

LG Chem, Ltd. and Subsidiaries

Interim Consolidated Financial Statements

June 30, 2014 and 2013

LG Chem, Ltd. and Subsidiaries
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June 30, 2014 and 2013

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Report on Review of Interim Financial Statements

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

Reviewed Financial Statements

We have reviewed the accompanying interim consolidated financial statements of LG Chem, Ltd. and its subsidiaries (collectively referred to as the "Group"). These financial statements consist of the consolidated statement of financial position of LG Chem, Ltd. and its subsidiaries as of June 30, 2014, and the related consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2014 and 2013, and the statements of changes in equity and cash flows for the six-month periods ended June 30, 2014 and 2013, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ('Korean IFRS') 1034, Interim Financial Reporting, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the quarterly and semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe the accompanying interim consolidated financial statements do not present fairly, in all material respects, in accordance with the Korean IFRS 1034, *Interim Financial Reporting*.

Other Matters

We have audited the consolidated statement of financial position of the Group as of December 31, 2013, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, in accordance with auditing standards generally accepted in the Republic of Korea. We expressed an unqualified opinion on those financial statements in our audit report dated March 6, 2014. These financial statements are not included in this review report. The consolidated statement of financial position as of December 31, 2013, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as of December 31, 2013.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those who are informed about Korean review standards and their application in practice.



Seoul, Korea
August 13, 2014

The report is effective as of August 13, 2014, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying interim consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Chem, Ltd. and Subsidiaries
Interim Consolidated Statements of Financial Position
June 30, 2014 and December 31, 2013

<i>(in millions of Korean won)</i>	Notes	June 30, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents	3, 5, 6	1,228,747	1,399,054
Trade receivables	3, 5, 7, 32	3,376,074	3,220,504
Other receivables	3, 5, 7, 32	762,776	640,998
Prepaid income taxes		1,453	2,171
Other financial assets	3, 5, 8, 9	119	-
Other current assets	14	173,774	204,859
Inventories	10	2,553,321	2,564,031
Non-current assets held for sale	36	5,639	-
Total current assets		8,101,903	8,031,617
Non-current assets			
Other receivables	3, 5, 7	50,924	25,026
Other financial assets	3, 5, 8	5,949	5,952
Investments in associates and joint ventures	1, 11, 34	475,159	447,867
Deferred income tax assets	29	78,394	77,069
Property, plant and equipment	12	8,431,784	8,559,609
Intangible assets	13	487,973	263,093
Other non-current assets	14	32,105	36,231
Total non-current assets		9,562,288	9,414,847
Total assets		17,664,191	17,446,464
Liabilities and equity			
Liabilities			
Current liabilities			
Trade payables	3, 5, 32	1,340,322	1,268,291
Other payables	3, 5, 32	791,270	838,021
Borrowings	3, 5, 15	2,189,766	2,206,848
Provisions	16	3,488	2,045
Current income tax liabilities	29	165,954	134,946
Other current liabilities	5, 18	126,785	147,726
Total current liabilities		4,617,585	4,597,877
Non-current liabilities			
Other payables	3, 5	62,049	76,346
Borrowings	3, 5, 15	886,996	803,634
Provisions	16	21,034	17,481
Net defined benefit liability	17	90,935	51,911
Deferred income tax liabilities	29	151,918	173,553
Total non-current liabilities		1,212,932	1,122,925
Total liabilities		5,830,517	5,720,802

LG Chem, Ltd. and Subsidiaries
Interim Consolidated Statements of Financial Position
June 30, 2014 and December 31, 2013

<i>(in millions of Korean won)</i>	Notes	June 30, 2014	December 31, 2013
Equity			
Equity attributable to owners of the parent			
Share capital	1, 20	369,500	369,500
Capital surplus		1,157,772	1,157,772
Other components of equity	22	(15,699)	(15,699)
Accumulated other comprehensive income		(184,265)	(87,259)
Retained earnings	21	10,393,471	10,172,632
		<u>11,720,779</u>	<u>11,596,946</u>
Non-controlling interests		112,895	128,716
Total equity		<u>11,833,674</u>	<u>11,725,662</u>
Total liabilities and equity		<u>17,664,191</u>	<u>17,446,464</u>

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

LG Chem, Ltd. and Subsidiaries
Interim Consolidated Statements of Income
Three-Month and Six-Month Periods Ended June 30, 2014 and 2013

	Notes	2014		2013	
		Three months	Six months	Three months	Six months
<i>(in millions of Korean won, except per share amounts)</i>					
Revenue	32, 34	5,868,763	11,541,579	5,917,239	11,637,843
Cost of sales	24, 32	<u>(5,078,851)</u>	<u>(9,989,004)</u>	<u>(5,006,627)</u>	<u>(9,954,331)</u>
Gross profit		789,912	1,552,575	910,612	1,683,512
Selling, general and administrative expenses	23, 24, 32	<u>(430,278)</u>	<u>(830,846)</u>	<u>(409,094)</u>	<u>(773,078)</u>
Operating profit	34	359,634	721,729	501,518	910,434
Finance income	5, 26	26,257	59,550	60,161	93,778
Finance expenses	5, 26	(45,348)	(92,948)	(45,984)	(85,062)
Share of profit of associates and joint ventures	11	(1,561)	11,399	860	3,559
Other non-operating income	5, 27	123,931	173,107	110,690	217,235
Other non-operating expenses	5, 28, 36	(172,956)	(228,847)	(117,577)	(215,621)
Profit before income tax	33	289,957	643,990	509,668	924,323
Income tax expense	29	<u>(63,211)</u>	<u>(131,226)</u>	<u>(108,707)</u>	<u>(182,919)</u>
Profit for the period		<u>226,746</u>	<u>512,764</u>	<u>400,961</u>	<u>741,404</u>
Attributable to:					
Owners of the parent		227,332	515,436	398,295	737,441
Non-controlling interests		(586)	(2,672)	2,666	3,963
Earnings per share for profit attributable to owners of the parent (in won)					
30					
Basic and diluted earnings per ordinary share					
for profit for the period		3,090	7,007	5,415	10,026
Basic and diluted earnings per preferred share					
for profit for the period		3,103	7,032	5,428	10,051

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

LG Chem, Ltd. and Subsidiaries
Interim Consolidated Statements of Comprehensive Income
Three-Month and Six-Month Periods Ended June 30, 2014 and 2013

(in millions of Korean won)

	Notes	2014		2013	
		Three months	Six months	Three months	Six months
Profit for the period		226,746	512,764	400,961	741,404
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Remeasurements of the net defined benefit liability	17	(1,075)	35	(290)	600
Shares of actuarial gains and losses on net defined benefit liability of associates		1	4	(16)	(16)
Income tax effect relating to components of other comprehensive income		263	(7)	71	(145)
Items that will be reclassified subsequently to profit or loss:					
Currency translation differences		(69,166)	(78,796)	50,384	99,381
Cash flow hedges		-	-	53	126
Others		(10,902)	(25,054)	6,405	13,048
Income tax effect relating to components of other comprehensive income		(1)	(523)	1,466	2,662
Other comprehensive income (loss) for the period, net of tax		(80,880)	(104,341)	58,073	115,656
Total comprehensive income for the period		145,866	408,423	459,034	857,060
Attributable to:					
Owners of the parent		152,579	418,462	450,712	841,999
Non-controlling interests		(6,713)	(10,039)	8,322	15,061

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

LG Chem, Ltd. and Subsidiaries
Interim Consolidated Statements of Changes in Equity
Six-Month Periods Ended June 30, 2014 and 2013

(in millions of Korean won)

	Notes	Attributable to owners of the parent					Total	Non-controlling interests	Total equity
		Share capital	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings			
Balance at January 1, 2013		369,500	1,157,772	(15,699)	(86,977)	9,204,703	10,629,299	136,056	10,765,355
Comprehensive income:									
Profit for the period		-	-	-	-	737,441	737,441	3,963	741,404
Remeasurements of the net defined benefit liability	17	-	-	-	-	455	455	-	455
Currency translation differences		-	-	-	91,009	-	91,009	11,098	102,107
Cash flow hedges		-	-	-	96	-	96	-	96
Others		-	-	-	13,014	(16)	12,998	-	12,998
Total comprehensive income		-	-	-	104,119	737,880	841,999	15,061	857,060
Transactions with owners:									
Dividends	31	-	-	-	-	(294,520)	(294,520)	(13,653)	(308,173)
Others		-	-	-	-	(756)	(756)	(252)	(1,008)
Total transactions with owners		-	-	-	-	(295,276)	(295,276)	(13,905)	(309,181)
Balance at June 30, 2013		369,500	1,157,772	(15,699)	17,142	9,647,307	11,176,022	137,212	11,313,234
Balance at January 1, 2014		369,500	1,157,772	(15,699)	(87,259)	10,172,632	11,596,946	128,716	11,725,662
Comprehensive income:									
Profit for the period		-	-	-	-	515,436	515,436	(2,672)	512,764
Remeasurements of the net defined benefit liability	17	-	-	-	-	28	28	-	28
Currency translation differences		-	-	-	(71,952)	-	(71,952)	(7,367)	(79,319)
Others		-	-	-	(25,054)	4	(25,050)	-	(25,050)
Total comprehensive income		-	-	-	(97,006)	515,468	418,462	(10,039)	408,423
Transactions with owners:									
Dividends	31	-	-	-	-	(294,520)	(294,520)	(5,309)	(299,829)
Others		-	-	-	-	(109)	(109)	(473)	(582)
Total transactions with owners		-	-	-	-	(294,629)	(294,629)	(5,782)	(300,411)
Balance at June 30, 2014		369,500	1,157,772	(15,699)	(184,265)	10,393,471	11,720,779	112,895	11,833,674

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

LG Chem, Ltd. and Subsidiaries
Interim Consolidated Statements of Cash Flows
Six-Month Periods Ended June 30, 2014 and 2013

<i>(in millions of Korean won)</i>	Notes	2014	2013
Cash flows from operating activities			
Cash generated from operations	33	1,152,617	1,661,835
Interest received		20,084	19,349
Interest paid		(43,711)	(43,193)
Dividends received		113	35
Income taxes paid		(145,276)	(143,066)
Net cash generated from operating activities		<u>983,827</u>	<u>1,494,960</u>
Cash flows from investing activities			
Decrease in other receivables		352,809	840,136
Decrease in non-current other receivables		84	(2,736)
Proceeds from disposal of property, plant and equipment		6,030	2,335
Proceeds from disposal of intangible assets		12	323
Increase in other receivables		(540,980)	(681,203)
Increase in non-current other receivables		(20,847)	-
Increase in non-current other financial assets		(51)	(44)
Acquisition of investments in associates and joint ventures		(41,935)	-
Acquisition of property, plant and equipment		(614,545)	(699,499)
Acquisition of intangible assets		(23,880)	(16,473)
Payment for purchase of NanoH2O Inc.	35	(136,418)	-
Net cash used in investing activities		<u>(1,019,721)</u>	<u>(557,161)</u>
Cash flows from financing activities			
Proceeds from borrowings		521,190	279,115
Repayments of borrowings		(342,532)	(78,574)
Payments of dividends		(295,504)	(295,233)
Net cash used in financing activities		<u>(116,846)</u>	<u>(94,692)</u>
Net increase(decrease) in cash and cash equivalents		(152,740)	843,107
Cash and cash equivalents at the beginning of period		1,399,054	720,767
Exchange gains on cash and cash equivalents		(17,567)	20,398
Cash and cash equivalents at the end of period		<u>1,228,747</u>	<u>1,584,272</u>

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

LG Chem, Ltd. and Subsidiaries

Notes to the Interim Consolidated Financial Statements

June 30, 2014 and 2013, and December 31, 2013

1. General information

General information about LG Chem, Ltd. (the "Parent Company") and its subsidiaries (collectively the "Group") is as follows:

1.1 The Parent Company

The Parent Company was spun off on April 1, 2001, from LG Chem Investment Ltd. (formerly LG Chemical Ltd.), to engage in the petrochemicals, industrial materials, and information and electronic materials business.

