairment loss as described above, the increase in fair value is recorded in shareholders' equity.

Equity-Method Investments

Investments in equity securities of Group, over which the Group exercises significant influence, are reported using the equity method of accounting.

1) Accounting for changes in the equity of the investee

Under the equity method of accounting, the Group records changes in its proportionate equity of the net assets of the investee depending on the nature of the underlying changes in the investee as follows; (i) "valuation on equity-method investments" in the non-operating income (expense) for net income (loss) of the investee; (ii) "increase (decrease) in retained earnings of valuation on equity-method investments" in the retained earnings for changes in beginning retained earnings of the investee; (iii) "increase (decrease) in valuation on equity-method investments" in accumulated other comprehensive income (loss) for other changes in shareholders' equity of the investee.

When the equity-method investee's unappropriated retained earnings carried over from prior period changes due to significant error corrections, the Company records the changes in equity as "equity in income (loss) of associates" included in the non-operating income (expense) if the impact of the changes on the Company's non-consolidated financial statements is not significant. If the changes results from the changes in accounting policies of the equity method investee, they are reflected in unappropriated retained earnings carried over from prior period in accordance with SKAS on changes in accounting policy and errors corrections. When the investee declares cash dividends, the dividends to be received are deducted directly from equity-method investments.

2) Treatment of investment difference

Difference between the acquisition cost and the Group's proportionate equity in the fair value of net assets of the investee upon acquisition ("Investment difference") is considered as (negative) goodwill and accounted for in accordance with accounting standards for business combination. The goodwill portion is amortized over useful lives within 20 years on a straight line method while the negative goodwill portion is amortized over the weighted average useful lives of depreciable non-monetary assets of the investee. The amortization is included in "valuation on equity-method investments".

When the Group's equity interest in the investee increases due to an increase (or decrease) in contributed capital with (or without) consideration, the changes in the Company's proportionate equity in the investee are accounted for as investment difference. If the Group's equity interest decreases, the changes are accounted for as "gain (loss) on disposal of the equity-method investments".

3) Difference between the fair value and book value of net asset of the investee

Upon acquisition of the equity-method investments, the Group's proportionate shares in the differences between the fair values and book values of the identifiable assets and liabilities of the investee are amortized/reversed and included in "valuation on equity-method investments" in accordance with the investee's methods of accounting for the assets and liabilities.

4) Elimination of unrealized gain or loss from intercompany transactions

The Group's proportionate share in the gain (loss) arising from transactions between the Group and the investee, which remains in the book value of assets held as of balance sheet date, is considered unrealized gain (loss) and adjusted to equity-method investments.

5) Impairment loss on equity-method investments

When there is objective evidence that the equity-method investments is impaired and the recoverable amount is lower than the carrying amount of the equity-method investments, an impairment loss is recognized as "loss on impairment of equity-method investments" included in non-operating expense and the unamortized investment difference is first reduced. When the recoverable amount is recovered after the recognition of impairment loss, the reversal of impairment loss is recognized as income up to the previously recorded impairment loss. The book value of the equity-method investments after the reversal of the impairment loss cannot exceed the book value calculated as if the impairment loss would not be originally recognized. The reversal of the impairment loss recognized against the unamortized investment difference is not allowed.

6) Translation of financial statements of overseas investees

For overseas investees whose financial statements are prepared in foreign currencies, the equity-method of accounting is applied after assets and liabilities are translated in accordance with the accounting treatments for the translation of the financial statements of overseas' subsidiaries for consolidated financial statements. The Group's proportionate share of the difference between assets net of liabilities and shareholders' equity after translation into Korean won is accounted for as "increase (decrease) in equity of associates" included in accumulated other comprehensive income (loss).

Property, Plant and Equipment and Related Depreciation

Property, plant and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. It also includes the present value of the estimated cost of dismantling and removing the asset, and restoring the site after the termination of the asset's useful life, provided it meets the criteria for recognition of provisions.

Property, plant and equipment are stated at cost, except for certain assets subject to upward revaluations in accordance with the Asset Revaluation Law. In accordance with the Group's policy, borrowing costs in relation to the manufacture, purchase, construction or development of assets are charged to current operations as incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives of the assets :

	Useful lives
Buildings	5 ~ 50 years
Structures	4 ~ 50 years
Machinery and equipment	3 ~ 50 years
Others	2 ~ 50 years

Routine maintenance and repairs are charged to expense as incurred. Expenditures, which enhance the value or extend the useful lives of the related assets, are capitalized.

The Group assesses the potential impairment of property, plant and equipment when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely, and recognizes an impairment loss when the carrying value of an asset exceeds the value of its future economic benefits. The carrying value of the impaired assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets is recorded in current operations up to the cost of the assets, net of accumulated depreciation before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

Intangible Assets

Intangible assets, consisting of intellectual property rights, development costs, goodwill and others, are stated at cost, net of accumulated amortization. Amortization of intangible assets is computed using the straight-line method over the following estimated useful lives :

	Useful lives
Goodwill	(*)
Negative goodwill	(*)
Development costs	3 ~ 10 years
Intellectual property rights	5 ~ 10 years
Others	3 ~ 25 years

(*) When the initial purchase price exceeds or is below the Group's initial proportionate ownership in the net fair value of the investee, which is the net of the fair value of the investee's assets and liabilities identified, the Group considers the difference as goodwill (negative goodwill) and amortizes goodwill over the relevant period, not to exceed 20 years in accordance with the Accounting Standards for Business Combination. The negative goodwill is amortized over the weighted average useful life of amortizable assets using the straight-line method less than the sum of fair value of non-monetary identifiable assets of subsidiaries. The amount that exceeds the sum of fair value of non-monetary identifiable assets of subsidiaries is accounted for as non-operating income at the date of acquisition.

Research and development costs are charged to current operations when incurred and are included in operating expenses. Costs incurred in developing new products or technologies, which can be clearly defined and measured, and having probable future economic benefits, are capitalized as development costs. Other development costs are charged as normal development expense in the period incurred. Capitalized development costs are amortized over the relevant years not to exceed 20 years using the straight-line method.

For the years ended December 31, 2008 and 2007, the Group recorded ₩2,127,466 million and ₩1,812,715 million, respectively, of research and development costs as current expenses.

When the recoverable amount (the higher of net sales price or value in use) of intangible assets is significantly lower than the carrying amount due to obsolescence and other, the difference is recognized as an impairment loss. When the recoverable amount subsequently exceeds the carrying amount of the impaired asset, the excess is recorded as a reversal of impairment loss to the extent that the reversed asset does not exceed the carrying amount before previous impairment as adjusted by amortization.

Lease Transactions

A lease is classified as a finance lease or an operating lease depending on the extent of transfer to the Company of the risks and rewards incidental to ownership. If a lease meets any one of the following criteria, it is accounted for as a finance lease :

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a bargain price and it is certain that the option will be exercised;
- The lease term is for the major part (75% or more) of the economic life of the asset even if title is not transferred;
- At the date of lease commencement the present value of the minimum lease payments amounts to at least substantially all (90% or more) of the fair value of the leased asset; or
- The leased assets are of such a specialized nature that only the Company can use them without major modifications.

All other leases are treated as operating leases.

For operating leases, lease payments excluding guaranteed residual value are recognized as an expense on a straight-line basis over the lease term and contingent rent is expensed as incurred. Finance leases are recognized as assets and liabilities at the lower of fair value of the leased property or the present value of the minimum lease payments discounted using the implicit interest rate of the lessor (or the Group's incremental borrowing rate if the implicit interest rate is not practicable to determine). Any initial direct costs incurred by the Group are added to the amount recognized as an asset. The depreciation policy for depreciable leased assets is consistent with that for the similar depreciable assets that are owned by the Group. Annual minimum lease payments excluding guaranteed residual value is allocated to interest expense, which is calculated using the effective interest rate, and finance lease repayment amount. Contingent rent relating to finance lease is charged as expenses in the periods in which they are incurred, however, if the amount is material, it is allocated to principal and interest, respectively, over the remaining lease term.

Revaluation of Receivables

Receivables, which are modified during the course of court receivership, court mediation or restructuring of customers, are revalued at the present value discounted by an adjusted interest rate. The difference between the book value and the present value is accounted for as bad debt expense.

Convertible Bonds

When issuing convertible bonds, the proceeds from issuance are allocated between the liability feature, representing the straight bonds, and the equity feature, representing the conversion right. The amount allocated to the equity feature is recognized as consideration for the conversion right and classified as other paid-in capital. When additional stocks are issued as a result of the exercise of the conversion right, it is reclassified as paid-in capital in excess of par value. Interest expense on a convertible bond is measured by applying the effective interest rate of the straight bond to the book value of the bond. The book value of the bond refers to the amount measured by adjusting ① bond discount or premium, ② conversion right adjustment and ③ premium on bond redemption (when there are specific payment terms) to the face value of the bond.

Premiums or Discounts on Debentures

The Group accounts for the difference between the face value and issued value of debentures as an addition to or deduction from debentures. Premiums or discounts on debentures are amortized using the effective interest rate method over the terms of the debentures. The resulting amortization is recorded as interest expense.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the rates in effect at the balance sheet date (₩1,257.50 and ₩938.20 to US\$1.00 at December 31, 2008 and 2007, respectively). Resulting translation gains and losses are recognized in current operations.

Stock Option Plan

Compensation cost for stock options granted to employees and executives are recognized on the basis of intrinsic value. Under the intrinsic value basis method, compensation costs for stock option plans are determined by calculating the difference between the exercise price and the market price of the underlying stock. Stock-based compensation cost is remeasured at each reporting date, based on the intrinsic value of the award, and is recognized as expense over the agreed minimum grant period.

Treasury Stock

The Group records acquisition cost of treasury stock as capital adjustments. Loss on disposal of treasury stock, net of gain on disposal of treasury stock which is accounted for as other capital surplus, is recorded in other capital adjustments and will be disposed of in accordance with the guidelines which are applicable for the disposition of accumulated deficit.

Accrued Severance Benefits

Employees and directors with at least a year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date. The accrued liabilities that would be payable assuming all eligible employees were to resign amount to ₩1,560,349 million and ₩1,462,923 million as of December 31, 2008 and 2007, respectively.

A portion of the accrued severance benefits of the Group are funded through a group severance insurance plan with financial institutions including Kyobo Life Insurance Co., Ltd and the amounts funded under this insurance plan are classified as a deduction to accrued severance benefits. Subsequent accruals are to be funded at the discretion of the Group. In accordance with the National Pension Act, a certain portion of accrued severance benefits is deposited to the National Pension Fund and deducted from accrued severance benefits.

Actual payments of severance indemnities amounted to ₩366,689 million and ₩351,344 million for the years ended December 31, 2008 and 2007, respectively.