The Parent Company merged with LG Polycarbonate Ltd. on April 1, 2011.

As of June 30, 2014, the Parent Company has its manufacturing facilities in Yeosu, Daesan, Ochang, Cheongju, Ulsan, Naju, Iksan, Paju and Gimcheon.

The Parent Company is authorized to issue 292 million shares of ordinary shares with par value of ₩5,000 per share. As of June 30, 2014, the Parent Company has issued 66,271,100 ordinary shares (₩331,356 million) and 7,628,921 preferred shares (₩38,144 million). The largest shareholder of the Parent Company is LG Corp., which owns 33.53% of the Parent Company's ordinary shares. Preferred shareholders have no voting rights but are entitled to receive dividends at a rate 1% more than those paid to ordinary shareholders.

1.2 Business overview

The Group is engaged in petrochemicals business, IT & Electronic materials, and Energy solution business. The petrochemical business includes production of olefin petrochemicals such as ethylene, propylene, butadiene from Naphtha and aromatic petrochemicals such as benzene, xylene, toluene, and production of synthetic resin, synthetic rubber, and synthetic components from olefin and aromatic petrochemicals. This business is regarded as important as it provides primary materials to other industries and bears characteristics of large-volume process industry. The Group's major products are ABS, PC, EP, PE, PP, synthetic rubber, acrylic, plasticizers, SAP, PVC, BPA, a special resin, and others.

The IT & Electronic material business manufactures and supplies various display materials such as polarizer, 3D FPR, sensitized material, PCB materials, ITO film and OLED-related materials. The Group has developed film-type 3D FPR, a core material of FPR-type 3D TV, and began its commercial production since 2011. From 2013, the Group began to produce polarizer-integrated FPR in order to improve customer productivity and lead the market. In addition, the Group completed the expansion of two polarizing plate line in Nanjing, China, in order to proactively respond to the growing panel market in China.

The Energy solution business manufactures and supplies batteries ranging from small batteries for laptop computers and mobiles to batteries for electric vehicles. In April 2011, the Group completed the construction of the vehicle battery plant in Ochang, North Chungcheong Province, and supplies batteries to major car manufacturers such as GM, Hyundai/KIA Motor Company, Renault, Ford, and Volvo.

LG Chem, Ltd. and Subsidiaries
Notes to the Interim Consolidated Financial Statements
June 30, 2014 and 2013, and December 31, 2013

1.3 Consolidated subsidiaries, associates and joint ventures

	June 30, 2014			
	Percentage of ownership (%)	Business location	Fiscal year-end	Business activities
Consolidated subsidiaries				
Tianjin LG DAGU Chemical Co., Ltd.	75	China	December 31	PVC manufacturing and sales
Ningbo LG Yongxing Chemical Co.,Ltd. ¹	75	China	December 31	ABS/SBL manufacturing and sales
Ningbo Zhenhai LG Yongxing Trading Co., Ltd. ¹	75	China	December 31	ABS sales
LG Chem HK Ltd.	100	Hong Kong	December 31	Sales and trading
LG Chem America, Inc.	100	USA	December 31	Sales and trading
LG Chemical India Pvt. Ltd. ²	100	India	December 31	Service
LG Polymers India Pvt. Ltd. ²	100	India	December 31	PS manufacturing
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	100	China	December 31	EP manufacturing and sales
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	100	China	December 31	Battery/ Polarizer Manufacturing and sales
LG Chem (Taiwan), Ltd.	100	Taiwan	December 31	Polarizer manufacturing and sales
LG Chem Display Materials (Beijing) Co., Ltd.	100	China	December 31	Polarizer manufacturing
Tianjin LG Bohai Chemical Co., Ltd. ⁴	75	China	December 31	VCM, EDC manufacturing and sales
Tianjin LG BOTIAN Chemical Co., Ltd. ⁴	56	China	December 31	SBS manufacturing and sales
LG Chem (China) Investment Co., Ltd. ⁵	100	China	December 31	China holding company
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	100	China	December 31	ABS/EP manufacturing and sales
LG Chem Europe GmbH	100	Germany	December 31	Sales and trading
LG Chem Poland Sp. z o.o.	100	Poland	December 31	Polarizer manufacturing
LG Chem Michigan Inc.	100	USA	December 31	Battery research and manufacturing for automobile
LG Chem Power Inc.	100	USA	December 31	Battery research for automobile
LGC Petrochemical India Private Limited.	100	India	December 31	Service
Haengboknuri	100	Korea	December 31	Facility management and general cleaning
LG CHEM TK KIMYA SANAYI VE TICARET LIMITED SIRKETI	100	Turkey	December 31	Sales and trading
LG Chem Japan Inc. ⁶	100	Japan	December 31	Sales and trading
NanoH2O Inc. ⁷	100	USA	December 31	water purification filter research and manufacturing
Associates				
LG Holdings (HK) Ltd.	26	Hong Kong	December 31	Sales and trading
TECWIN Co., Ltd.	20	Korea	December 31	Environment solution and Construction of chemical plant
LG Chem BRASIL INTERMEDICAO DE NEGOCIOS DO SETOR QUIMICO LTDA. ⁸	100	Brazil	December 31	Sales and trading
LG Fuel Cell Systems Inc. ⁹	20	USA	December 31	Power fuel cell research
Joint ventures				
LG VINA Chemical Co.,Ltd.	40	Vietnam	December 31	DOP production and sales
HL Greenpower Co.,Ltd.	49	Korea	December 31	Battery manufacturing for electric automobile
SEETEC Co.,Ltd.	50	Korea	December 31	Plant utility and Distribution, research assistance service
CNOOC & LG Petrochemicals Co.,Ltd.	50	China	December 31	ABS manufacturing and sales
KLPE Limited Liability Partnership ¹⁰	50	Kazakhstan	December 31	PE manufacturing and sales

LG Chem, Ltd. and Subsidiaries
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- ¹ As of June 30, 2014, Ningbo LG Yongxing Chemical Co.,Ltd. owns 100% of Ningbo Zhenhai LG Yongxing Trade Co.,Ltd. shares.
- ² As of June 30, 2014, LG Chemical India Pvt. Ltd. owns 100% of LG Polymer India Pvt. Ltd. shares.
- ³ During the period, the Parent Company acquired additional shares of LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. for ₩ 19,021 million.
- ⁴ As of June 30, 2014, Tianjin LG Bohai Chemical Co., Ltd. owns 20.30% of Tianjin LG BOTIAN Chemical Co., Ltd. shares.
- ⁵ During the period, the Parent Company acquired additional shares of LG Chem (China) Investment Co.,Ltd. for ₩5,896 million.
- ⁶ LG Chem Japan Inc. was established during the period and the Parent Company newly acquired 100% of its shares for ₩1,406 million.
- ⁷ During the period, the Parent Company newly acquired 100% of shares of NanoH2O Inc. for ₩151,411 million(Note 35).
- ⁸ Classified as an investment in associate due to its small size.
- ⁹ During the period, the Parent Company acquired additional shares of LG Fuel Cell Systems Inc. for ₩ 8,402 million and as a result, the percentage of ownership increased to 20%.
- ¹⁰ During the period, the Parent Company acquired additional shares of KLPE Limited Liability Partnership for ₩33,533 million.

LG Chem, Ltd. and Subsidiaries
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1.4 Summarized financial information of subsidiaries, associates and joint ventures

Summarized financial information (before elimination of intercompany transactions and adjustments for differences in accounting policies) of subsidiaries, associates and joint ventures is as follows:

(in millions of Korean won)

	June 30, 2014				
	Assets	Liabilities	Equity	Revenue	Profit(loss) for the period
Consolidated subsidiaries					
Tianjin LG DAGU Chemical Co.,Ltd.	174,923	114,424	60,499	190,847	(11,638)
Ningbo LG Yongxing Chemical Co.,Ltd.	652,718	330,630	322,088	942,940	33,896
LG Chem HK Ltd.	108,145	93,541	14,604	317,670	555
LG Chem America, Inc.	173,052	160,614	12,438	351,120	291
LG Chemical India Pvt. Ltd.	32,670	102	32,568	448	95
LG Polymers India Pvt. Ltd.	96,946	46,846	50,100	128,524	4,708
LG Chemical (Guangzhou) Engineering Plastics Co.,Ltd.	92,275	46,389	45,886	79,048	4,090
LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd.	1,354,811	784,961	569,850	896,418	35,455
LG Chem (Taiwan), Ltd.	200,364	129,247	71,117	187,995	3,495
LG Chem Display Materials (Beijing) Co.,Ltd.	28,149	6,766	21,383	18,504	513
Tianjin LG Bohai Chemical Co.,Ltd.	328,144	158,794	169,350	219,825	(17,317)
LG Chem (China) Investment Co.,Ltd.	134,190	45,070	89,120	16,657	1,633
LG Chem (Tianjin) Engineering Plastics Co.,Ltd.	62,092	23,925	38,167	48,436	2,660
LG Chem Europe GmbH	119,027	104,227	14,800	174,580	2,150
LG Chem Poland Sp. z o.o.	33,470	13,598	19,872	39,444	2,484
LG Chem Michigan Inc.	173,879	148,725	25,154	23,407	(225)
LG Chem Power Inc.	9,328	6,786	2,542	13,147	2,258
Tianjin LG BOTIAN Chemical Co.,Ltd.	54,243	68,081	(13,838)	33,168	(8,520)
Ningbo Zhenhai LG Yongxing Trading Co.,Ltd.	6,380	4,861	1,519	7,411	124
LGC Petrochemical India Private Limited.	656	108	548	1,176	191
Haengboknuri	1,294	462	832	1,884	153
LG CHEM TK KIMYA SANAYI VE TICARET LIMITED SIRKETI	7,013	6,480	533	5,990	303
LG Chem Japan Inc.	1,875	299	1,576	1,782	181
NanoH2O Inc.	32,179	75,538	(43,359)	808	(3,429)
Associates					
LG Holdings (HK) Ltd.	350,917	123,670	227,247	23,221	4,651
TECWIN Co., Ltd.	46,474	16,117	30,357	-	-
LG Chem BRASIL INTERMEDICAO DE NEGOCIOS DO SETOR QUIMICO LTDA.	142	64	78	-	-
LG Fuel Cell Systems Inc.	52,426	4,686	47,740	2,085	(20,712)
Joint ventures					
LG VINA Chemical Co.,Ltd.	24,376	17,039	7,337	35,722	1,350
HL Greenpower Co.,Ltd.	81,509	44,709	36,800	71,922	2,620
SEETEC Co.,Ltd.	406,879	48,140	358,739	288,826	9,504
CNOOC & LG Petrochemicals Co.,Ltd.	266,800	198,450	68,350	21,009	(4,481)
KLPE Limited Liability Partnership	238,619	26,464	212,155	-	13,324