Long-Term Accounts Receivable and Payable

Long-term accounts receivable and payable arising from long-term contracts are recorded at the net present value of future cash flows, calculated using the effective interest rate method at the time of the contracts execution. The difference between the nominal value and the present value of these accounts receivable or payable is amortized over the contract period using the effective interest rate method. The resulting amortization is recognized as interest income or expense.

Product Warranty

The Group provides warranties against product defects for a specified period of time after the sale. Estimated costs of product warranties are charged to current operations at the time of sale and are included in the accompanying consolidated balance sheets as a product warranty reserve.

Impairment Loss

An impairment loss related to assets, other than marketable securities, investment securities, restructured receivables and assets for which present value discounts are applied, are included in income from operations when there are declines in fair value arising from obsolescence, physical damage or the significant decline in market value. A subsequent recovery is recorded as non-operating income up to the original book value.

Derivative Financial Instruments

The Group utilizes derivative instruments to reduce its exposure to fluctuations in interest and foreign currency exchange rates. Rights or obligations derived from derivative instruments are recorded as assets or liabilities at fair value on an accrual basis. Gains or losses on valuation of derivative instruments are recognized in current operations, except for gains and losses on valuation of derivative instruments used to hedge cash flows risk, which are recorded as accumulated other comprehensive income (loss).

Income Tax

When the Group recognizes deferred income tax assets or liabilities for the temporary differences between the carrying amount of an asset and liability and tax base, a deferred income tax liability for taxable temporary difference is fully recognized except to the extent in accordance with related SKAS while a deferred tax asset for deductible temporary difference is recognized to the extent that it is almost certain that taxable profit will be available against which the deductible temporary difference can be utilized. Deferred income tax asset (liability) is classified as current or non-current asset (liability) depending on the classification of related asset (liability) in the balance sheet. Deferred income tax asset (liability), which does not relate to specific asset (liability) account in the balance sheet such as deferred income tax asset recognized for tax loss carryforwards, is classified as current or non-current asset (liability) depending on the expected reversal period. Deferred income tax assets and liabilities in the same tax jurisdiction and in the same current or non-current classification are presented on a net basis. Current and deferred income tax expense are included in income tax expense in the statement of income and additional income tax or tax refunds for the prior periods are included in income tax expense for the current period when recognized. However, income tax resulting from transactions or events, which was directly recognized in shareholders equity in current or prior periods, or business combinations, is directly adjusted to equity account or goodwill (or negative goodwill).

Discontinued Operations

The Group offset the operation income (loss) and non-operation income (loss) from discontinued operations including discontinued related costs and impairment loss of discontinued operations.

Sale of Accounts and Notes Receivable

The Group sells certain accounts and notes receivable to financial institutions at a discount, and accounts for the transactions as a sale of the receivables, if the rights and obligations relating to the receivables are substantially transferred to the buyers. The losses from the sale of the receivables are charged to current operations as incurred.

Reconciliation of the Differences in Accounting Policies

The Company makes adjustments to the financial statements of consolidated subsidiaries which capitalized interest expense for the year ended December 31, 2008. Details are as follows :

In millions of Korean won

	Net assets before adjustments	Adjustments	Net assets after adjustments
LG Chem Ltd.	₩5,052,658	₩(21,534)	₩5,031,124
LG Household & Health Care Ltd.	525,680	(3,463)	522,217
Siltron Inc.	488,581	(18,830)	469,751
LG Telecom Ltd.	1,967,079	(27,709)	1,939,370

Reclassification

For comparative purposes, certain accounts in the 2007 financial statements were reclassified and changed to conform to 2008 financial statement presentation. Such reclassifications had no effect on the net income or net equity reported in the 2007 financial statements.

3. RESTRICTED BANK DEPOSITS

As of December 31, 2008 and 2007, certain bank deposits pledged as collaterals for various loans from banks and other financial institutions consist of following :

In millions of Korean won

	2008	2007
Short-term financial instruments	₩9,744	₩54,858
Long-term financial instruments	183,177	54,076
Total	₩192,921	₩108,934

4. RECEIVABLES AND ALLOWANCES FOR DOUBTFUL ACCOUNTS

Receivables and related allowances for doubtful accounts as of December 31, 2008 and 2007 consist of the following :

In millions of Korean won

	2008				2007			
	Original amount	Allowance for doubtful accounts	Discounts for present value	Net carrying value	Original amount	Allowance for doubtful accounts	Discounts for present value	Net carrying value
Trade accounts and notes receivable	₩9,492,595	₩(405,738)	₩-	₩9,086,857	₩8,693,138	₩(441,338)	₩-	₩8,251,800
Short-term loans	107,701	(4,817)	-	102,884	43,599	(5,256)	-	38,343
Other accounts receivable	1,421,409	(108,851)	-	1,312,558	1,399,430	(111,786)	-	1,287,644
Accrued income	350,276	(89)	-	350,187	97,068	(821)	-	96,247
Advanced payments	288,291	(5,490)	-	282,801	242,904	(3,409)	-	239,495
Long-term loans	89,464	(2,596)	-	86,868	114,746	(1,090)	-	113,656
Long-term trade accounts and notes receivable	161,539	(1,936)	(15,601)	144,002	123,546	(311)	(9,966)	113,269
Total	₩11,911,275	₩(529,517)	₩(15,601)	₩11,366,157	₩10,714,431	₩(564,011)	₩(9,966)	₩10,140,454

Inventories as of December 31, 2008 and 2007 consist of the following :

In millions of Korean won

	2008	2007
Finished goods and merchandise, net	₩ 4,627,059	₩ 3,639,629
Work-in-process and finished sub-assemblies, net	842,943	649,546
Raw materials and supplies, net	1,997,016	1,824,084
Materials-in-transit, net	1,174,691	1,292,889
Others	224,487	179,896
Total	₩ 8,866,196	₩ 7,586,044

6. SHORT-TERM INVESTMENT SECURITIES

Short-term investment securities as of December 31, 2008 and 2007 consist of the following :

In millions of Korean won

	Acquisition cost		Book value		Fair value or net asset value	
	2008	2007	2008	2007	2008	2007
Trading Securities : Stock	₩ 34	₩ -	₩ 115	₩ -	₩ 115	₩ -
Available-for-sales Securities : Special money in trust	₩ -	₩ 4,976	₩ -	₩ 4,976	₩ -	₩ 4,976
Governmental bonds	2,183	879	2,183	879	2,183	879
	₩ 2,183	₩ 5,855	₩ 2,183	₩ 5,855	₩ 2,183	₩ 5,855
Held-to-maturity Securities :						
Governmental bonds	₩ 146	₩ 71	₩ 146	₩ 71	₩ 146	₩ 71
	₩ 2,363	₩ 5,926	₩ 2,444	₩ 5,926	₩ 2,444	₩ 5,926

7. LONG-TERM INVESTMENT SECURITIES

(1) Long-term investment securities as of December 31, 2008 and 2007 consist of the following :

In millions of Korean won

	2008	2007
Available-for-sale securities	₩ 334,098	₩ 228,614
Held-to-maturity securities	6,458	1,074
	₩ 340,556	₩ 229,688

(2) Available-for-sale securities as of December 31, 2008 and 2007 consist of the following :

In millions of Korean won

	Percentage of ownership (%)	Acquisition cost		Book value	
	2008.12.31	2008	2007	2008	2007
Available-for-sale Securities: Marketable equity securities					
SK Broadband Co., Ltd. (formerly Hanaro Telecom Inc.)	3.06	₩ 65,932	₩ 65,932	₩ 40,142	₩ 75,760
LS Industrial Systems	2.30	12,413	12,413	33,956	38,373
Nara Mold & Die Co., Ltd.	12.57	812	812	3,624	4,195
ADP Engineering Co., Ltd.	7.03	75	75	2,693	4,084
Heerim Architects & Planners Co., Ltd.	2.29	2,051	-	2,360	-
Woori Investment & Securities Co., Ltd. (*1)	0.11	5,415	-	1,863	-
KRTnet Corporation	3.51	927	927	869	1,956
AhnLab Coconut, Inc. (*2)	0.51	638	638	430	1,052
Hana Financial Group Inc.	0.01	685	685	228	589
Others		118	4,612	103	2,686
		89,066	86,094	86,268	128,695
Available-for-sale Securities: Non-marketable equity securities					
HannStar Display Corporation	-	129,497	-	129,497	-
Owens Corning Korea (*3)	29.18	22,865	22,865	32,531	22,865
Korea Economic Daily	13.60	13,608	13,608	14,068	13,608
KIF Venture Investment	3.33	10,000	10,000	10,000	10,000
CS One Partner Corporation (*4)	100.00	4,000	-	4,000	-
LG Household & HealthCare (Taiwan), Ltd. (*4)	90.00	2,634	-	2,634	-
Haebong Co., Ltd.	19.71	2,018	-	2,018	-
3alogics Co., Ltd.	4.64	1,632	632	1,632	632
Korea Software Financial Cooperative	1.32	1,600	1,600	1,600	1,600
CIC Korea Inc.	4.95	1,316	1,316	1,316	1,316
MIRASEUM Inc.	5.00	1,283	-	1,283	-
Caspianbank	0.72	1,250	930	1,250	930
GL Pharmtech Inc.	-	1,000	1,000	1,000	1,000
CJ Power Cast Inc.	19.90	995	995	995	995
Cheongna IBT Co., Ltd.	1.50	930	-	930	-
Neo Technology Inc.	6.81	912	912	912	912
SQ Technologies(*5)	19.90	1,098	2,690	815	2,407
LGHA(*4,6)	100.00	1,013	1,013	802	-
Korea Construction Financial Cooperative	0.01	669	264	669	264
TU Media Corporation	2.98	6,500	6,500	627	627
Korea VAN Service Co., Ltd.	16.34	600	600	600	600
NARA M Tech, Inc.	19.90	597	597	597	597
HASIU	12.10	576	576	576	576
EIC	9.20	2,298	2,298	510	509
LG Chem Industrial Material Russia, LLC (*7)	99.00	505	-	505	-
1,3,4 Merit com	₩ 10.00	₩ 500	₩ -	₩ 500	₩ -
Others		53,332	74,154	28,159	34,517
		263,228	142,550	240,026	93,955

	Percentage of ownership (%)	Acquisition cost		Book value	
	2008.12.31	2008	2007	2008	2007
		352,294	228,644	326,294	222,650
Available-for-sale Securities - Debt securities					
Governmental bonds		4,514	2,676	4,514	2,676
Convertible bonds issued by IGA Korea Co., Ltd.		1,000	1,000	1,000	1,000
Convertible bonds issued by TOVIS Co., Ltd.		-	265	-	265
Others		2,290	3,530	2,290	2,023
		7,804	7,471	7,804	5,964
		₩360,098	₩236,115	₩334,098	₩228,614

(*1) During this period, it had increased as G || R Inc. fell within the scope of consolidation.

(*2) All investment securities of AhnLab Coconut Inc. which were classified as available-for-sale securities as of December 31, 2007, has been merged into Ahnlab Inc. for the year ended December 31, 2008.

(*3) The investment was not accounted for using the equity-method since it could no longer exercise significant influence on the investee.

(*4) Excluded as equity-method investee since its total assets decreased to less than ₩7,000 million.

(*5) Due to an decrease of number of shares of SQ Technologies that are issued, the Company received ₩1,592 million in cash and it directly reduced its book value by that amount.

(*6) As LG HAI's net asset value had been recovered, recovery of impairment loss for ₩802 million was recorded.

(*7) It is currently in the process of incorporating.

(3) Held-to-maturity of debt securities as of December 31, 2008 and 2007 consist of the following :

In millions of Korean won

	2008	2007
Government bonds	₩118	₩388
Others	6,340	686
	₩6,458	₩1,074

The annual maturities of debt securities classified as available-for-sale securities and held-to-maturity securities as of December 31, 2008 are as follows :

In millions of Korean won

	Available-for-sale securities	Held-to-maturity securities
Maturity		
Over one year to five years	₩6,804	₩6,458
Over five years	1,000	-
	₩7,804	₩6,458

8. EQUITY-METHOD INVESTMENTS

Equity-method investments as of December 31, 2008 and 2007 consist of the following :

In millions of Korean won

	Percentage of ownership (%)	Acquisition cost		Fair value or net book value		Book value	
	2008	2008	2007	2008	2007	2008	2007
Investee :							
- Domestic :							
LG Hitachi Ltd.	49.00	₩6,060	₩6,060	₩14,070	₩14,152	₩13,972	₩14,091
LG Solar Energy Inc. (*1)	-	-	25,600	-	25,559	-	24,665
LG Unicharm Co., Ltd.	49.00	11,907	11,907	6,992	6,248	7,403	7,328
Hankuk Electric Glass Co., Ltd.	20.00	119,282	119,282	84,006	86,010	101,606	100,208
LG-Nortel Co., Ltd.	50.00	153,254	153,254	284,747	240,516	193,656	189,448
TLI Inc. (*2)	13.00	14,074	-	7,310	-	12,565	-
Avacoco, Ltd. (*2)	20.00	6,173	-	6,795	-	6,021	-
New Optics Inc. (*2)	37.00	9,700	-	12,571	-	11,721	-
Seetec Co., Ltd.	50.00	36,643	36,643	147,465	157,490	58,416	64,306
Tech Win Inc. (*3)	19.90	419	-	2,861	-	2,861	-
HNIP Inc. (*2)	32.20	13,300	-	1,216	-	10,353	-
Others	-	53,906	49,541	35,955	52,044	58,685	58,844
		424,718	402,287	603,988	582,019	477,259	458,890
- Overseas :							
HLDS (Japan)	49.00	7,684	7,684	31,541	27,118	37,102	32,088
SKT Vietnam PTE., Ltd.(formerly SLD)	25.00	72,194	72,194	50,352	42,691	50,403	42,805
LGELF (*2)	100.00	5,541	-	5,541	-	5,541	-
Guangzhou R&D JV Center (*2)	50.00	3,655	-	4,569	-	4,569	-
M. Dohmen S.A.	49.00	43,203	43,203	4,023	5,889	993	993
LG CNS Europe B.V. (*4)	100.00	1,237	-	3,656	-	3,536	-
LG CNS America, Inc. (*4)	100.00	1,773	-	2,850	-	2,860	-
TA-Internet Data Center Company (*3 and 5)	30.00	1,279	-	2,309	-	2,309	-
LGEWA(UK) (*6)	100.00	1,073,020	1,073,020	(379,326)	(379,326)	-	-
Others	-	1,111,521	2,664,831	(359,202)	(181,392)	35,858	43,571
		2,321,107	3,860,932	(633,687)	(485,020)	143,171	119,457
		₩2,745,825	₩4,263,219	₩(29,699)	₩96,999	₩620,430	₩578,347

(*1) In 2008, the investee was changed to consolidated subsidiary from equity-method investment.

(*2) In 2008, consolidated subsidiary was newly acquired.

(*3) In 2008, the investee was changed to equity-method investment from available-for-sale securities.

(*4) In 2008, the investee was changed to equity-method investment from consolidated subsidiary.

(*5) The financial statements as of December 31, 2008 were not available at closing date, so it was accounted for using equity method based on the financial statements as of September 30, 2008.

(*6) It was in the process of liquidation. Since it stopped applying the equity method, there was a change in the investment value that was not reflected.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in equity-method investments for the years ended December 31, 2008 and 2007 are as follows :

In millions of Korean won

	2008					
	January 1, 2008	Acquisition	Changes in consolidation scope	Valuation gain (loss)	Other increase (decrease)	December 31, 2008
Investee :						
- Domestic :						
LG Hitachi Ltd.	₩14,091	₩-	₩-	₩(179)	₩60	₩13,972
LG Solar Energy Inc.	24,665	-	(24,665)	-	-	-
LG Unicharm Co., Ltd.	7,328	-	-	75	-	7,403
Hankuk Electric Glass Co., Ltd.	100,208	-	-	6,913	(5,515)	101,606
LG-Nortel Co., Ltd.	189,448	-	-	49,213	(45,005)	193,656
TLI Inc.	-	-	-	(822)	13,387	12,565
Avacoco., Ltd.	-	-	-	(36)	6,057	6,021
New Optics Inc.	-	-	-	1,580	10,141	11,721
Seetec Co., Ltd.	64,306	-	-	(5,878)	(12)	58,416
TECH WIN Inc.	-	418	-	2,443	-	2,861
HNIP Inc.	-	13,300	-	(3,073)	126	10,353
Others	58,844	5,616	(2,224)	(137)	(3,414)	58,685
	458,890	19,334	(26,889)	50,099	(24,175)	477,259
- Overseas :						
HLDS (Japan)	32,088	-	-	1,895	3,119	37,102
SKT Vietnam PTE., Ltd. (formerly SLD)	42,805	-	-	(5,651)	13,249	50,403
LGELF	-	5,541	-	-	-	5,541
Guangzhou R&D JV Center	-	-	-	(31)	4,600	4,569
M. Dohmen S.A.	993	-	-	-	-	993
LG CNS Europe B.V.	-	-	3,812	731	(1,007)	3,536
LG CNS America, Inc.	-	-	2,724	(658)	794	2,860
TA-Internet Data Center Company	-	1,279	-	750	280	2,309
Others	43,571	179	(14,104)	(32,962)	39,174	35,858
	119,457	6,999	(7,568)	(35,926)	60,209	143,171
	₩578,347	₩26,333	₩(34,457)	₩14,173	₩36,034	₩620,430

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In millions of Korean won

	2007					
	January 1, 2007	Acquisition	Changes in consolidation scope	Valuation gain (loss)	Other increase (decrease)	December 31, 2007
Investee :						
- Domestic :						
LG Hitachi Ltd.	₩13,000	₩-	₩-	₩1,158	₩(67)	₩14,091
LG Solar Energy Inc.	-	25,600	-	(873)	(62)	24,665
LG Unicharm Co., Ltd.	9,430	-	-	(2,102)	-	7,328
Hankuk Electric Glass Co., Ltd.	113,741	-	-	(12,540)	(993)	100,208
LG-Nortel Co., Ltd.	159,866	-	-	25,397	4,185	189,448
Seetec Co., Ltd.	54,749	-	-	9,542	15	64,306
Others	30,350	30,043	(10,000)	6,076	2,375	58,844
	381,136	55,643	(10,000)	26,658	5,453	458,890
- Overseas :						
HLDS(Japan)	29,801	-	-	4,030	(1,743)	32,088
SLD Telecom Pte. Ltd. (Vietnam)	47,067	-	-	(4,664)	402	42,805
LGEWR (Poland)	53,805	-	(53,805)	-	-	-
M.Dohmen S.A.	993	-	-	-	-	993
Others	57,425	13,763	(22,169)	2,128	(7,575)	43,571
	189,091	13,763	(75,974)	1,494	(8,916)	119,457
	₩570,227	₩69,406	₩(85,974)	₩28,152	₩(3,463)	₩578,347

(3) At December 31, 2008, as the book value of investment securities using the equity method become zero, the cumulative change not recognized is as follows :

In millions of Korean won

	2008	
	Unrecognized loss	Unrecognized equity
LGEWA(UK)(*)	₩328,704	₩(50,622)

(*) It includes the realized but unrecognized loss on the investment of LG. Philips Displays Holding B.V., which is LGEWA's investee.

9. PROPERTY, PLANT AND EQUIPMENT

(1) Changes in property, plant and equipment for the years ended December 31, 2008 and 2007 are as follows :

In millions of Korean won

	2008							
	Land	Buildings	Structures	Machinery	Vehicles	Construction - in-progress	Others	Total
Beginning balance	₩2,364,809	₩6,814,642	₩851,266	₩11,475,177	₩59,971	₩2,350,772	₩1,581,452	₩25,498,089
Acquisitions and capital expenditure	71,481	143,909	27,347	844,109	135,355	6,116,376	851,214	8,189,791
Disposal and transfer-in (out)	151,747	683,890	221,507	2,407,564	(61,315)	(3,717,583)	(169,642)	(483,832)
Depreciation	-	(372,370)	(64,144)	(4,076,485)	(25,596)	-	(623,409)	(5,162,004)
Impairment loss	-	-	-	727	-	-	(126,271)	(125,544)
Other changes(*)	15,678	531,776	61,739	(76,556)	5,326	273,059	95,845	906,867
Ending balance	2,603,715	7,801,847	1,097,715	10,574,536	113,741	5,022,624	1,609,189	28,823,367
Ending accumulated depreciation	₩-	₩(1,685,384)	₩(469,870)	₩(26,381,421)	₩(112,193)	₩-	₩(3,968,222)	₩(32,617,090)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In millions of Korean won

	2007							
	Land	Buildings	Structures	Machinery	Vehicles	Construction - in-progress	Others	Total
Beginning balance	₩2,305,471	₩6,149,772	₩805,294	₩12,803,485	₩44,053	₩2,410,857	₩1,730,547	₩26,249,479
Acquisitions and capital expenditure	(16,431)	122,096	14,657	435,462	24,851	3,728,589	843,837	5,153,061
Disposal and transfer-in (out)	20,653	634,288	88,631	2,646,394	(1,284)	(3,898,354)	(130,992)	(640,664)
Depreciation	-	(344,256)	(50,864)	(4,381,486)	(16,521)	-	(715,131)	(5,508,258)
Other changes(*)	55,116	252,742	(6,452)	(28,678)	8,872	109,680	(146,809)	244,471
Ending balance	2,364,809	6,814,642	851,266	11,475,177	59,971	2,350,772	1,581,452	25,498,089
Ending accumulated depreciation	₩-	₩(1,266,438)	₩(393,238)	₩(22,318,472)	₩(93,742)	₩-	₩(3,229,721)	₩(27,301,611)

(*) Increase (decrease) caused by change in consolidated companies and fluctuation in foreign exchange rates.