LG Chem, Ltd. and Subsidiaries
Notes to the Interim Consolidated Financial Statements
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(in millions of Korean won)

	December 31, 2013				
	Assets	Liabilities	Equity	Revenue	Profit(loss) for the year
Consolidated subsidiaries					
Tianjin LG DAGU Chemical Co.,Ltd.	205,089	128,586	76,503	421,332	(5,272)
Ningbo LG Yongxing Chemical Co.,Ltd.	754,027	422,303	331,724	1,884,097	39,298
LG Chem HK Ltd.	151,726	137,091	14,635	605,212	735
LG Chem America, Inc.	134,543	121,895	12,648	622,905	1,904
LG Chemical India Pvt. Ltd.	32,617	131	32,486	1,445	216
LG Polymers India Pvt. Ltd.	101,120	55,099	46,021	238,882	3,234
LG Chemical (Guangzhou) Engineering Plastics Co.,Ltd.	96,086	51,182	44,904	174,437	6,103
LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd.	1,379,626	832,963	546,663	1,724,065	50,480
LG Chem (Taiwan), Ltd.	184,398	113,877	70,521	414,542	17,467
LG Chem Display Materials (Beijing) Co.,Ltd.	26,596	4,352	22,244	14,573	1,173
Tianjin LG Bohai Chemical Co.,Ltd.	371,675	172,954	198,721	471,838	(7,246)
LG Chem (China) Investment Co.,Ltd.	180,918	97,844	83,074	32,737	3,695
LG Chem (Tianjin) Engineering Plastics Co.,Ltd.	71,319	33,324	37,995	110,968	5,649
LG Chem Europe GmbH	84,226	70,714	13,512	241,170	2,305
LG Chem Poland Sp. z o.o.	45,239	26,809	18,430	74,309	4,251
LG Chem Michigan Inc.	174,008	147,684	26,324	1,208	(14,581)
LG Chem Power Inc.	9,934	9,553	381	21,333	347
Tianjin LG BOTIAN Chemical Co.,Ltd.	70,250	76,338	(6,088)	138,999	(2,865)
Ningbo Zhenhai LG Yongxing Trading Co.,Ltd.	7,118	5,627	1,491	15,349	147
LGC Petrochemical India Private Limited.	371	6	365	451	118
Haengboknuri	1,182	503	679	1,797	79
LG CHEM TK KIMYA SANAYI VE TICARET LIMITED SIRKETI	622	384	238	964	92
Associates					
LG Holdings (HK) Ltd.	374,511	137,538	236,973	45,192	11,333
TECWIN Co., Ltd.	46,474	16,117	30,357	83,459	3,556
LG Chem BRASIL INTERMEDICAO DE NEGOCIOS DO SETOR QUIMICO LTDA.	142	64	78	1,009	(380)
LG Fuel Cell Systems Inc.	51,610	9,660	41,950	4,946	(30,604)
Joint ventures					
LG VINA Chemical Co.,Ltd.	23,481	14,799	8,682	73,171	2,417
HL Greenpower Co.,Ltd.	64,627	30,452	34,175	127,035	2,430
SEETEC Co.,Ltd.	399,798	50,564	349,234	573,102	16,020
CNOOC & LG Petrochemicals Co.,Ltd.	214,226	136,737	77,489	-	(2,053)
KLPE Limited Liability Partnership	211,167	3,017	208,150	-	(3,123)

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2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are summarized below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

The interim consolidated financial statements for the six-month period ended June 30, 2014, have been prepared in accordance with Korean IFRS 1034, '*Interim Financial Reporting*.' These interim financial statements have been prepared in accordance with the Korean IFRS standards and interpretations issued and effective as of June 30, 2014.

2.2 Changes in accounting policy and disclosures

(1) New and amended standards adopted by the Group

The Group newly applied the following amended and enacted standards for the annual period beginning on January 1, 2014:

- Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*

Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*, provides that the right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. There is no significant impact of the application of this amendment on the consolidated financial statements.

- Amendment to Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*

Amendment to Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*, allows the continuation of hedge accounting for a derivative that has been designated as a hedging instrument in a circumstance in which that derivative is novated to a central counterparty (CCP) as a consequence of laws or regulations. There is no significant impact of the application of this amendment on the consolidated financial statements.

- Enactment of Korean IFRS 2121, *Levies*

Korean IFRS 2121, *Levies*, are applied to a liability to pay a levy imposed by a government in accordance with the legislation. The interpretation requires that the liability to pay a levy is recognized when the activity that triggers the payment of the levy occurs, as identified by the legislation (the obligating event). There is no significant impact of the application of this interpretation on the consolidated financial statements.

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2.2 Accounting Policies

Significant accounting policies and methods adopted in the preparation of the interim financial statements are consistent with the accounting policies and methods adopted for the annual financial statements for the year ended December 31, 2013, except for the changes due to the application of amendment and enactments of standards described in Note 2.1 and described below.

Income tax expense for the interim period is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate is applied to the pre-tax income.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain exposures.

Risk management is carried out by the Group's finance team under policies approved by the Corporate Management Committee. The finance team identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Corporate Management Committee provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of surplus liquidity.

(1) Market risk

1) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

Management has set up a policy to require consolidated companies to manage their foreign exchange risk against their functional currency. The Group manages maximum loss for currency risk exposures within acceptable range by using currency risk management model and hires employees who are exclusively responsible for currency risk management.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

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As of June 30, 2014 and December 31, 2013, the Group's monetary assets and liabilities denominated in currencies other than its functional currency, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
USD	2,002,357	2,494,580	1,982,900	2,466,188
EUR	72,970	108,117	65,178	93,749
JPY	31,895	128,915	23,922	94,583
GBP and others	8,030	7,100	3,848	3,734

As of June 30, 2014 and December 31, 2013, if the Group's functional currency had weakened / strengthened by 10% against the US dollar with all other variables held constant, profit for the year would have been affected as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
	10% Increase	10% Decrease	10% Increase	10% Decrease
USD	(49,222)	49,222	(48,329)	48,329

The above sensitivity analysis has been performed for monetary assets and liabilities denominated in foreign currencies other than the Group's functional currency at the reporting date.

2) Interest rate risk

Interest rate risk is defined as the risk that the interest income or expenses arising from deposits and borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises through floating rate deposits and borrowings. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty caused by fluctuations in interest rates and minimizing net interest expense.

The Group adequately minimizes risks from interest rate fluctuations through various policies, such as sharing excess cash within the Group (internal cash sharing) to minimize external borrowings, avoiding high rate borrowings, reforming capital structure, managing an appropriate ratio of fixed rate borrowings and floating rate borrowings, monitoring a fluctuation of domestic and foreign interest rates daily, weekly and monthly, establishing alternatives, and balancing floating rate short-term borrowings with floating rate deposits.

The impact of 1% (100 basis points) higher/lower of interest rate with all other variables held constant on the Group's post-tax profit for the six-month periods ended June 30, 2014 and 2013, and on equity as of June 30, 2014 and 2013, is as follows:

<i>(in millions of Korean won)</i>	Impact on post-tax profit		Impact on equity	
	2014	2013	2014	2013
Increase	(16,756)	(18,640)	(16,756)	(18,640)
Decrease	16,756	18,640	16,756	18,640

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(2) Credit risk

Credit risk is managed on the Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

As of June 30, 2014 and December 31, 2013, the maximum degrees of credit exposures are as follows:

(in millions of Korean won)

	June 30, 2014			December 31, 2013		
	Before impairment	Accumulated impairment loss	After impairment (maximum exposure)	Before impairment	Accumulated impairment loss	After impairment (maximum exposure)
Loans and receivables (excluding cash on hand)	5,432,778	(14,326)	5,418,452	5,300,464	(14,951)	5,285,513
Financial assets at fair value through profit or loss	68	-	68	-	-	-
Total	5,432,846	(14,326)	5,418,520	5,300,464	(14,951)	5,285,513

In addition, details of financial guarantees provided by the Group are disclosed in Notes 3.1.(3) and 19.

The Group has established the following policies and procedures to manage credit risks.

To manage credit risks relating to trade receivables, the Group evaluates the credit rating of customers and determines credit limit for each customer based on the information provided by credit rating agencies and other available financial information before commencing business with customers. The credit risks relating to trade receivables are also mitigated by insurance contracts, collaterals as well as payment guarantees.

The Group has entered into export insurance contracts with Korea Trade Insurance Corporation to mitigate credit risks relating to export trade receivables to overseas customers. The Group is also provided with collaterals by customers depending on their credit rating or payment guarantees from the customers' financial institutions as necessary.

The Group has deposited its cash and cash equivalents, and other long-term deposits in several financial institutions, such as Woori Bank and others. The Group has also entered into derivative contracts with several financial institutions. The Group maintains business relationship with those financial institutions with high credit ratings evaluated by independent credit rating agencies and accordingly, credit risks associated with these financial institutions are limited.

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(3) Liquidity risk

Cash flow forecasting is performed by corporate finance team. Finance team monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements - for example, currency restrictions.

- 1) The table below analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Cash flows presented below are gross cash flows before discount, and includes cash flows for interests.

(in millions of Korean won)

	June 30, 2014			
	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years
Borrowings (excluding finance lease liabilities)	2,228,627	470,018	446,831	173
Finance lease liabilities	1,947	-	-	-
Trade and other payables	2,131,592	50,505	11,544	-
Total	4,362,166	520,523	458,375	173

(in millions of Korean won)

	December 31, 2013			
	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years
Borrowings (excluding finance lease liabilities)	2,345,659	485,874	355,533	278
Finance lease liabilities	3,195	-	-	-
Trade and other payables	2,106,478	51,154	25,192	-
Total	4,455,332	537,028	380,725	278

- 2) The table below analyzes the Group's derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

(in millions of Korean won)

		June 30, 2014			
		Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years
Gross-settled derivative financial liabilities	Trading				
	Inflow	10,212	-	-	-
	Outflow	(10,144)	-	-	-
	Total	68	-	-	-

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- 3) The table below analyzes the Group's financial guarantee contracts into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

(in millions of Korean won)

	June 30, 2014			
	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years
Financial guarantee contracts ¹	138	150	529	292

(in millions of Korean won)

	December 31, 2013			
	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years
Financial guarantee contracts ¹	132	144	509	389

¹ The Parent Company and LG Hausys Ltd. have provided the joint guarantee for obligations outstanding as of April 1, 2009, the spin-off date. The amounts represent the maximum amount of the guarantee allocated to the earliest period in which the guarantee could be called (Note 19).