(2) As of December 31, 2008, property, plant and equipment, up to a maximum of ₩1,670,737 million (2007: ₩1,749,501 million) are pledged as collaterals for various loans from banks and other financial institutions.

(3) As of December 31, 2008, the value of the Group's land, located in the Republic of Korea as determined by the local government in Korea for property tax assessment purposes, amounts to approximately ₩3,662,735 million (2007 : ₩3,286,523 million).

(4) As of December 31, 2008, inventories and property, plant and equipment are insured against fire and other casualty losses for up to ₩64,249,396 million (2007 : ₩41,328,374 million).

As of December 31, 2008, the fire insurance policies amounting to ₩65,000 million are pledged as collateral for long-term debts from The Korea Development Bank.

10. INTANGIBLE ASSETS

Changes in intangible assets for the years ended December 31, 2008 and 2007 are as follows :

In millions of Korean won

	2008					
	Intellectual property rights	Development costs	Goodwill	Negative goodwill	Others	Total
Beginning balance	₩332,735	₩282,309	₩466,428	₩(651,220)	₩403,456	₩833,708
Increase	91,186	155,582	39,290	-	202,482	488,540
Amortization	(88,225)	(72,442)	(86,450)	112,143	(61,164)	(196,138)
Disposal and impairment	(8,616)	(8,882)	(1,739)	-	(6,590)	(25,827)
Other changes	98	(19,422)	11,577	5	38,257	30,515
Ending balance	₩327,178	₩337,145	₩429,106	₩(539,072)	₩576,441	₩1,130,798

In millions of Korean won

	2007					
	Intellectual property rights	Development costs	Goodwill	Negative goodwill	Others	Total
Beginning balance	₩367,029	₩288,135	₩715,637	₩(763,384)	₩217,373	₩824,790
Increase	91,051	76,603	13,722	-	135,828	317,204
Amortization	(57,892)	(75,036)	(263,331)	112,164	(77,964)	(362,059)
Disposal and impairment	(65,043)	(31,828)	(4,399)	-	(8,517)	(109,787)
Other changes	(2,410)	24,435	4,799	-	136,736	163,560
Ending balance	₩332,735	₩282,309	₩466,428	₩(651,220)	₩403,456	₩833,708

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. SHORT-TERM BORROWINGS AND CURRENT MATURITIES OF LONG-TERM DEBTS

Short-term borrowings as of December 31, 2008 and 2007 consist of the following :

In millions of Korean won

	Annual interest rates (%)	2008	2007
Bank overdrafts	4.00 ~ 15.00	₩158,779	₩150,965
Won currency short-term borrowings	4.62 ~ 9.71	502,489	463,049
Foreign currency short-term borrowings	1.89 ~ 18.09	2,401,695	911,543
Notes discounted and commercial papers	5.65 ~ 9.10	1,173,201	597,332
Usance and D/A	1.26 ~ 6.00	20,483	18,000
Negotiation trade bills (*)	-	3,367,245	3,141,330
Others	3.33 ~ 21.00	332,394	219,101
		₩7,956,286	₩5,501,320

(*) The Group negotiates trade bills, accrued from internal transactions between consolidated subsidiaries, through banks. The amount above has not yet matured as of December 31, 2008.

See Notes 3 and 9 for collateral arrangements on these loans. Repayments of the above borrowings are guaranteed by financial institutions.

Current maturities of long-term debts as of December 31, 2008 and 2007 are as follows :

In millions of Korean won

	2008	2007
Debentures	₩1,928,398	₩1,470,086
Less: Discount on debentures	(1,253)	(27,450)
	1,927,145	1,442,636
Long-term debts	1,104,858	592,047
	₩3,032,003	₩2,034,683

12. LONG-TERM DEBTS

Long-term debts as of December 31, 2008 and 2007 are as follows :

(1) Debentures

In millions of Korean won

	Annual interest rates (%)	2008	2007
Won currency bonds	3.50 ~ 8.39	₩4,249,399	₩4,994,000
Foreign currency bonds	5.00 ~ 8.20	1,804,513	1,454,210
Convertible bonds	-	511,555	511,555
		6,565,467	6,959,765
Add : Redemption premium		85,787	85,787
Less : Discounts on debentures		(106,865)	(25,465)
Current maturities		(1,928,398)	(1,470,086)
		₩4,615,991	₩5,550,001

(2) Long-term Debts

In millions of Korean won

	Annual interest rates (%)	2008	2007
Won currency	2.00 ~ 9.00	₩ 657,250	₩ 304,606
Foreign currency	1.68 ~ 7.60	4,238,645	3,305,954
		4,895,895	3,610,560
Less: Current maturities		(1,104,858)	(592,047)
		₩ 3,791,037	₩ 3,018,513

See Notes 3 and 9 for collateral arrangements on these loans.

Annual maturities of long term debts, excluding discount on debentures, as of December 31, 2008 are as follows :

In millions of Korean won

Year ending December 31, 2008	Long-term Debts	Debentures
2010	₩ 909,023	₩ 2,320,977
2011	1,436,900	750,000
Thereafter	1,445,114	1,566,092
	₩ 3,791,037	₩ 4,637,069

13. LEASES

As of December 31, 2008, the Group has recorded its capital leases amounting to ₩65,887 million (2007 : ₩43,085 million) as property, plant and equipment. Related depreciation expenses for the year ended December 31, 2008 amounted to ₩9,851 million (2007 : ₩6,043 million).

As of December 31, 2008, future lease payments under capital lease agreements are as follows :

In millions of Korean won

Year ending December 31,	Lease expenses
2009	₩ 21,849
2010	22,126
2011	16,154
	60,129
Less: Unearned interest	(4,248)
Current maturities	(21,849)
	₩ 34,032

As of December 31, 2008, future lease payments under operating lease agreements are as follows :

In millions of Korean won

Year ending December 31,	Lease expenses
2009	₩ 93,463
2010	70,674
2011	56,652
2012	31,334
Thereafter	25,402

14. ACCRUED SEVERANCE BENEFITS

Changes in accrued severance benefits for the years ended December 31, 2008 and 2007 are as follows :

In millions of Korean won

	2008	2007
Beginning balance	₩ 1,426,923	₩ 1,231,617
Payment	(366,689)	(351,344)
Transfer from related companies	2,214	2,691
Increase due to changes in consolidation scope	7,259	30,827
Provision	452,326	533,815
Others	2,316	15,317
	1,560,349	1,462,923
Less : Contribution to the National Pension Fund	(10,716)	(12,827)
Deposits for severance benefits	(960,727)	(861,824)
Ending balance	₩ 588,906	₩ 588,272

15. COMMITMENTS AND CONTINGENCIES

(1) Technical Assistance Agreements

As of December 31, 2008, the Group is a party to various technical assistance agreements with various foreign companies such as Matsushida Inc. in Japan.

(2) Legal Actions

1) As of December 31, 2008, the Company is a defendant (5 cases, USD 130 million and ₩1 billion) and a plaintiff (5 cases, ₩ 6.83 billion) in various foreign and domestic legal actions arising from the normal course of business, including 7 brand infringement cases. The Company believes that, although the outcome of these cases is uncertain, their ultimate resolution would not result in a material loss to the Company.

2) As of December 31, 2008, LG Electronics Inc. is a defendant in 36 foreign legal actions arising from the normal course of business, including 15 intellectual property rights infringement cases and 21 actions for damages. As of December 31, 2008, LG Electronics Inc. is a defendant in 19 domestic legal actions arising from the normal course of business, including 2 intellectual property rights infringement cases and 17 actions for damages.

As of December 31, 2008, LG Electronics Inc. is being investigated by Korean Fair Trade Commission and the authorities in EU due to an illegal agreement between CRT manufacturers. In addition, LG Electronics Canada Inc. was insisted on presenting testimony against an illegal agreement by Court of Ontario, Superior Court of Justice, Toronto Region. LG Electronics Canada Inc. was named as a defendant due to an illegal agreement between CRT manufacturers and a class action is pending at Court of Ontario, Superior Court of Justice, Toronto Region.

As of December 31, 2008, LG Electronics Inc. and LG Electronics U.S.A., Inc. were named as defendants in a consolidated class action regarding the illegal agreement between CRT manufacturers and the class action is pending at Northern District of California, U.S.A. The Company believes that, although the outcome of these cases is uncertain, their ultimate resolution would not result in a material loss to the companies.

3) As of December 31, 2008, LG Display Co., Ltd. is being investigated by Korean Fair Trade Commission and the authorities in U.S.A., Japan and others due to an illegal agreement. Regarding this investigation, LG Display Co., Ltd. entered into a plea agreement that pays penalties for five years with United States Department of Justice and recorded USD 400 million as loss. In addition, LG Display Co., Ltd. was named as a defendant in a class action due to a violation of Antitrust Laws regarding LCD panel sales and the class action is pending at Northern District of California, U.S.A. In addition, LG Display Co., Ltd. and the board are named as defendants in a class action due to a violation of the Securities Exchange Act regarding an illegal agreement of LCD panel sales in February 2007, and the class action is pending at Southern District of New York, U.S.A.

4) Major legal actions other than above cases pending as of December 31, 2008 are as follows :

In millions of Korean won

	Plaintiff		Defendant		Purpose
	Number of cases	Amount	Number of cases	Amount	
LG Chem Ltd.	11	₩3,799	7	₩603	Claim for sales receipt
LG Household & Health Care Ltd.	-	-	4	100 & USD1,800,000	Claim for cancel of patent registration
Coca-Cola Beverage Co.	-	-	1	550	Sale of land compensation for invention
LG Life Science Co., Ltd.	-	-	2	230	Claim for cable rental fee
LG Powercom	1	4,657	1	1,083	Actions for damages
Dacom Multimedia Internet, Inc.	-	-	1	970	Actions for damages and others
LG Telecom Ltd.	-	-	18	550	Claim for share of a loss
LG CNS Co., Ltd.	-	-	3	3,391	Actions for damages and others
Serveone Co., Ltd.	-	-	4	527	Claim for share of a loss

5) As of December 31, 2008, the Group has been named as the defendant and plaintiff in various foreign and domestic legal actions arising from the normal course of business. The Group's management believes that the actions against the Group pending as of December 31, 2008, in aggregate, will not have a material adverse impact on the Group's operations or financial position.