3.2 Capital risk management

The Group's capital objectives are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The gearing ratio and debt-to-equity ratio as of June 30, 2014 and December 31, 2013, are as follows:

(in millions of Korean won, except for ratios)

	June 30, 2014	December 31, 2013
Total borrowings (Note 16) (A)	3,076,762	3,010,482
Less: cash and cash equivalents (B)	(1,228,747)	(1,399,054)
Net debt (C=A+B)	1,848,015	1,611,428
Total liabilities (D)	5,830,517	5,720,802
Total equity (E)	11,833,674	11,725,662
Total capital (F=C+E)	13,681,689	13,337,090
Gearing ratio (C/F)	13.5%	12.1%
Debt-to-equity ratio (D/E)	49.3%	48.8%

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3.3 Fair value estimation

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 : Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 : Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(1) The following tables present the Group's financial assets and liabilities that are measured at fair value as of June 30, 2014:

(in millions of Korean won)

	June 30, 2014			Total
	Level 1	Level 2	Level 3	
Financial assets				
Other current financial assets	-	68	-	68
Total financial assets	-	68	-	68

Available-for-sale equity securities included within other financial assets are measured at cost (June 30, 2014: ₩6,000 million; December 31, 2013: ₩5,952 million) as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. These are not included in the analysis above (Note 8).

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses various techniques and makes judgments based on current market conditions. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The financial instruments included in Level 2 are derivative financial instruments. The fair value of derivative financial instruments is determined using forward exchange rates at the end of the reporting period with the resulting value discounted back to present value.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

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Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The carrying amount of the trade and other receivables classified as current is reasonable approximated at fair value. Unless the carrying amount of borrowings is not a reasonable approximation of the fair value, in which case information related to the fair value of the borrowings is presented in Note 15.

4. Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Significant accounting estimates and assumptions applied in the preparation of these interim consolidated financial statements are consistent with those of the previous financial period, except for the estimates used to determine income tax expense.

5. Financial instruments by category

Categorizations of financial instruments are as follows:

(in millions of Korean won)

Financial assets	June 30, 2014			
	Loans and receivables	Assets at fair value through profit or loss	Assets classified as available-for- sale	Total
Cash and cash equivalents	1,228,747	-	-	1,228,747
Trade receivables	3,376,074	-	-	3,376,074
Other receivables	762,776	-	-	762,776
Other current financial assets	-	119	-	119
Other non-current receivables	50,924	-	-	50,924
Other non-current financial assets	-	-	5,949	5,949
Total	5,418,521	119	5,949	5,424,589

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(in millions of Korean won)

Financial liabilities	June 30, 2014			Total
	Hedging derivatives	Liabilities at amortized cost	Other liabilities ¹	
Trade payables	-	1,340,322	-	1,340,322
Other payables	-	791,270	-	791,270
Borrowings (current)	-	1,121,740	1,068,026	2,189,766
Other current liabilities (dividends payable)	-	6,325	-	6,325
Other non-current payables	-	62,049	-	62,049
Borrowings (non-current)	-	886,996	-	886,996
Total	-	4,208,702	1,068,026	5,276,728

(in millions of Korean won)

Financial assets	December 31, 2013		Total
	Loans and receivables	Assets classified as available-for-sale	
Cash and cash equivalents	1,399,054	-	1,399,054
Trade receivables	3,220,504	-	3,220,504
Other receivables	640,998	-	640,998
Other non-current receivables	25,026	-	25,026
Other non-current financial assets	-	5,952	5,952
Total	5,285,582	5,952	5,291,534

(in millions of Korean won)

Financial liabilities	December 31, 2013			Total
	Hedging derivatives	Liabilities at amortized cost	Other liabilities ¹	
Trade payables	-	1,268,291	-	1,268,291
Other payables	-	838,021	-	838,021
Borrowings (current)	-	1,269,050	937,798	2,206,848
Other current liabilities (dividends payable)	-	1,071	-	1,071
Other non-current payables	-	76,346	-	76,346
Borrowings (non-current)	-	803,634	-	803,634
Total	-	4,256,413	937,798	5,194,211

¹ Other financial liabilities include capital lease liabilities that have been excluded from the scope of 'financial liabilities by category' and financial liabilities related to transferred financial assets that are not qualified for derecognition.

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Net gains (losses) on financial instruments by category are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
	Three months	Six months	Three months	Six months
Assets at fair value through profit or loss				
Gain(loss) on valuation/disposal	1,378	2,395	1,197	(2,116)
Hedging derivatives				
Gain on valuation recognized in other comprehensive expenses	-	-	53	126
Interest expense	-	-	(61)	(154)
Financial assets classified as available-for-sale				
Dividend income	-	-	190	190
Loans and receivables				
Interest income	10,227	22,281	7,770	16,762
Gain(loss) on foreign currency translation	(36,535)	(35,044)	4,839	45,401
Gain(loss) on foreign exchange	(87,280)	(62,278)	57,652	92,477
Liabilities at amortized cost				
Interest expense	(20,212)	(39,762)	(16,583)	(35,442)
Gain(loss) on foreign currency translation	21,283	9,772	3,051	(15,538)
Gain(loss) on foreign exchange	18,906	8,107	(6,712)	(13,472)
Other liabilities				
Interest expense	(2,644)	(5,147)	(4,345)	(9,127)
Gain(loss) on foreign currency translation	14,485	15,006	(6,888)	(26,342)
Gain(loss) on foreign exchange	48,618	35,816	(31,941)	(49,244)

6. Cash and cash equivalents

Details of cash and cash equivalents are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
Bank deposits and cash on hand	299,607	341,854
Financial deposits, others	929,140	1,057,200
Total	1,228,747	1,399,054

As of June 30, 2014, other non-current receivables amounting to ₩634 million are restricted from withdrawal in connection with maintaining checking accounts (December 31, 2013: ₩24 million). As of June 30, 2014, cash and cash equivalents include deposits with banks of ₩3,289 million (December 31, 2013: ₩4,167 million) held by a subsidiary which are not freely remissible to the Parent Company because of currency exchange restrictions.

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7. Trade and other receivables

Trade and other receivables, net of allowance for doubtful accounts, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014			December 31, 2013		
	Original amount	Allowance for doubtful accounts	Carrying amount	Original amount	Allowance for doubtful accounts	Carrying amount
Trade receivables ¹	3,390,400	(14,326)	3,376,074	3,235,455	(14,951)	3,220,504
Other current receivables	762,776	-	762,776	640,998	-	640,998
Other non-current receivables	50,924	-	50,924	25,026	-	25,026
Total	4,204,100	(14,326)	4,189,774	3,901,479	(14,951)	3,886,528

¹ As of June 30, 2014, trade receivables transferred to financial institutions but not fully derecognized are as follows (Note 15):

<i>(in millions of Korean won)</i>	Loans and receivables (trade receivables collateralized borrowings)	
	June 30, 2014	December 31, 2013
Carrying amount of transferred assets	1,066,105	934,724
Carrying amount of related liabilities	(1,066,105)	(934,724)

Details of other receivables are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
Current		
Non-trade receivables	88,072	84,856
Financial deposits	650,449	528,926
Accrued income	5,775	3,930
Deposits	18,480	23,286
	762,776	640,998
Non-current		
Financial deposits	7,084	24
Loans	374	298
Deposits	43,466	24,704
	50,924	25,026
Total	813,700	666,024

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The aging analysis of these trade and other receivables is as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Receivables not past due	3,163,614	796,350	2,988,575	644,446
Past due but not impaired				
Up to 3 months	215,778	14,162	232,631	18,729
3 to 6 months	2,716	1,196	5,178	1,032
Over 6 months	2,289	1,992	3,500	1,817
	220,783	17,350	241,309	21,578
Impaired receivables	6,003	-	5,571	-
	3,390,400	813,700	3,235,455	666,024

The movements in bad debt allowance for the six-month period ended June 30, 2014 and for the year ended December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014				December 31, 2013			
	Trade receivables		Other receivables		Trade receivables		Other receivables	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Beginning balance	14,951	-	-	-	10,110	-	-	-
Additions	911	-	-	-	6,453	-	-	-
Write-off	(702)	-	-	-	(868)	-	-	-
Reversals	(541)	-	-	-	-	-	-	-
Exchange differences	(293)	-	-	-	(744)	-	-	-
Ending balance	14,326	-	-	-	14,951	-	-	-

The carrying amounts of trade and other receivables approximate their fair values.

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8. Financial assets

Details of other financial assets are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
Other financial assets		
Derivatives (Note 9)	68	-
Available-for-sale	6,000	5,952
Less: current portion	(119)	-
Total	<u>5,949</u>	<u>5,952</u>

The movements in financial assets classified as available-for-sale for the six-month period ended June 30, 2014 and for the year ended December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
Beginning balance	5,952	21,811
Acquisition	51	-
Exchange differences	(3)	(9)
Transfer ¹	-	(15,850)
Ending balance	<u>6,000</u>	<u>5,952</u>
Less: current portion	(51)	-
Total	<u>5,949</u>	<u>5,952</u>

¹ During 2013, investments into LG Fuel Cell Systems Inc. was reclassified from available-for-sale financial assets to investment in associates as the Parent Company can exercise significant influence resulting from the executive of the Parent Company being appointed as a member of board of directors of LG Fuel Cell Systems Inc. (Note 11).

Financial assets classified as available-for-sale consist wholly of equity securities. The unlisted equity securities are measured at cost as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

No impairment losses were recognized for financial assets classified as available-for-sale during the six-month periods ended June 30, 2014 and 2013.

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9. Derivative financial instruments

Details of derivative financial assets and liabilities are as follows:

(in millions of Korean won)

	June 30, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Current				
Held-for-trading	68	-	-	-
	<u>68</u>	<u>-</u>	<u>-</u>	<u>-</u>

Details of derivative financial contracts are as follows:

Classification	June 30, 2014				
	Financial institution	Contract date	Contract amount (in thousands)	Contract period	Contract terms
Forward exchange	JP Morgan	2014.06.25	US \$ 10,000	2014.06.25~2014.07.01	W 1021.16: US\$1

Trading derivative financial instrument is classified as a current asset or liability.

10. Inventories

Details of inventories are as follows:

(in millions of Korean won)

	June 30, 2014			December 31, 2013		
	Original amount	Valuation allowance	Carrying amount	Original amount	Valuation allowance	Carrying amount
Merchandise	70,633	(1,290)	69,343	67,723	(952)	66,771
Finished products	1,120,511	(28,439)	1,092,072	1,160,004	(40,127)	1,119,877
Semi-finished products	376,104	-	376,104	372,872	-	372,872
Work-in-process	630	-	630	1,151	-	1,151
Raw materials	694,562	(2,800)	691,762	708,986	(2,203)	706,783
Supplies	92,611	-	92,611	90,193	-	90,193
Materials-in-transit	230,799	-	230,799	206,384	-	206,384
Total	<u>2,585,850</u>	<u>(32,529)</u>	<u>2,553,321</u>	<u>2,607,313</u>	<u>(43,282)</u>	<u>2,564,031</u>

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩8,108,064 million (2013: ₩8,355,742 million).

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11. Investments in associates and joint ventures

Changes in the carrying amount of investments in associates and joint ventures for the six-month period ended June 30, 2014 and for the year ended December 31, 2013, are as follows:

	June 30, 2014						
	Beginning balance	Acquisitions	Dividends	Share of profit(loss) of associates	Share of other comprehensive income of associates	Others	Ending balance
<i>(in millions of Korean won)</i>							
LG VINA Chemical Co.,Ltd.	3,473	-	(974)	540	(104)	-	2,935
HL Greenpower Co.,Ltd.	16,746	-	-	1,282	-	4	18,032
LG Holdings (HK) Ltd.	63,445	-	-	1,210	(3,738)	-	60,917
TECWIN Co.,Ltd.	5,955	-	(18)	-	-	-	5,937
SEETEC Co.,Ltd.	164,735	-	-	5,615	-	-	170,350
LG Chem BRASIL INTERMEDICAO DE NEGOCIOS DO SETOR QUIMICO LTDA.	579	-	-	-	-	-	579
CNOOC & LG Petrochemicals Co.,Ltd.	38,745	-	-	(2,241)	(2,329)	-	34,175
KLPE Limited Liability Partnership ¹	139,774	33,533	-	6,560	(18,406)	-	161,461
LG Fuel Cell Systems Inc.	14,415	8,402	-	(1,567)	(477)	-	20,773
	<u>447,867</u>	<u>41,935</u>	<u>(992)</u>	<u>11,399</u>	<u>(25,054)</u>	<u>4</u>	<u>475,159</u>

	December 31, 2013						
	Beginning balance	Acquisitions	Dividends	Share of profit(loss) of associates	Share of other comprehensive income of associates	Others	Ending balance
<i>(in millions of Korean won)</i>							
LG VINA Chemical Co.,Ltd.	3,675	-	(1,276)	1,098	(24)	-	3,473
HL Greenpower Co.,Ltd.	15,557	-	-	1,193	-	(4)	16,746
LG Holdings (HK) Ltd.	60,012	-	-	2,931	502	-	63,445
TECWIN Co.,Ltd.	5,408	-	(35)	582	-	-	5,955
SEETEC Co.,Ltd.	155,042	-	-	9,736	-	(43)	164,735
LG Chem BRASIL INTERMEDICAO DE NEGOCIOS DO SETOR QUIMICO LTDA.	258	321	-	-	-	-	579
CNOOC & LG Petrochemicals Co.,Ltd.	39,244	-	-	(1,027)	528	-	38,745
KLPE Limited Liability Partnership	125,872	18,680	-	(1,363)	(3,415)	-	139,774
LG Fuel Cell Systems Inc.	-	22,269	-	(7,762)	(98)	6	14,415
	<u>405,068</u>	<u>41,270</u>	<u>(1,311)</u>	<u>5,388</u>	<u>(2,507)</u>	<u>(41)</u>	<u>447,867</u>

¹ During the period, the Group additionally acquired shares of KLPE Limited Liability Partnership for ₩33,533 million and has recognized ₩10,144 million as other payable as of June 30, 2014, for the unpaid consideration in the acquisition of KLPE Limited Liability Partnership.

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12. Property, plant and equipment

Changes in the carrying amounts of property, plant and equipment for the six-month period ended June 30, 2014 and for the year ended December 31, 2013, are as follows:

June 30, 2014											
<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery	Vehicles	Tools	Equipment	Others	Construction -in-progress	Machinery -in-transit	Total
Beginning balance	812,828	1,882,957	572,338	3,996,941	9,438	276,456	91,761	73,082	689,264	154,544	8,559,609
Cost	813,367	2,279,332	935,506	10,040,565	36,701	646,873	253,098	210,204	743,592	154,544	16,113,782
Accumulated depreciation	-	(386,539)	(361,532)	(6,005,703)	(27,161)	(363,365)	(160,238)	(137,122)	-	-	(7,441,660)
Accumulated impairment	(539)	(9,836)	(1,636)	(37,921)	(102)	(7,052)	(1,099)	-	(54,328)	-	(112,513)
Business combination (Note 35)	1,105	2,353	-	2,689	-	1,077	403	-	4,003	-	11,630
Acquisitions/ Transfer	6,044	87,509	28,337	320,863	1,194	61,045	11,235	3,951	463,384	45,530	1,029,092
Disposals/ Transfer	-	(639)	(17)	(8,261)	(19)	(2,433)	(148)	-	(429,777)	(69,138)	(510,432)
Exchange differences	(281)	(22,228)	(4,159)	(36,841)	(21)	(2,189)	(1,031)	-	(11,015)	-	(77,765)
Depreciation	-	(28,251)	(19,140)	(407,913)	(1,515)	(40,544)	(13,618)	(33,772)	-	-	(544,753)
Impairment	(81)	(784)	(922)	(7,426)	(55)	(910)	(165)	-	(19,677)	-	(30,020)
Transfer to non-current assets held for sale (Note 36)	-	-	-	(5,287)	(36)	(250)	(4)	-	-	-	(5,577)
Ending balance	819,615	1,920,917	576,437	3,854,765	8,986	292,252	88,433	43,261	696,182	130,936	8,431,784
Cost	820,236	2,341,515	956,946	10,133,767	36,381	690,252	259,536	209,814	769,205	130,936	16,348,588
Accumulated depreciation	-	(410,142)	(377,950)	(6,240,200)	(27,283)	(390,353)	(169,878)	(166,553)	-	-	(7,782,359)
Accumulated impairment	(621)	(10,456)	(2,559)	(38,802)	(112)	(7,647)	(1,225)	-	(73,023)	-	(134,445)

December 31, 2013											
<i>(in millions of Korean won)</i>	Land	Buildings	Structures	Machinery	Vehicles	Tools	Equipment	Others	Construction -in-progress	Machinery- in-transit	Total
Beginning balance	712,238	1,647,499	485,908	3,504,325	10,249	249,746	89,504	88,294	1,340,170	220,245	8,348,178
Cost	712,238	1,981,069	814,135	8,819,666	38,873	570,364	230,923	197,705	1,374,966	220,245	14,960,184
Accumulated depreciation	-	(333,565)	(327,929)	(5,306,272)	(28,624)	(316,586)	(141,309)	(109,411)	-	-	(6,563,696)
Accumulated impairment	-	(5)	(298)	(9,069)	-	(4,032)	(110)	-	(34,796)	-	(48,310)
Acquisitions/ Transfer	101,028	300,111	126,162	1,321,344	3,267	114,160	30,173	35,184	1,241,315	141,012	3,413,756
Disposals/ Transfer	-	(450)	(2,016)	(12,850)	(951)	(10,551)	(904)	-	(1,881,596)	(206,713)	(2,116,031)
Exchange differences	(370)	(1,314)	591	152	(8)	(336)	(33)	-	10,117	-	8,799
Depreciation	-	(53,078)	(36,693)	(778,823)	(3,011)	(73,488)	(25,912)	(50,396)	-	-	(1,021,401)
Impairment	(68)	(9,811)	(1,614)	(37,207)	(108)	(3,075)	(1,067)	-	(20,742)	-	(73,692)
Ending balance	812,828	1,882,957	572,338	3,996,941	9,438	276,456	91,761	73,082	689,264	154,544	8,559,609
Cost	813,367	2,279,332	935,506	10,040,565	36,701	646,873	253,098	210,204	743,592	154,544	16,113,782
Accumulated depreciation	-	(386,539)	(361,532)	(6,005,703)	(27,161)	(363,365)	(160,238)	(137,122)	-	-	(7,441,660)
Accumulated impairment	(539)	(9,836)	(1,636)	(37,921)	(102)	(7,052)	(1,099)	-	(54,328)	-	(112,513)

During the six-month period ended June 30, 2014, the Group capitalized ₩3,273 million of borrowing costs (2013: ₩14,049 million) to property, plant and equipment.

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The details of property, plant and equipment that have been pledged as collaterals for certain bank loan as of June 30, 2014, are as follows:

(in millions of Korean won)

	June 30, 2014				
	Carrying amount	Collateral value	Related account	Related amount	Mortgagee
Land	3,294	3,844	Borrowings (Note 15)	1,569	Kookmin Bank
Building	9,402	4,943			

(in millions of Korean won)

	December 31, 2013				
	Carrying amount	Collateral value	Related account	Related amount	Mortgagee
Land	3,294	3,844	Borrowings (Note 15)	1,620	Kookmin Bank
Building	9,539	4,943			

Depreciation of property, plant and equipment for the three-month and six-month periods ended June 30, 2014 and 2013, was classified as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Cost of sales	256,665	511,392	236,616	468,357
Selling, general and administrative expenses	16,976	33,279	14,706	29,314
Others	40	82	39	113
Total	273,681	544,753	251,361	497,784

The Group reviews annually whether there is any indication that an asset may be impaired.

During 2013, the US battery division for vehicles, managed as a separate cash-generating unit (hereafter 'CGU') in Energy solution business segments, has been tested for impairment due to delayed factory operations resulting from unexpected late orders from customers. The recoverable amount of the CGU is calculated on a basis of the value in use and impairment is mainly related to machinery and equipment used in manufacturing.

During 2014 and 2013, the separator division, managed as a separate cash-generating unit (hereafter 'CGU') in IT & Electronic Materials segments, has been tested for impairment because the sales volume was lower than expected. The recoverable amount of the CGU is calculated on a basis of the value in use and impairment is mainly related to machinery and equipment used in manufacturing.

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During 2014 and 2013, the amount of impairment loss recognized as other non-operating expenses and key assumptions used for calculation of value in use are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
	Separator division	US battery division for vehicles	Separator division	
Impaired amount				
Property, plant and equipment	23,053	25,878	46,363	
Intangible assets	415	140	3,091	
Key assumptions				
Pre-tax discount rate	14.4%	13.8%	14.4%	
Growth rate for subsequent years after five years	0%	0%	0%	

The Parent Company decided to dispose of certain property, plant and equipment and intangible assets (Note 36). The differences between the fair value and book value were recognized as impairment losses. The amounts classified as other non-operating expenses are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014
Property, plant and equipment	6,967
Intangible assets	77
	<u>7,044</u>

13. Intangible assets

Changes in the carrying amount of intangible assets for the six-month period ended June 30, 2014 and for the year ended December 31, 2013 are, as follows:

<i>(in millions of Korean won)</i>	June 30, 2014					Total
	Software development costs	Industrial property rights	Goodwill	Memberships	Others	
Beginning balance	45,231	100,770	33,415	51,705	31,972	263,093
Business combination (Note 35)	-	43,716	167,169	-	35	210,920
Acquisitions/ Transfer	11,042	17,043	-	592	4,718	33,395
Disposals/ Transfer	(3,367)	(1)	-	(18)	(17)	(3,403)
Exchange differences	(142)	(485)	-	(38)	(420)	(1,085)
Amortization	(6,480)	(3,680)	-	-	(4,233)	(14,393)
Impairment	(126)	(274)	-	(61)	(31)	(492)
Transfer to non-current assets held for sale (Note 36)	(61)	-	-	-	(1)	(62)
Ending balance	<u>46,097</u>	<u>157,089</u>	<u>200,584</u>	<u>52,180</u>	<u>32,023</u>	<u>487,973</u>