(3) Guarantees

1) As of December 31, 2008, the Company has a joint guarantee for obligations existing before the spin-off, which were assumed by LG Chem, Ltd. and LG Household & Health Care Ltd. on April 1, 2001, assumed by LG Electronics Inc. on April 1, 2002, assumed by LG Life Sciences, Ltd. on August 1, 2002 and assumed by GS Holdings Corp. on July 1, 2004.

2) As of December 31, 2008, LG Chem Ltd. has a joint guarantee for obligations existing before the spin-off, which were assumed by Seetec Co., Ltd. and Lotte Daesan Petrochemical Corporation on January 1, 2005. In addition, LG Chem Ltd. has a guarantee on delivery of products for customers.

3) LG Sports Ltd. spun off and transferred professional soccer business segment to GS Sports Ltd. on June 1, 2004, and completed the spin-off registration on June 4, 2004. LG Sports Ltd. has a joint guarantee for obligations existing before the spin-off, which were assumed by GS Sports Ltd. In conformity with a spin-off plan recognized in a special meeting of shareholders on April 27, 2004, and spin-off agreement between LG Sports Ltd. and GS Sports Ltd., when obligations are generated and determined after the date of spin-off (June 1, 2004), regarding the behavior or fact before the date of spin-off, or when obligations, which were generated and determined before the date of spin-off but were not recorded in the spin-off plan, are generated, the company related to the behavior or fact has obligation. When the relation is uncertain, LG Sports Ltd. and GS Sports Ltd. have obligations according to the net asset ratio (16:84), respectively.

4) As of December 31, 2008, the Group has guarantees up to ₩3,000 million and USD 450 thousand on indebtedness of other companies other than equity-method investees.

(4) Collaterals

1) As of December 31, 2008, the Company has provided 4 blank notes to Woori Bank and other companies in LG Twin Tower as collaterals in relation to rental deposits. In addition, the Company has provided a CD amounting to ₩21.8 billion to the court as a collateral in relation to the indulgence of corporate tax for the interim period ended 2008.

2) Major notes provided as collaterals as of December 31, 2008 are as follows :

In millions of Korean won

	Number of Notes	Purpose
LG Electronics Inc.	1	Guarantees for obligations
LG Innotek Co., Ltd.	1	Guarantees for obligations
Siltron Inc.	3	Borrowings and financial agreements
LG MMA Corp.	1	Tax on oil import
LG Dacom Corporation	1	Operating lease
LG Telecom Ltd.	1	Long-term borrowings
LG CNS Co., Ltd.	2	Fee payment & contract fulfillment
Serveone Co., Ltd.	58	Service contracts

3) As of December 31, 2008, Serveone Co., Ltd. has provided stocks to the Korea Development Bank and other 6 financial institutions as collaterals in relation to BTL business.

(5) Agreements

1) As of December 31, 2008, the Company has bank overdraft facility agreements and payment guarantees for foreign currencies agreements with Woori Bank up to ₩4,500 million and USD 500 thousand, respectively. The Company has a CP loan agreement with NH Bank up to ₩70,000 million. LG Electronics Inc. has bank overdraft facility agreements with Woori Bank up to ₩250,500 million. In addition, LG Electronics Inc. has negotiation agreements for oversea trade receivables with Shinhan bank and other 31 banks up to ₩8,517,225 million and for domestic trade receivables with Woori Bank up to ₩50,000 million.

2) As of December 31, 2008, LG Electronics Inc. has exclusive selling card agreement with Kookmin Bank and others up to ₩200,000 million. In addition, LG Electronics Inc. has an electronic loan agreement with pledge of receivables, which LG Electronics Inc. guarantees to pay the bank when customers discount receivables before the due date of payment, with Shinhan Bank and other 8 banks up to ₩965,450 million.

3) As of December 31, 2008, LG Chem Ltd. and its domestic subsidiaries have bank overdraft facility agreements up to ₩82,000 million, opening agreements of import letters of credit up to US\$ 285 million, and opening agreements of local letters of credit up to ₩142,800 million and US\$ 40 million. In addition, LG Chem Ltd. and its domestic subsidiaries have exporting notes discount agreements up to US\$ 800 million, other payment guarantees for foreign currencies agreements up to US\$ 15 million and other notes discount agreements up to ₩50,000 million.

4) Major agreements other than above as of December 31, 2008 are as follows :

In millions of Korean won

	Foreign currency		Korean currency		Purpose
		Amount		Amount	
LG Household & Health Care Ltd.	USD	7,500,000	₩	219,500	Borrowings, L/C and others
LG MMA Corp.	USD	30,000,000		109,500	Borrowings, discount of notes, L/C and others
LG Life Science Co., Ltd.		-		13,200	Overdrafts
Siltron Inc.	USD	72,300,000		168,000	Overdrafts, L/C and others
Lusem Co., Ltd.	USD	19,700,000		44,000	Borrowings, discount of notes and others
LG Dacom Corporation		-		288,732	Borrowings, overdrafts and others
LG Telecom Ltd.		-		364,500	CP, overdrafts, discount of notes and others
LG CNS Co., Ltd.	USD	41,000,000		80,339	CP, overdrafts, discount of notes, L/C and others
LG N Sys Co., Ltd.	USD	5,418,000		70,100	CP, overdrafts, L/C and other
Serveone Co., Ltd.	USD	1,000,000		387,000	Purchase card agreement, discount of notes, L/C and others
LG Sports Ltd.		-		10,000	Discount of notes
GILR Corporation		-		198,843	Purchase card agreement, discount of notes and others

(6) As of December 31, 2008, domestic companies are contingently liable for notes from export sales which were discounted through financial institutions in the ordinary course of business amounting to ₩535,681 million.

(7) As of December 31, 2008, LG Electronics Inc. contracted to transfer primary beneficiary certificates up to ₩190 billion to the special purpose companies by revolving for three years on May 18, 2006. In relation to this agreement, the Company has an obligation to maintain the balance of receivables transferred to the special purpose companies over ₩212,000 million.

(8) As of December 31, 2008, LG Dow Polycarbonate Ltd. is to maintain debt ratio (net liabilities / shareholders' equity) below 25% under the loan agreement between LG Dow Polycarbonate Ltd. and bond financial institutions. When LG Dow Polycarbonate Ltd. fails to comply with a certain percentage of debt ratio and interest coverage ratio, it is not allowed to provide dividend without consent of bond financial institutions.

(9) In accordance with the resolution of the Board of Directors on December 13, 2007, the Company has entered into a LG brand license agreement with companies including LG Electronics Inc.

16. DERIVATIVES

As of December 31, 2008, the Group's foreign exchange forward contracts and interest rate swaps are as follows :

Foreign exchange forward contracts

In millions of Korean won

Type of contract	Currency	Contract Amount	Gain or loss on statements of income		Accumulated other comprehensive loss (*)
			Gains	Losses	
Forward	USD	₩1,228	₩-	₩4	₩-
	KRW	166,156	4,407	13,359	-
	EUR	84,370	-	1,544	(2,298)
Option	KRW	11	88,282	5,006	-
Swap	USD	188,625	-	45,536	-
	EUR	438,971	-	49,580	-
	KRW	767,147	137,308	16,611	(28,857)
			₩229,997	₩131,640	₩(31,155)

Interest rate swap contracts

In millions of Korean won

Currency	Amount	Annual Interest rate[%]		Gain or loss on statements of income		Accumulated other comprehensive loss (*)
		Receipts	Disbursement	Gains	Losses	
KRW	₩20,000	4.95%	3M CD+0.20%	₩-	434	₩-
KRW	10,000	5.60%	3M CD+0.79%	-	128	-
KRW	74,000	6.63%	MOR+1.20%	-	37,725	(5,339)
KRW	9,774	6.68%	3M CD+1.00%	-	219	-
KRW	1,544	7.13%	3M CD+1.53%	-	-	77
				₩-	₩38,506	₩(5,262)

Foreign currency - Interest swap contracts

In millions of Korean won

Currency	Contract		Annual interest rate [%]		Gain or loss on statements of income		Accumulated other comprehensive loss (*)	
	Amount	Currency	Receipts	Disbursement	Gains	Losses		
KRW	₩229,400	USD	₩200	8.20%	8.25%	₩63,479	₩-	₩(177)

(*)The amount of accumulated other comprehensive loss is recorded after considering the deferred tax effect.

According to accounting of cash flow hedges, the derivatives are expected to be exposed to cash flow fluctuation risk at most by October 30, 2019. Among gain or loss on valuation of derivative instruments that are recorded as accumulated other comprehensive loss, ₩11,198 million is expected to be recognized as losses on statements of income.

As of December 31, 2007, the Group's foreign exchange forward contracts and interest rate swaps are as follows :

Foreign exchange forward contracts

In millions of Korean won

Type of contract	Contract		Gain or loss on statements of income		Accumulated other comprehensive loss (*)
	Currency	Amount	Gains	Losses	
Forward	USD	₩367,048			
	KRW	985			
Future	EUR	95,833	₩1,159	₩6,242	₩-
	JPY	383	5	-	-
Option	USD	231,735			
	EUR	93,218	368	14,098	-
Swap	USD	231,735			
	EUR	93,218	11,551	59,542	(6,728)
			₩13,083	₩79,882	₩(6,728)

Interest rate swap contracts

In millions of Korean won

Currency	Amount	Gain or loss on statements of income		Gain or loss on statements of income		Accumulated other comprehensive loss (*)
		Receipts	Disbursement	Gains	Losses	
USD	₩469,100	5.62%	3M Libor + 65bp	₩-	₩14,254	₩-
USD	28,146	5.59%	3M Libor floating rate	-	-	(385)
KRW	20,000	4.61%	3M CD floating rate	-	-	-
KRW	10,000	4.7%	3M CD + 0.73%	9	-	-
KRW	10,000	5.6%	3M CD + 0.79%	12	-	-
KRW	20,000	4.95%	3M CD + 0.20%	35	-	-
				₩574	₩14,254	₩(385)

Foreign currency - Interest swap contracts

In millions of Korean won

Currency	Contract		Annual interest rate [%]		Gain or loss on statements of income		Accumulated other comprehensive loss (*)	
	Amount	Currency	Receipts	Disbursement	Gains	Losses		
KRW	₩229,400	USD	₩187,640	8.20%	8.25%	₩1,704	₩-	₩(3,174)

(*)The amount of accumulated other comprehensive income (loss) is recorded after considering the deferred tax effect.

17. SHAREHOLDERS' EQUITY

Capital Stock

Capital stock as of December 31, 2008 and 2007 is as follows :

In millions of Korean won

No. of shares authorized	Par value	Type	No. of shares issued	Capital stock
700,000,000 shares	5,000 won	Common stock	172,557,131 shares	₩862,786
	5,000 won	Preferred stock	3,314,677 shares	₩16,573

Capital Surplus

As of December 31, 2008, capital surplus consists of paid-in capital in excess of par value amounting to ₩898,266 million and other capital surplus amounting to ₩1,315,287 million.