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(in millions of Korean won)

	December 31, 2013					Total
	Software development costs	Industrial property rights	Goodwill	Memberships	Others	
Beginning balance	42,410	78,610	33,415	51,692	27,766	233,893
Acquisitions/ Transfer	23,159	30,638	-	514	11,532	65,843
Disposals/ Transfer	(9,022)	(22)	-	(362)	(61)	(9,467)
Exchange differences	(33)	1	-	(5)	107	70
Amortization	(11,035)	(5,785)	-	-	(7,195)	(24,015)
Impairment	(248)	(2,672)	-	(134)	(177)	(3,231)
Ending balance	45,231	100,770	33,415	51,705	31,972	263,093

Amortization of intangible assets was classified for the three-month and six-month periods ended June 30, 2014 and 2013, as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Cost of sales	1,728	3,738	1,896	3,678
Selling, general and administrative expenses	5,684	10,655	3,854	7,591
Total	7,412	14,393	5,750	11,269

14. Other current and non-current assets

Details of other current and non-current assets are as follows:

(in millions of Korean won)

	June 30, 2014	December 31, 2013
Current		
Prepayments to suppliers	26,390	24,970
Prepaid expenses	17,369	23,619
Prepaid value added tax	76,565	92,310
Others	53,450	63,960
Total	173,774	204,859
Non-current		
Long-term prepaid expenses	32,011	36,133
Other investment assets	94	98
Total	32,105	36,231

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15. Borrowings

The carrying amount of borrowings is as follows:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
Current		
Short-term borrowings	1,727,468	1,719,658
Current maturities of bank loans	160,617	284,392
Current maturities of debentures	299,760	199,724
Current maturities of finance lease liabilities	1,921	3,074
	<u>2,189,766</u>	<u>2,206,848</u>
Non-current		
Bank loans	587,708	404,654
Debentures	299,288	398,980
	<u>886,996</u>	<u>803,634</u>
Total	<u>3,076,762</u>	<u>3,010,482</u>

Details of current borrowings are as follows:

<i>(in millions of Korean won)</i>	Bank	Latest maturity date	Annual interest rate (%) at June 30, 2014	Carrying Amount	
				June 30, 2014	December 31, 2013
Notes discounted ¹	Woori Bank, others	2015.01.26	3Libor + 1.00, various	1,066,105	934,724
Bank loans	Hangseng Bank, others	2015.06.23	3Libor+0.50~2.50, various	661,363	784,934
Total				<u>1,727,468</u>	<u>1,719,658</u>

¹ As of June 30, 2014, trade receivables transferred to financial institutions but not derecognized are accounted for as collateralized borrowing transaction (Note 7).

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Details of non-current borrowings are as follows:

(in millions of Korean won)		June 30, 2014				
		Bank	Annual interest rate (%)	Latest maturity date	Total amount	Current maturities
Won currency borrowings	Kookmin Bank	2.70	2018.07.14	755	100	655
	Kookmin Bank	2.70	2020.03.21	814	63	751
	Korea Development Bank	3.53	2015.07.19	200,000	-	200,000
Foreign currency borrowings	Shanghai Pudong Development Bank	5.76	2015.09.15	1,224	-	1,224
	Sumitomo Mitsui Banking Corporation	3Libor + 0.85	2017.04.03	20,288	-	20,288
	Standard Chartered Bank	3Libor + 2.20	2015.12.14	16,066	4,017	12,049
	Standard Chartered Bank	3Libor + 2.20	2016.09.25	19,079	3,012	16,067
	Agricultural Bank of China	5.90	2015.10.15	5,304	-	5,304
	China Merchants Bank	5.76	2015.05.17	1,632	1,632	-
	ANZ Bank	3Libor + 2.10	2014.07.07	7,531	7,531	-
	Bank of America	2.00	2015.08.03	20,083	-	20,083
	Bank of America	2.00	2014.08.08	5,697	5,697	-
	Bank of America	6Libor + 1.50	2014.10.24	30,124	30,124	-
	Bank of America	3Libor + 1.68	2014.08.29	40,165	40,165	-
	BTMU	3Libor + 2.00	2016.05.13	14,058	6,025	8,033
	BTMU	3Libor + 1.54	2015.07.20	50,720	-	50,720
	CITI	3Libor + 2.00	2017.03.10	20,083	2,008	18,075
	HSBC	6Libor + 1.00	2014.09.19	40,165	40,165	-
	HSBC	6Libor + 2.25	2016.01.22	30,124	-	30,124
	HSBC	3Libor + 2.10	2016.01.22	40,165	-	40,165
HSBC	3Libor + 2.10	2016.01.22	20,082	-	20,082	
HSBC	3Libor + 2.10	2016.04.08	7,144	-	7,144	
JP MORGAN	3Libor + 1.75	2014.10.17	20,078	20,078	-	
JP MORGAN	3Libor + 1.30	2016.11.16	25,360	-	25,360	
Mizuho Banking Corporation	3Libor + 0.80	2017.05.27	60,864	-	60,864	
Nova Scotia Bank	3Libor + 1.54	2015.07.20	50,720	-	50,720	
Total			748,325	160,617	587,708	

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(in millions of Korean won)		December 31, 2013				
		Bank	Annual interest rate (%)	Latest maturity date	Total amount	Current maturities
Won currency borrowings	Kookmin Bank	2.70	2018.07.14	786	75	711
	Kookmin Bank	2.70	2020.03.21	834	47	787
	Korea Development Bank	3.53	2015.07.19	200,000	-	200,000
Foreign currency borrowings	Shanghai Pudong Development Bank	5.76	2015.09.15	1,742	-	1,742
	Sumitomo Mitsui Banking Corporation	3Libor + 0.85	2014.07.29	21,106	21,106	-
	Standard Chartered Bank	3Libor + 2.20	2015.12.14	19,105	4,246	14,859
	Standard Chartered Bank	3Libor + 2.20	2016.09.25	10,614	1,061	9,553
	Agricultural Bank of China	5.90	2015.10.15	9,574	-	9,574
	China Merchants Bank	5.76	2015.05.17	2,611	-	2,611
	ANZ Bank	3Libor + 2.10	2014.07.07	15,921	15,921	-
	Bank of America	2.00	2014.07.03	21,228	21,228	-
	Bank of America	2.00	2014.08.08	6,023	6,023	-
	Bank of America	6Libor + 1.50	2014.10.24	31,842	31,842	-
	Bank of America	3Libor + 1.68	2014.08.29	42,457	42,457	-
	BTMU	3Libor + 1.54	2015.07.20	52,765	-	52,765
	BTMU	3Libor + 2.00	2016.05.13	18,044	6,368	11,676
	HSBC	3Libor + 0.75	2014.09.19	42,456	42,456	-
	HSBC	3Libor + 2.25	2015.05.25	21,228	-	21,228
	JP MORGAN	3Libor + 1.75	2014.07.17	21,222	21,222	-
	JP MORGAN	3Libor + 1.30	2016.11.16	26,383	-	26,383
Mizuho Banking Corporation	3Libor + 0.65	2014.05.31	63,318	63,318	-	
Nordea Bank	1Wibor + 1.00	2014.06.30	7,022	7,022	-	
Nova Scotia Bank	3Libor + 1.54	2015.07.20	52,765	-	52,765	
Total				689,046	284,392	404,654

Certain property, plant and equipment have been pledged as collateral for the above non-current borrowings (Note 12).

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Details of debentures are as follows:

(in millions of Korean won)

		June 30, 2014				
	Financial institution	Annual interest rate (%)	Latest maturity date	Total amount	Current maturities	Long-term
Won currency debentures	Woori Security	3.83	2014.12.05	200,000	200,000	-
	Woori Security	4.03	2016.12.05	100,000	-	100,000
	Woori Security	3.96	2015.03.29	100,000	100,000	-
	Woori Security	4.11	2017.03.29	200,000	-	200,000
	Less: discount on debentures			(952)	(240)	(712)
Total				599,048	299,760	299,288

(in millions of Korean won)

		December 31, 2013				
	Financial institution	Annual interest rate (%)	Latest maturity date	Total amount	Current maturities	Long-term
Won currency debentures	Woori Security	3.83	2014.12.05	200,000	200,000	-
	Woori Security	4.03	2016.12.05	100,000	-	100,000
	Woori Security	3.96	2015.03.29	100,000	-	100,000
	Woori Security	4.11	2017.03.29	200,000	-	200,000
	Less: discount on debentures			(1,296)	(276)	(1,020)
Total				598,704	199,724	398,980

Details of finance lease liabilities are as follows:

(in millions of Korean won)

		June 30, 2014			
Bank	Annual interest rate (%)	Latest maturity date	Total amount	Current maturities	Long-term
Hyundai Oil Bank	9.00	2014.10.29	1,921	1,921	-

(in millions of Korean won)

		December 31, 2013			
Bank	Annual interest rate (%)	Latest maturity date	Total amount	Current maturities	Long-term
Hyundai Oil Bank	9.00	2014.10.29	3,074	3,074	-

The finance lease liabilities are liabilities associated with sales and leaseback arrangements of property, plant and equipment of the MTBE factory.

Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

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

<i>(in millions of Korean won)</i>	June 30, 2014		December 31, 2013	
	Carrying amount	Fair value¹	Carrying amount	Fair value¹
Bank loans	587,708	590,823	404,654	401,029
Debentures	299,288	309,705	398,980	392,854
Finance lease liabilities	-	-	-	-
Total	886,996	900,528	803,634	793,883

¹ Fair values are based on cash flows discounted using Korean won currency note yield in the same credit grade with the Parent Company (AA+), and borrowing rate quoted by People's Bank of China and others.

The present value of finance lease liabilities is as follows:

<i>(in millions of Korean won)</i>	June 30, 2014			December 31, 2013		
	Minimum lease payments	Future finance costs	Present value	Minimum lease payments	Future finance costs	Present value
Within 1 year	1,947	26	1,921	3,195	121	3,074

16. Provisions

Changes in the carrying amount of provisions for the six-month period ended June 30, 2014 and for the year ended December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014		
	Sales returns¹	Warranty²	Total
Beginning balance	1,532	17,994	19,526
Additions	16,267	4,000	20,267
Used	(14,456)	(815)	(15,271)
Ending balance	3,343	21,179	24,522
Less : current portion	(3,343)	(145)	(3,488)
Total	-	21,034	21,034

<i>(in millions of Korean won)</i>	December 31, 2013		
	Sales returns¹	Warranty²	Total
Beginning balance	1,623	11,583	13,206
Additions	24,219	7,053	31,272
Used	(24,310)	(642)	(24,952)
Ending balance	1,532	17,994	19,526
Less : current portion	(1,532)	(513)	(2,045)
Total	-	17,481	17,481

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

² Warranty provisions have been accrued for the estimated warranty service costs to be incurred based on the terms of warranty and historical experience. Further, the Group purchased insurance policies to meet such obligations.