Capital Adjustments

Capital adjustments as of December 31, 2008 and 2007 consist of the following :

In millions of Korean won

	2008	2007
Treasury stock	₩(15,252)	₩(19,757)
Other capital adjustments	(41,763)	(40,398)
	₩(57,015)	₩(60,155)

The Company has 610,789 shares of common stock and 6,810 shares of preferred stock as of December 31, 2008 and 791,789 shares of common stock and 6,810 shares of preferred stock as of December 31, 2007. In 2008, The Group sold 181,000 shares of treasury stock and recorded ₩4,548 million of gain on disposition of treasury stock excluding tax effect in other capital surplus.

The Company purchased treasury stock to hedge the cost of stock option and has a plan to hold the treasury stock for exercise of stock option (see note 23).

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) as of December 31, 2008 and 2007 consists of the following :

In millions of Korean won

	2008	2007
Loss on valuation of available-for-sale securities	₩(57,978)	₩(52,055)
Gain on foreign operation translation	303,217	12,531
Loss on valuation of equity-method investments	(78,911)	(90,460)
Loss on valuation of derivative instruments	(15,566)	(2,001)
	₩150,762	₩(131,985)

Retained Earnings

Retained earnings as of December 31, 2008 and 2007 consist of the following :

In millions of Korean won

	2008	2007
Legal reserve	₩114,874	₩101,727
Earned surplus reserve	114,874	101,727
Voluntary reserve	2,419,286	1,636,031
Reserve for business rationalization	431,065	431,065
Reserve for financial structure improvement	84,458	84,458
Reserve for investment losses	1,903,763	1,120,508
Unappropriated retained earnings	510,848	507,073
	₩3,045,008	₩2,244,831

1) Legal Reserve

The Korean Commercial Code requires the Company to appropriate an amount equal to a minimum of 10% of its cash dividends as a legal reserve until such reserve equals 50% of its paid-in capital. This reserve is not available for the payment of cash dividends. Subject to the approval of the Board of Directors, it may be transferred to common stock or may be used to reduce accumulated deficit, if any.

2) Other Reserves

Pursuant to the Korean tax laws, the Company is allowed to claim the amount of retained earnings appropriated for reserve for loss on investment as deductions in its income tax return. This reserve is not available for the payment of dividends until used for the specified purpose or otherwise reversed.

18. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Consolidated statements of comprehensive income for the years ended December 31, 2008 and 2007 are as follows :

In millions of Korean won

	2008	2007
Net income	₩ 2,966,795	₩ 3,632,135
Other comprehensive income (loss):		
Loss on valuation of available-for-sale securities (tax effect 2008 : (928) 2007 : (4,019))	(17,800)	(1,698)
Gain (loss) on foreign operation translation (tax effect 2008 : 58,911 2007 : 16,645)	1,129,960	(117,217)
Gain (loss) on valuation of derivative instruments (tax effect 2008 : 698 2007 : (1,388))	13,381	(10,376)
Gain on valuation of equity-method investments (tax effect 2008 : 3,709 2007 : 17,764)	71,146	37,969
	1,196,687	(91,322)
Comprehensive income	₩ 4,163,482	₩ 3,540,813
Parent interest in comprehensive income	1,194,862	1,020,894
Minority interests in comprehensive income	2,968,620	2,519,919

19. INCOME TAX

Income tax expense from continuing operation for the years ended December 31, 2008 and 2007 consists of the following :

In millions of Korean won

	2008	2007
Current income tax	₩ 1,342,635	₩ 822,854
Income tax directly adjusted to capital surplus	(224,469)	(77,622)
Changes in deferred income tax assets (liabilities) in tax credits carried forward	88,095	(130,503)
Changes in deferred income tax assets (liabilities) in temporary differences	(132,818)	(53,356)
Changes in deferred income tax due to deficit carried forward	26,654	252,783
Income tax expense for discontinued operations	-	(5,687)
Others	(7,940)	(15,925)
Income tax expense from continuing operation	₩ 1,092,157	₩ 792,544

Components of deferred income tax assets (liabilities) as of December 31, 2008 are as follows :

In millions of Korean won

	2008				Deferred income tax assets (liabilities)
	Beginning balance	Changes in consolidated companies	Changes	Ending balance	
Accrued severance benefits	₩ 171,493	₩ 836	₩ 52,868	₩ 225,197	₩ 49,543
Severance insurance plans	(225,385)	-	32,221	(193,164)	(42,496)
Allowance for doubtful accounts	229,381	1,578	(67,547)	163,412	39,493
Accrued interest income	(36,358)	(1,297)	(84,514)	(122,169)	(29,565)
Derivatives	59,763	-	(198,675)	(138,912)	(33,247)
Inventory	90,817	-	10,992	101,809	23,664
Depreciation	454,556	-	199,474	654,030	136,234
Gain on valuation of equity-method investments	(1,376,409)	(9,328)	(1,329,600)	(2,715,337)	(597,352)
Deficit carried forward	1,204,057	-	134,163	1,338,220	304,461
Tax credits carried forward	710,067	39,910	(50,712)	699,265	699,265
Others	1,294,493	1,688	2,679,618	3,975,799	1,021,050
	2,576,475	33,387	1,378,288	3,988,150	1,571,050
Deduction :					
Gain on valuation of equity-method investments	77,785			4,452	979
Tax credits carried forward	9,603			46,986	46,986
Deficit carried forward	-			5,531	1,217
Others	211,476			488,627	302,800
Total	2,277,611			3,442,554	1,219,068
Deferred income tax Assets	1,060,711			1,219,068	1,219,068
Other consolidated deferred income tax assets	7,669			35,902	35,902
Total	₩ 1,068,380			₩ 1,254,970	₩ 1,254,970

The Company periodically assesses its ability to recover deferred income tax assets. In the event of a significant uncertainty regarding the Company's ultimate ability to recover such assets, a valuation allowance is recorded to reduce the assets to its estimated net realizable value. Deferred income tax assets are recognized to the extent that it is almost certain that such deferred income tax assets will be realized.

The statutory income tax rate, including resident tax surcharges, applicable to LG Corp. and its domestic subsidiaries was 27.5% for 2008 and 2007. Deferred income tax assets were computed by applying the present tax rate of 24.2% (the current temporary difference) and 22% (the non-current temporary difference) for the temporary differences expected to be realized in the future.

As a result of tax adjustments and tax credits, effective tax rate of the Company for the years ended December 31, 2008 and 2007 was approximately 27% and 18%, respectively.

20. EARNINGS PER COMMON SHARE

Basic income per common share for continuing operations and basic net income per common share for the years ended December 31, 2008 and 2007 is calculated as follows :

Basic income per common share for continuing operations

In millions of Korean won

	2008	2007
Parent interests in income - continuing operations	₩912,115	₩926,163
Preferred stock dividends	(2,646)	(2,646)
Additional income available for preferred stock	(14,745)	(15,015)
Income available for common stock - continuing operations (A)	894,724	908,502
Weighted average number of common shares outstanding (B) (*)	171,808,134 shares	171,765,342 shares
Parent interest in income per common share - continuing operations (A/B)	₩5,208	₩5,289

Basic net income per common share

In millions of Korean won

	2008	2007
Parent interests in net income	₩912,115	₩922,356
Preferred stock dividends	(2,646)	(2,646)
Additional income available for preferred stock	(14,745)	(14,943)
Net income available for common stock (A)	894,724	904,767
Weighted average number of common shares outstanding (B) (*)	171,808,134 shares	171,765,342 shares
Parent interest in basic net income per common share (A/B)	₩5,208	₩5,267

(*) Treasury stock is deducted from outstanding common stock.

The weighted average number of common shares outstanding for the year ended December 31, 2008 is calculated as follows :

In millions of Korean won

Date	No of common shares	Weighted rate	Weighted average number of common shares
2008.01.01	171,765,342	366	62,866,115,172
2008.09.29	Disposal of treasury stock 50,435	94	4,740,890
2008.09.30	Disposal of treasury stock 8,000	93	744,000
2008.10.01	Disposal of treasury stock 24,000	92	2,208,000
2008.10.02	Disposal of treasury stock 12,000	91	1,092,000
2008.10.13	Disposal of treasury stock 38,379	80	3,070,320
2008.10.14	Disposal of treasury stock 48,186	79	3,806,694
	171,946,342		62,881,777,076

The weighted average number of common shares in 2007 was calculated excluding treasury stock from total number of shares issued of the Group.

21. DIVIDENDS

Details of dividends of the Company for the years ended December 31, 2008 and 2007 are as follows :

	2008	2007
Shares entitled to dividends		
Common stock	171,946,342 shares	171,765,342 shares
Preferred stock	3,307,867 shares	3,307,867 shares
Dividend per share		
Common stock	₩750 (15%)	₩750 (15%)
Preferred stock	800 (16%)	800 (16%)
Dividend amount		
Common stock	₩128,960 million	₩128,824 million
Preferred stock	2,646 million	2,646 million
	₩131,606 million	₩131,470 million

Dividend payout ratio for the years ended December 31, 2008 and 2007 is as follows :

In millions of Korean won

	2008	2007
Total dividends (A)	₩131,606	₩131,470
Net income (B)	912,115	922,356
Dividend payout ratio ((A)/(B))	14.43%	14.25%

Dividend yield ratio for the years ended December 31, 2008 and 2007 is as follows :

In Korean won

	2008		2007	
	Common shares	Preferred shares	Common shares	Preferred shares
Dividend per share (A)	₩750	₩800	₩750	₩800
Market price as of the balance sheet date (B)	42,700	16,250	69,900	33,950
Dividend yield ratio ((A)/(B))	1.76%	4.92%	1.07%	2.36%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

22. RELATED PARTY TRANSACTIONS

Significant transactions which occurred in the ordinary course of business with subsidiaries and affiliated companies for the years ended December 31, 2008 and 2007, and the related account balances as of December 31, 2008 and 2007 are summarized as follows :

(1) Transactions and balances between the Company and its consolidated subsidiaries

In millions of Korean won

Company	Sales	Purchases	Receivables	Payables
LG Electronics Inc.	₩111,693	₩3,982	₩14,629	₩13,910
LG Chem Ltd.	40,318	-	7,723	6,024
LG Dacom Corporation	3,251	3	-	577
LG Display Co., Ltd.	27,312	-	2,577	2,727
LG CNS Co., Ltd.	4,466	1,778	160	758
Serveone Co., Ltd.	1,778	13,221	2,711	2,474
LG Sports Ltd.	45	10,261	-	951
Others	26,764	8,959	24,015	2,551
2008 Total	₩215,627	₩38,204	₩51,815	₩29,972
2007 Total	₩182,486	₩70,355	₩20,301	₩28,161

(2) Transactions and balances between consolidated subsidiaries :