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17. Net defined benefit liability

The amounts recognized in the statements of financial position are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
Present value of obligations ¹	471,775	438,122
Fair value of plan assets	<u>(380,840)</u>	<u>(386,211)</u>
Liability in the statement of financial position	<u>90,935</u>	<u>51,911</u>

¹ The present value of retirement benefit obligations is net of existing contributions to the National Pension Plan of ₩859 million as of June 30, 2014 (December 31, 2013: ₩883 million).

The amounts recognized in the statements of income for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
	Three months	Six months	Three months	Six months
Current service cost ¹	20,325	40,698	18,857	37,521
Interest cost	<u>507</u>	<u>1,015</u>	<u>967</u>	<u>1,933</u>
Total, included in employee benefit expenses	<u>20,832</u>	<u>41,713</u>	<u>19,824</u>	<u>39,454</u>

¹ The above amounts excluded ₩339 million (2013: ₩288 million) of expenses capitalized to construction in progress and development costs.

Severance costs recognized for defined contribution plan for the six-month period ended June 30, 2014, amounted to ₩66 million (2013: ₩78 million).

The amounts recognized in the statements of income for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
	Three months	Six months	Three months	Six months
Cost of sales	14,922	29,770	13,630	27,717
Selling, general and administrative expenses	<u>5,951</u>	<u>12,009</u>	<u>6,256</u>	<u>11,815</u>
Total	<u>20,873</u>	<u>41,779</u>	<u>19,886</u>	<u>39,532</u>

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Changes in the present value of defined benefit obligations for the six-month period ended June 30, 2014 and for the year ended December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
Beginning balance	438,122	367,567
Transfer in	1,194	1,320
Transfer out	(1,245)	(1,999)
Current service cost	41,037	75,572
Interest expense	8,710	13,307
Remeasurements:		
Actuarial gains and losses arising from changes in demographic assumptions	-	(3,562)
Actuarial gains and losses arising from changes in financial assumptions	-	(16,595)
Actuarial gains and losses arising from experience adjustments	-	22,588
Others	-	21
Exchange differences	(15,877)	(92)
Payments from plans	(166)	(20,005)
Ending balance	471,775	438,122

Changes in the fair value of plan assets for the six-month period ended June 30, 2014 and for the year ended December 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
Beginning balance	386,211	261,666
Transfer in	352	72
Transfer out	(638)	(46)
Interest income	7,695	9,441
Remeasurements:		
Return on plan assets (excluding amounts included in interest income)	35	(1,138)
Contributions:		
Employers	79	130,000
Payments from plans	(12,894)	(13,176)
Administrative costs	-	(608)
Ending balance	380,840	386,211

The actual return on plan assets for the six-month period ended June 30, 2014, was ₩7,730 million (2013: ₩8,303 million).

The principal actuarial assumptions used are as follows:

	June 30, 2014	December 31, 2013
Discount rate	4.1%	4.1%
Future salary increase	5.1%	5.1%

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The sensitivity analysis for changes in key actuarial assumptions is as follows:

<i>(in millions of Korean won)</i>	Increase by 1%	Decrease by 1%
Discount rate:		
Increase(decrease) in defined benefit obligations	(43,832)	51,737
Future salary increase:		
Increase(decrease) in defined benefit obligations	50,738	(43,873)

A decrease in corporate bond yields may lead most significantly to an increase in defined benefit liabilities.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Plan assets consist of:

<i>(in millions of Korean won)</i>	June 30, 2014				December 31, 2013			
	Quoted price	Unquoted price	Total	Compo- sition	Quoted price	Unquoted price	Total	Compo- sition
Insurance contracts with guaranteed yield	380,840	-	380,840	100%	386,211	-	386,211	100%

18. Other current liabilities

Other current liabilities consist of:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
Advances from customers	14,298	24,844
Dividends payable	6,325	1,071
Withholding	38,182	41,383
Unearned revenues	16,434	19,528
Others	51,546	60,900
Total	126,785	147,726

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19. Commitments and contingencies

- (1) The Parent Company and the newly established company, LG Hausys Ltd., are jointly liable for the obligations outstanding as of April 1, 2009, the spin-off date.
- (2) As of June 30, 2014, the Parent Company has been provided with guarantees from the Seoul Guarantee Insurance for the execution of supply contracts.
- (3) As of June 30, 2014, the Parent Company has provided one blank promissory note to the Korea National Oil Corporation as collateral in relation to petroleum import surcharges.
- (4) As of June 30, 2014, the Parent Company and certain overseas subsidiaries have various specific line of credit agreements with several financial institutions, as follows:

(unit: Korean won in millions, foreign currencies in millions)

Classification	The Parent Company		Certain Overseas Subsidiaries				
	KRW	USD	USD	CNY	EUR	INR	PLN
Limit of bank overdraft	64,000	50	155	300	30	645	32
Limit of the letter of credit	64,000	274	45	-	-	175	-
Limit of discount of notes from export	-	1,459	-	-	-	-	-
Limit of guaranteed payments in other foreign currency	-	18	-	-	-	-	-
Limit of loan arrangements	-	-	1,367	2,480	3	2,449	-

The Group also entered into credit line agreements with other financial institutions relating to trade finance and import/export amounting to ₩220,000 million and US\$ 565 million.

- (5) As of June 30, 2014, the Parent Company has B2B purchase arrangements with several financial institutions amounting to ₩300,000 million.
- (6) As of June 30, 2014, the Parent Company and certain overseas subsidiaries have been named as a plaintiff in seven and 34 legal actions involving ₩1,633 million and ₩3,366 million in claims, respectively, and as a defendant in three and one legal actions with ₩1,388 million and ₩92 million in claims, respectively. The ultimate outcome of these cases cannot be determined at the reporting date.
- (7) As of June 30, 2014, the consumers in U.S. and Canada have filed a class actions against the Parent Company and certain overseas subsidiaries in relation to price fixing of small secondary batteries. However, the ultimate outcome of these cases cannot be determined at the reporting date.
- (8) As of June 30, 2014, the Parent Company has technology license agreements with STYRON EUROPE GmbH and other companies for the production of Polycarbonate products. Further, the Parent Company has entered into manufacture and production technical contracts with Exxon Mobile and others.
- (9) The Parent Company has entered into a license agreement with LG Corp. to use trademarks on the products that the Group manufactures and sells, and on the services the Group provides in relation to its business.

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(10) As of June 30, 2014, the Parent Company has a long-term purchase contract for certain raw materials and the supplier has made US\$ 135 million and US\$ 60 million of credit guarantee contract with financial institutions. Further, as of June 30, 2014, the Parent Company has a contract of US\$ 90 million guarantees with financial institutions for advances received from customers.

(11) As of June 30, 2014, the Parent Company has guaranteed the repayment of various obligations of its subsidiaries. The outstanding balance of such guarantees as of June 30, 2014, amounts to US\$ 195 million and EUR 3 million (total equivalent to ₩ 201,241 million) (2013: US\$ 215 million, EUR 3 million and PLN 52 million, total equivalent to ₩250,066 million). Details of guarantees provided as of June 30, 2014 and December 31, 2013, are as follows:

(in millions of Korean won)

Guarantor	Guarantee beneficiary	Guarantee period	Financial institution	June 30, 2014	
				Amount of guarantee	Outstanding loan amount
The Parent Company	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	2011.08.29 ~ 2014.09.19	HSBC	40,165	40,165
	"	2011.10.24 ~ 2014.10.31	Bank of America	30,124	30,124
	LG Chem Poland Sp. z o.o.	2009.08.26 ~ 2014.06.30	Nordea Bank	-	-
	LG Chem Europe GmbH	2014.01.02 ~ 2015.01.02	Shinhan Bank	4,152	-
	LG Chem Michigan, Inc.	2014.05.27 ~ 2017.05.27	Mizuho Bank	60,864	60,864
	"	2014.03.31 ~ 2017.03.31	Sumitomo Mitsui bank	40,576	40,576
	"	2013.11.18 ~ 2016.11.16	JP Morgan	25,360	25,360
	Total			201,241	197,089

(in millions of Korean won)

Guarantor	Guarantee beneficiary	Guarantee period	Financial institution	December 31, 2013	
				Amount of guarantee	Outstanding loan amount
The Parent Company	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	2011.08.29 ~ 2014.09.19	HSBC	63,684	63,684
	"	2011.10.24 ~ 2014.10.31	Bank of America	31,842	31,842
	LG Chem Poland Sp. z o.o.	2009.08.26 ~ 2014.06.30	Nordea Bank	18,258	8,206
	LG Chem Europe GmbH	2014.01.02 ~ 2015.01.02	Shinhan Bank	4,369	-
	LG Chem Michigan, Inc.	2014.05.27 ~ 2017.05.27	Mizuho Bank	63,318	63,318
	"	2014.03.31 ~ 2017.03.31	Sumitomo Mitsui bank	21,106	21,106
	"	2013.11.18 ~ 2016.11.16	JP Morgan	47,489	47,489
	Total			250,066	235,645

Further, as of June 30, 2014, the Group provided no financial guarantee to its associates in relation to their borrowings.

(12) Capital expenditure contracted for as of the reporting date but not yet incurred is as follows:

(in millions of Korean won)	June 30, 2014	December 31, 2013
Property, plant and equipment	409,152	317,086

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20. Equity

Changes in share capital and share premium are as follows:

<i>(in millions of Korean won)</i>	<u>Ordinary shares</u>		<u>Preferred shares</u>		Share premium
	Number of shares	Amount	Number of shares	Amount	
January 1, 2013	66,271,100	331,356	7,628,921	38,144	897,424
December 31, 2013	66,271,100	331,356	7,628,921	38,144	897,424
June 30, 2014	66,271,100	331,356	7,628,921	38,144	897,424

Changes in treasury shares are as follows:

<i>(in millions of Korean won)</i>	<u>Number of shares</u>		Carrying amount	Gain on sale of treasury shares
	Ordinary shares	Preferred shares		
January 1, 2013	359,790	5,519	15,484	13,855
Purchase of treasury shares	2	-	-	-
December 31, 2013	359,792	5,519	15,484	13,855
June 30, 2014	359,792	5,519	15,484	13,855

The Group intends to sell its treasury shares in the near future.

21. Retained earnings

Details of retained earnings are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
Legal reserve ¹	278,057	275,601
Discretionary reserve ²	9,077,851	8,200,700
Retained earnings before appropriation	1,037,563	1,696,331
Total	10,393,471	10,172,632

¹ The Commercial Code of the Republic of Korea requires the Parent Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for cash dividends payment, but may be transferred to capital stock or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed in accordance with a resolution of the shareholders' meeting.

² The Parent Company separately accumulates a discretionary reserve for research and human resource development through appropriation of retained earnings, which has been included as deductible expense for the corporate income tax return according to the Special Tax Treatment Law. The reserve could be reversed in accordance with the terms of related tax laws.

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22. Other components of equity

Details of other components of equity are as follows:

<i>(in millions of Korean won)</i>	June 30, 2014	December 31, 2013
Treasury shares (Note 20)	(15,484)	(15,484)
Capital transactions within the Group ¹	(215)	(215)
Total	<u>(15,699)</u>	<u>(15,699)</u>

¹ Includes gain(loss) from transactions with non-controlling interests and other reserves of subsidiaries net of deferred taxes.