In millions of Korean won

Company	Counterpart	Sales	Receivables
LG Electronics Inc.	LG Telecom Ltd. and others	₩20,864,114	₩3,527,775
LG Chem Ltd.	LG Household & Health Care Ltd. and others	2,458,577	352,301
LG Dacom Corporation	LG Powercom and others	217,154	46,837
LG Household & Health Care Ltd.	LG Chem Ltd. and others	71,619	31,467
Others		23,741,519	3,684,654
2008 Total		₩47,352,983	₩7,643,034
2007 Total		₩38,379,009	₩6,141,513

(3) Transactions and balances between the Group and equity-method investees :

In millions of Korean won

Company	Counterpart	Sales	Purchases	Receivables	Payables
LG Electronics Inc.	HLDS (Japan) and others	₩2,192,306	₩2,088,943	₩291,852	₩626,443
LG Chem Ltd.	Seetec Co., Ltd. and others	699,067	236,259	34,871	16,163
LG Household & Health Care Ltd.	Cognis Rika	41,223	130,273	17,546	26,363
Others		433,157	408,699	95,350	166,484
2008 Total		₩3,365,753	₩2,864,174	₩439,619	₩835,453
2007 Total		₩2,228,258	₩3,552,072	₩305,717	₩681,779

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Guarantees of the Group on the indebtedness of its consolidated subsidiaries, equity-method investees and other related parties :

In millions of Korean won

	2008	2007
LG Electronics Inc.	₩3,484,728	₩2,666,671
LG Chem Ltd.	189,060	160,285
LG Household & Health Care Ltd.	10,459	5,183
Others	62,873	12,150
	₩3,747,120	₩2,844,289

(5) Significant key management compensation cost for the controlling company and key subsidiaries for the years ended December 31, 2008 and 2007 are as follows :

In millions of Korean won

	LG Corp.	LG Electronics Inc.	LG Chem Ltd.	Others (*)	Total
Short-term salaries	₩12,055	₩27,933	₩58,283	₩36,689	₩134,960
Severance benefits	1,451	3,357	5,126	11,782	21,716
Compensation expense related to stock options	(13,145)	(1,902)	1,059	-	(13,988)
2008 Total	₩361	₩29,388	₩64,468	₩48,471	₩142,688
2007 Total	₩52,651	₩28,867	₩58,040	₩42,873	₩182,431

(*) Including LG Household & Health Care Ltd., LG Telecom Ltd., LG Life Science Co., Ltd. LG Dacom Corporation and LG GIIR Corporation.

23. STOCK OPTION PLAN

(1) Cash-settled share-based payment transactions

The Group grants stock options to its executives and employees who contribute to the Group's development in accordance with the resolution of the Board of Directors or approval of the shareholders of the Group.

The details of the stock options are as follows as of December 31, 2008 :

	LG Corp.	LG Electronics Inc.	LG Chem Ltd.	LG Display Co.,Ltd.
Grant date	March 24, 2005, the resolution of the Board of Directors	March 22, 2005, the resolution of the Board of Directors	March 25, 2005, the resolution of the Board of Directors	April 7, 2005, the resolution of the Board of Directors
Grant method	To compensate the difference between market price of the stock and exercise price of the option			
Exercisable period	Within 4 years from the day after 3 years from grant date	Within 4 years from the day after 3 years from grant date	Within 4 years from the day after 3 years from grant date	Within 4 years from the day after 3 years from grant date
Number of shares granted	768,000 shares (*1). If the increase ratio of the stock price for three years from grant date of the stock options is not higher than that of the KOSPI (Korea Composite Stock Price Index), the final number of shares to be exercised shall be 50% of number of shares to be exercised at grant date.	766,000 shares (*2). If the increase ratio of the stock price for three years from grant date of the stock options is not higher than that of the KOSPI (Korea Composite Stock Price Index), the final number of shares to be exercised shall be 50% of number of shares to be exercised at grant date.	568,000 shares (*3). If the increase ratio of the stock price for three years from grant date of the stock options is not higher than that of the KOSPI (Korea Composite Stock Price Index), the final number of shares to be exercised shall be 50% of number of shares to be exercised at grant date.	450,000 shares (*4). If the increase ratio of the stock price for three years from grant date of the stock options is not higher than that of the KOSPI (Korea Composite Stock Price Index), the final number of shares to be exercised shall be 50% of number of shares to be exercised at grant date.
Exercise price	₩ 24,730 per share	₩ 71,130 per share	₩ 42,530 per share	₩ 44,050 won per share (*5)
Exercisable condition	For executives and employees who have worked for the company for more than two years from grant date			

(*1) As of December 31, 2008, the number of shares of LG Corp. to be exercised is 517,000 shares as 251,000 shares of stock options were canceled in 2005 due to the retirement and other reason.

(*2) Based on the stock options contracts, it confirmed 361,000 shares to be exercised consisting of 50% of the outstanding shares, of which was not forfeited. By exercising the options, 53,500 shares were deducted from 307,500 shares of total outstanding shares.

(*3) As of December 31, 2008, the number of shares of LG Chem Ltd. is nil as 347,000 shares and 221,000 shares of stock options were canceled due to the retirement and other reason.

(*4) Based on the stock option contract, 10,000 shares could still be exercised consisting of 50% of the outstanding shares, of which was not forfeited.

(*5) The exercise price of LG Display Co., Ltd. decreased from ₩ 44,260 to ₩ 44,050 per share due to the additional issuance of common stock in 2005.

(2) Equity-settled share-based payment transactions

GIIR Inc., a subsidiary of the Company, has granted share options on its ordinary shares to qualifying employees and executives. As of December 31, 2008, share option arrangements are as follows.

Company	First stock option	Second stock option	Third stock option
Grant date	August 22, 2003, the resolution of the Board of Directors	December 30, 2003, the resolution of the Board of Directors	August 10, 2004, the resolution of the Board of Directors
Grant method	To be granted to purchase the Company's common stocks at exercise price of the option		
Exercisable period	Within 7 years from the day after 3 years from grant date	Within 8 years from the day after 3 years from grant date	Within 9 years from the day after 3 years from grant date
Number of shares granted (*)	204,000 shares	35,000 shares	130,000 shares
Exercise price	₩ 19,412 per share	₩ 21,722 per share	₩ 18,947 per share
Exercisable condition	For executives and employees who have worked for the company for more than three years from grant date		

(*) As of December 31, 2008, the number of shares to be exercised is 323,000 shares as 46,000 shares of stock options were canceled due to the retirement and other reason.

Stock option compensation cost was calculated under the following assumptions :

Company	1st	2nd	3rd
Fair value of stock at grant date	₩ 19,100	₩ 20,900	₩ 19,100
Present value of exercise price	16,027	17,834	16,030
Risk-free interest rate	4.79%	4.9%	4.18%
Expected life	4year		
Expected volatility	1.001	1.001	1.577
Compensation cost per share	3,073	3,066	9,257
Total compensation cost	578 million	95 million	965 million

(3) Compensation expense related to the stock options for the years ended December 31, 2008 and 2007 consists of the following :

	2008	2007
LG Corp. (*1)	₩ (13,145)	₩ 29,942
LG Electronics Inc. (*1)	(6,082)	11,256
LG Chem Ltd.	1,059	11,856
LG Display Co., Ltd. (*1)	(560)	560
GIIR Corp. (*2)	-	-
	₩ (18,728)	₩ 53,614

(*1) As the decline of stock price of LG Corp., LG Electronics Inc. and LG Display Co., Ltd. during 2008, accrual for the stock option compensation for 2007 was decreased in 2008.

(*2) There was no compensation expense that should be recognized during 2008. Due to forfeited shares in 2007, stock options worth ₩ 60 million were reclassified as other capital surplus.

24. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

As of December 31, 2008 and 2007, monetary assets and liabilities denominated in foreign currencies consist of the following :

	Foreign currencies (In thousands)		Korean won equivalent (In millions)			
	2008	2007	2008	2007		
Cash and cash equivalents	USD	599,696	USD	101,518	₩ 1,937,075	₩ 814,473
	EUR	126,200	EUR	137,863		
	JPY	908,161	JPY	1,340,986		
	CNY	2,341,000	CNY	1,577,331		
	VND	7,984,867	VND	24,805,476		
	and others		and others			
Trade accounts and notes receivable	USD	1,652,483	USD	1,316,684	6,525,773	4,475,653
	EUR	381,373	EUR	296,164		
	JPY	2,253,909	JPY	20,400,793		
	CNY	3,594,143	CNY	4,144,048		
	VND	13,945,505	VND	16,189,577		
	and others		and others			
Other accounts receivable	USD	3,213	USD	21,348	32,505	97,016
	EUR	525	EUR	2,445		
	JPY	748	JPY	42,000		
	CNY	154,001	CNY	6,099		
	VND	19,120,338	VND	8,377,888		
	and others		and others			
Trade accounts and notes payable	USD	916,111	USD	666,328	3,876,012	2,795,321
	EUR	1,524	EUR	72,534		
	JPY	7,795,967	JPY	14,427,481		
	CNY	7,051,000	CNY	10,003,473		
	VND	24,771,902	VND	50,254,662		
	and others		and others			
Other accounts payable	USD	683,409	USD	1,186,673	1,045,103	3,995,371
	EUR	134	EUR	181,031		
	JPY	11,775,672	JPY	3,906,565		
	CNY	65,954	CNY	8,553,351		
	VND	389,640	VND	18,945,562		
	and others		and others			

In addition, assets and liabilities of oversea subsidiaries are recorded in foreign currency.

25. SUPPLEMENTAL CASH FLOW INFORMATION

Significant transactions not affecting cash flows for the years ended December 31, 2008 and 2007 are as follows :

	In millions of Korean won	
	2008	2007
Reclassification of construction-in-progress to property, plant and equipment	₩ 1,910,153	₩ 1,025,779
Reclassification of long-term debts to current maturities	1,104,858	592,047
Reclassification of debentures to current maturities	1,928,398	1,470,086
Reclassification of long-term receivables to current maturities	197,633	215,253
Reclassification of long-term prepaid expenses to current maturities	44,139	-

26. SELLING AND ADMINISTRATIVE EXPENSES

Details of selling and administrative expenses for the year ended December 31, 2008 and 2007 are as follows :

	In millions of Korean won	
	2008	2007
Salaries	₩ 2,719,198	₩ 2,114,107
Provision for severance benefits	185,447	180,744
Employee benefits	546,634	412,899
Rent	590,986	522,024
Depreciation	706,788	770,823
Amortization of intangible assets	192,983	284,916
Bad debt expenses	72,020	93,959
Advertising expenses	2,171,697	1,457,145
Various service fees	2,009,765	1,567,400
Warranty expenses	1,353,458	999,706
Freight	2,332,972	1,906,501
Sales promotional expenses	516,172	963,684
Others	2,067,255	1,695,748
Salaries	185,447	180,744
	₩ 15,465,375	₩ 12,969,656

27. SEGMENT INFORMATION

Financial data by business division as of and for the years ended December 31, 2008 and 2007 is as follows :

	In millions of Korean won						
	2008		2007		Total Consolidated adjustment	Total	
	Electronics	Chemicals	Communications	Others			
Sales							
External	₩ 110,079,626	₩ 21,446,345	₩ 7,756,813	₩ 5,510,584	₩ 144,793,368	₩ (54,570,884)	₩ 90,222,484
Inter-segment	(46,704,899)	(4,076,307)	(679,083)	(3,110,595)	(54,570,884)	54,570,884	-
	₩ 63,374,727	₩ 17,370,038	₩ 7,077,730	₩ 2,399,989	₩ 90,222,484	₩ -	₩ 90,222,484
Operating income	₩ 4,267,669	₩ 1,721,800	₩ 683,700	₩ 414,152	₩ 7,087,321	₩ (165,890)	₩ 6,921,431
Assets	59,287,797	13,092,194	7,961,804	10,035,426	90,377,221	(25,595,123)	64,782,098

In millions of Korean won

	2007						
	Electronics	Chemicals	Communications	Others	Total	Consolidated adjustment	Total
Sales							
External	₩89,478,231	₩18,983,249	₩7,077,841	₩4,271,101	₩119,810,422	₩(43,522,088)	₩76,288,334
Inter-segment	(35,921,979)	(4,714,140)	(549,819)	(2,336,150)	(43,522,088)	43,522,088	-
	₩53,556,252	₩14,269,109	₩6,528,022	₩1,934,951	₩76,288,334	₩-	₩76,288,334
Operating income	₩2,965,652	₩1,396,691	₩597,250	₩329,290	₩5,288,883	₩(218,114)	₩5,070,769
Assets	47,135,307	12,370,620	7,388,115	7,749,801	74,643,843	(20,563,619)	54,080,224

Financial data by geographic area as of and for the years ended December 31, 2008 and 2007 is as follows :

	2008								
	Domestic(*)	China	Asia	North America	Europe	Others	Total	Consolidated adjustment	Total
Sales									
External	₩66,381,450	₩22,846,617	₩10,737,033	₩21,214,584	₩18,718,221	₩4,895,463	₩144,793,368	₩(54,570,884)	₩90,222,484
Inter-segment	(34,815,758)	(9,174,134)	(1,903,862)	(3,973,378)	(4,593,735)	(110,017)	(54,570,884)	54,570,884	-
	₩31,565,692	₩13,672,483	₩8,833,171	₩17,241,206	₩14,124,486	₩4,785,446	₩90,222,484	₩-	₩90,222,484
Operating income	₩5,804,543	₩252,595	₩195,165	₩223,369	₩320,419	₩291,230	₩7,087,321	₩(165,890)	₩6,921,431
Assets	67,122,569	6,866,212	3,716,972	4,899,929	5,570,499	2,201,040	90,377,221	(25,595,123)	64,782,098

	2007								
	Domestic(*)	China	Asia	North America	Europe	Others	Total	Consolidated adjustment	Total
Sales									
External	₩43,522,029	₩18,252,463	₩9,771,264	₩22,967,249	₩18,252,021	₩7,045,396	₩119,810,422	₩(43,522,088)	₩76,288,334
Inter-segment	(14,369,029)	(7,416,795)	(4,593,195)	(7,402,452)	(7,450,047)	(2,290,570)	(43,522,088)	43,522,088	-
	₩29,153,000	₩10,835,668	₩5,178,069	₩15,564,797	₩10,801,974	₩4,754,826	₩76,288,334	₩-	₩76,288,334
Operating income	₩2,925,192	₩623,140	₩329,332	₩611,603	₩613,049	₩186,567	₩5,288,883	₩(218,114)	₩5,070,769
Assets	35,229,930	10,229,352	5,405,264	10,217,704	10,171,719	3,389,874	74,643,843	(20,563,619)	54,080,224

(*) Domestic sales include the exports made based on local letters of credit.

28. DISCONTINUED OPERATIONS

In 2007, a representative director of LG Chem. Ltd. approved to dispose 3 departments; Safety materials, AMS filters and Fluorescent materials.

(1) Discontinued operations' loss for the year ended December 31, 2007 is as follows :

In millions of Korean won

Company	Safety materials	AMS filters	Fluorescent materials
Impairment loss on discontinued operations assets	₩(2,495)	₩(4,765)	₩(261)
Loss on safety materials department (excluding impairment loss)	(6,362)	(6,380)	(416)
Discontinued operations loss before income tax expense	(8,857)	(11,145)	(677)
Tax effect	2,436	3,065	186
Discontinued operations loss after income tax expense	₩(6,421)	₩(8,080)	₩(491)

(2) In 2007, cash flows are as follows :

In millions of Korean won

Company	Safety materials	AMS filters	Fluorescent materials
Cash flows from operating activities	₩2,166	₩967	₩2,044
Cash flows from investing activities	3,673	(2,056)	21
Cash flows from financing activities	(5,839)	1,089	(2,065)
Total	₩-	₩-	₩-

29. BUSINESS COMBINATION (CONSOLIDATION)

(1) Transfer of business between LG Electronics Inc., a subsidiary of Group, and LG Micron Ltd., a subsidiary of LG Electronics Inc.

After the board of directors' authorization dated on February 21, 2008, LG Electronics Inc., effective on May 1, 2008, made investment in kind in LG Micron Ltd. and transferred its Printed Circuit Board ("PCB") division to LG Micron Ltd., and acquired the PDP Rear Plate ("PRP") division from LG Micron Ltd.

As a result of transaction above, LG Electronics Inc. measured the transferred assets and liabilities in accordance with the Accounting Standards for Business Combination and received 3,276,324 common shares of LG Micron Ltd. and ₩56,859 million in cash for settlement of the transaction.

Condensed financial information of the transferred divisions as of May 1, 2008 was as follows :

In millions of Korean won

	Printed Circuit Board ("PCB") Division	PDP Rear Plate ("PRP") Division
Assets :		
Quick assets	₩192	₩256
Inventories	40,432	1,640
Tangible assets	145,845	102,240
Intangible assets	356	1,100
	₩186,825	₩105,236
Liabilities :		
Current liabilities	₩700	₩-
Non-current liabilities	3,375	900
	₩4,075	₩900

(2) Business acquisition of LG Chem. Ltd.

Effective on September 1, 2008, based on authorization of the board of directors on June 23, 2008, LG Chem. Ltd., subsidiary of Group, acquired the SAP division including the related facilities located in Kim-chun plants of Kolon Ltd. LG Chem. Ltd. began to control the business based on the contract dated on September 1, 2008. Details of the transaction are as follows :

1) Assets and liabilities transferred by business acquisition were measured in accordance with the Accounting Standards for Business Combination.

2) Consideration paid in exchange for the business acquisition and others

a. Accounting for the transaction due to acquisition of the SAP division is as follows :

In millions of Korean won

	Amounts
Purchase cost	₩87,000
Fair value of assets and liabilities	60,908
Goodwill	₩26,092

b. Changes of goodwill recognized through business acquisition after the acquisition date are as follows :

In millions of Korean won

	Amounts
Initial goodwill	₩26,092
Amortization cost (*)	870
Ending goodwill	₩25,222

(*) Goodwill is amortized over ten years using the straight line method.

c. Condensed balance sheet of the SAP division of Kolon Ltd. as of September 1, 2008 is as follows :

In millions of Korean won

	Amounts
Net of current assets and current liabilities	₩14,372
Non-current assets	46,536
	₩60,908

d. Others

Based on the contracts between LG Chem. Ltd. and Kolon Ltd., the value of assets and liabilities could be adjusted by the result of due diligence and whether the creditors of the liabilities agree on the terms.

(3) Merge between LG Chem. Ltd. and LG Petrochemical Co., Ltd.

LG Chem. Ltd. concluded a consolidation agreement with LG Petrochemical Co., Ltd. on July 10, 2007 according to decisions of the executive directors on July 5, 2007 and merged on November 1, 2007 after approvals at the general meeting of shareholders.

LG Chem. Ltd. issued 0.4805033 shares (par value : ₩5,000) for each share of LG Petrochemical Co., Ltd. excluding shares of LG Petrochemical Co., Ltd. (percentage of ownership : 40%, 18,080,000 shares) that is held by LG Chem. Ltd. and treasury stocks (percentage of ownership : 10.21%, 4,615,042 shares).

Assets and liabilities that were acquired by LG Chem. Ltd. were estimated at book value in consolidated financial statements according to the Accounting Standards for Business Combination (consolidation between parents and subsidiaries).

LG Chem. Ltd. calculated ₩520,638 million as a paid-in capital in excess of par value in non-consolidated financial statements after deducting the difference between acquisition payment and net asset value since acquisition payment was greater than net asset value of LG Petrochemical Co., Ltd.

30. UNCERTAINTIES RESULTING FROM THE CURRENT GLOBAL FINANCIAL CRISIS AND THE APPRECIATION OF EXCHANGE RATES

The Republic of Korea and private sectors are going through the financial restructuring process to mitigate the financial uncertainties and risks due to the global financial crisis. The government is currently proposing amendments to regulations relating to the financial matters so the companies can survive and even operate it more profitable and efficient. The Company and its subsidiaries can be affected by such economic conditions directly or indirectly. Even though this uncertainty resulted from such conditions is possibly reflected on the management judgment of Company and its subsidiaries when they prepare the financial statements, the outcome of this uncertainty could be significantly different from the accompanying financial statements.

31. SUBSEQUENT EVENTS

(1) Issuance of debentures

After December 31, 2008, issuances of debentures of subsidiaries are as follows :

In millions of Korean won

	Kind of bond	Denomination	Rate of interest (%)
Investee :			
LG Electronics Inc.		₩190,000	5.99
LG Chem Ltd.		150,000	5.38
LG Dacom Corporation	Unguaranteed bond	100,000	5.85
LG CNS Co., Ltd.		40,000	6.10
Siltron Inc.		60,000	7.40
Serveone Co., Ltd.		30,000	6.80
Total		₩570,000	

(2) Increased paid-in capital

On March 13, 2009, the board of directors of V-ENS Co., Ltd. decided to issue additional common stocks (number of shares : 50,000, Issue price : ₩100,000 /per share).

(3) Equipment investment

On February 26, 2009, the board of directors of LG TeleCom, Ltd. decided that the company will invest in network equipment (Amounts : ₩185,500 million, Term : January 2009 ~ June 2009).

(4) Change of affiliates

CCKBC (Netherlands) Holding I BV and CCKBC (Netherlands) Holding II BV, the subsidiaries of LG Household & Health Care Ltd., were liquidated on January 5, 2009.