23. Selling, general and administrative expenses

Selling, general and administrative expenses for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014		2013	
	Three months	Six months	Three months	Six months
Wages and salaries	104,321	198,157	90,382	168,333
Pension costs (Note 17)	5,951	12,009	6,256	11,815
Welfare expense	22,498	42,325	22,215	40,588
Travel expense	9,347	17,742	9,669	17,629
Water & utilities	5,751	12,516	6,430	13,055
Packaging expense	1,427	2,821	1,745	3,258
Rental expense	25,325	48,458	24,577	47,685
Commission expense	58,342	111,580	52,656	99,225
Depreciation (Note 12)	16,976	33,279	14,706	29,314
Advertising expense	4,755	8,652	3,901	6,607
Freight expense	107,841	211,935	106,026	205,728
Training expense	2,832	5,236	2,856	5,472
Amortization (Note 13)	5,684	10,655	3,854	7,591
Sample expense	3,060	5,987	4,703	6,882
Others	56,168	109,494	59,118	109,896
Total	<u>430,278</u>	<u>830,846</u>	<u>409,094</u>	<u>773,078</u>

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24. Expenses by nature

Expenses that are recorded by function as cost of sales and selling, general and administrative expenses in the statements of income for the three-month and six-month periods ended June 30, 2014 and 2013, consist of:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Changes in inventories	148,618	22,524	47,561	(16,383)
Raw materials and consumables used	3,667,388	7,523,111	3,979,675	7,984,130
Purchase of merchandise	316,001	562,429	231,093	387,995
Employee benefit expense (Note 25)	330,998	688,047	321,865	612,822
Advertising expense	5,038	9,195	4,305	7,218
Transportation expense	114,832	225,705	114,300	221,288
Service fees	92,629	177,274	82,309	154,777
Depreciation, amortization and impairment	281,053	559,064	257,072	508,940
Operating lease payments	14,797	28,145	12,865	25,241
Other expenses	537,775	1,024,356	364,676	841,381
Total	5,509,129	10,819,850	5,415,721	10,727,409

25. Employee benefit expense

Details of employee benefit expenses for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Wages and salaries	280,230	588,299	273,443	521,416
Pension costs – Defined benefit plan (Note 17)	20,832	41,713	19,824	39,454
Pension costs – Defined contribution plan (Note 17)	41	66	62	78
Others	29,895	57,969	28,536	51,874
Total	330,998	688,047	321,865	612,822

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26. Finance income and expenses

Details of finance income and expenses for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Finance income				
Interest income ¹	10,227	22,281	7,770	16,762
Dividend income	-	-	190	190
Foreign exchange gain	7,399	26,616	41,553	61,501
Gain on foreign currency translation	6,761	6,764	8,960	12,345
Gain on settlement of trading derivatives	1,870	3,821	1,688	2,980
Gain on valuation of trading derivatives	-	68	-	-
Total	26,257	59,550	60,161	93,778
Finance expense				
Interest expense ²	21,480	41,636	14,096	30,674
Foreign exchange loss	17,992	37,817	24,565	37,323
Loss on foreign exchange translations	5,384	12,001	6,832	11,969
Loss on settlement of trading derivatives	40	1,494	491	5,096
Loss on valuation of trading derivatives	452	-	-	-
Total	45,348	92,948	45,984	85,062

¹ Details of interest income are as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Bank deposits	9,878	21,423	7,640	16,475
Other loans and receivables	349	858	130	287
Total	10,227	22,281	7,770	16,762

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² Details of interest expense are as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Interest on bank overdraft and borrowings	12,490	25,824	13,078	26,835
Interest on finance lease liabilities	44	87	93	184
Interest on debentures	6,139	12,278	6,134	12,266
Other interest expenses	4,183	6,720	1,684	5,438
Capitalized interest for qualifying assets	(1,376)	(3,273)	(6,893)	(14,049)
Total	21,480	41,636	14,096	30,674

27. Other non-operating income

Details of other non-operating income for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Foreign exchange gain	93,503	137,098	91,719	157,418
Gain on foreign currency translation	25,835	26,684	13,960	48,573
Gain on disposal of property, plant and equipment	214	2,019	401	445
Others	4,379	7,306	4,610	10,799
Total	123,931	173,107	110,690	217,235

28. Other non-operating expenses

Details of other non-operating expenses for the three-month and six-month periods ended June 30, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
	Three months	Six months	Three months	Six months
Foreign exchange loss	102,666	144,252	89,708	151,835
Loss on foreign currency translation	27,979	31,713	15,086	45,428
Loss on disposal of property, plant and equipment	1,516	7,480	5,761	7,492
Loss on disposal of intangible assets	-	270	8	20
Impairment loss on property, plant and equipment(Note 12)	30,020	30,020	974	974
Impairment loss on intangible assets(Note 12)	492	492	-	-
Others	10,283	14,620	6,040	9,872
Total	172,956	228,847	117,577	215,621

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29. Income Taxes

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rate used for the year ending December 31, 2014, is 20.4% (for the six-month period ended June 30, 2013: 19.8%).

30. Earnings per share

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

Basic earnings per share attributable to the owners of the Parent Company for the three-month and six-month periods ended June 30, 2014 and 2013, is computed as follows:

<i>(in millions of Korean won)</i>	2014		2013	
	Three months	Six months	Three months	Six months
Profit attributable to ordinary shares ¹	203,679	461,829	356,918	660,819
Weighted average number of ordinary shares outstanding ²	65,911,308	65,911,308	65,911,310	65,911,310
Basic earnings per ordinary share (in won)	3,090	7,007	5,415	10,026
<i>(in millions of Korean won)</i>				
	Three months	Six months	Three months	Six months
Profit attributable to preferred shares ¹	23,653	53,607	41,377	76,622
Weighted average number of preferred shares outstanding ²	7,623,402	7,623,402	7,623,402	7,623,402
Basic earnings per preferred share (in won)	3,103	7,032	5,428	10,051

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

<i>(in millions of Korean won)</i>	2014		2013	
	Three months	Six months	Three months	Six months
Profit for the year attributable to owners of the Parent Company	227,332	515,436	398,295	737,441
Ordinary shares dividends (A)	65,911	131,823	65,911	131,823
Preferred shares dividends (B)	7,719	15,437	7,719	15,437
Undistributed earnings for the year	153,702	368,176	324,665	590,181
Undistributed earnings available for ordinary shares (C)	137,768	330,006	291,007	528,996
Undistributed earnings available for preferred shares (D)	15,934	38,170	33,658	61,185
Profit for the year attributable to ordinary shares (A+C)	203,679	461,829	356,918	660,819
Profit for the year attributable to preferred shares (B+D)	23,653	53,607	41,377	76,622

² Weighted average numbers of shares are calculated as follows:

	2014	2013
Ordinary shares outstanding	66,271,100	66,271,100
Ordinary treasury shares	(359,792)	(359,790)
Weighted average number of ordinary shares outstanding	65,911,308	65,911,310
Preferred shares outstanding	7,628,921	7,628,921
Preferred treasury shares	(5,519)	(5,519)
Weighted average number of preferred shares outstanding	7,623,402	7,623,402

There were no dilutive potential outstanding ordinary shares at the reporting date. Accordingly, diluted earnings per share for profit attributable to owners of the Parent Company is identical to basic earnings per share.

31. Dividends

The ₩294,520 million (2013: ₩294,520 million) of dividends for the year ended December 31, 2013, was paid to the shareholders of the Parent Company in April 2014.

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32. Related party transactions

As of June 30, 2014 and December 31, 2013, LG Corp. is an entity exercising significant influence over the Group which owns 33.53% of the Parent Company's ordinary shares.

Details of associates and other related parties that have sales and other transactions with the Group or have receivables and payables balances as of June 30, 2014 and December 31, 2013, are as follows, and the details of investments in subsidiaries, associates and joint ventures are described in Note 1.3.

Related parties	Related parties' subsidiaries (Domestic)	Related parties' subsidiaries (foreign)	Details
SERVEONE	LG-TOYO Engineering Co., Ltd.	Serveone(Nanjing) Co., LTD. and others	Subsidiary of LG Corp.
LG CNS Co., Ltd.	LG N-Sys Inc., BNE PARTNERS Inc., Ever ON Co., Ltd.	LG CNS China Inc. and others	Subsidiary of LG Corp.
LG Siltron Incorporated	-	-	Subsidiary of LG Corp.
LG Management Development Institute	-	-	Subsidiary of LG Corp.
LG SPORTS Ltd.	-	-	Subsidiary of LG Corp.
LG MMA Corporation	-	-	Joint venture of LG Corp.

Sales and purchases with related parties for the six-month periods ended June 30, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014			
	Sales and others	Purchase and others		
		Purchase of raw material /merchandise	Acquisition of property, plant and equipment	Others
Entities with significant influence over the Group				
LG Corp.	-	-	-	27,350
Associates and joint ventures				
SEETEC Co., Ltd.	36,556	84,482	10	39,071
TECWIN Co., Ltd.	-	78	941	32
HL Greenpower Co., Ltd.	40,958	-	-	-
Others	26	-	-	607
Other related parties				
LG MMA Corporation	68,154	71,731	-	1,631
SERVEONE and its subsidiaries	11,659	178,017	70,353	42,528
LG CNS Co., Ltd. and its subsidiaries	10,989	1,850	41,804	21,902
Others	190	-	-	4,651
Key management	-	-	-	23,865
Total	168,532	336,158	113,108	161,637

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(in millions of Korean won)

	2013			
	Sales and others	Purchase and others		
		Purchase of raw material /merchandise	Acquisition of property, plant and equipment	Others
Entities with significant influence over the Group				
LG Corp.	-	-	-	27,284
Associates and joint ventures				
SEETEC Co., Ltd.	31,078	83,909	11	37,915
TECWIN Co., Ltd.	-	76	2,487	29
HL Greenpower Co., Ltd.	39,104	-	-	49
Others	-	-	-	657
Other related parties				
LG MMA Corporation	70,739	76,015	-	1,255
SERVEONE and its subsidiaries	10,133	183,407	148,552	39,796
LG CNS Co., Ltd. and its subsidiaries	860	2,932	26,535	20,029
Others	192	-	-	4,579
Key management	-	-	-	23,456
Total	152,106	346,339	177,585	155,049

Balances of receivables and payables arising from sales and purchases of goods and services as of June 30, 2014 and December 31, 2013, are as follows:

(in millions of Korean won)

	June 30, 2014		December 31, 2013	
	Receivable and others	Payable and others	Receivable and others	Payable and others
Entities with significant influence over the Group				
LG Corp.	7,315	33	6,935	64
Associates and joint ventures				
SEETEC Co., Ltd.	-	23,183	-	21,135
TECWIN Co., Ltd.	-	298	-	1,719
HL Greenpower Co., Ltd.	17,112	18	11,440	89
Others	22	-	22	56
Other related parties				
LG MMA Corporation	10,296	11,318	15,292	12,724
SERVEONE and its subsidiaries	29,145	108,336	28,252	174,615
LG CNS Co., Ltd. and its subsidiaries	11,165	37,205	2,755	29,550
Others	3,729	331	3,775	674
Key management	-	44,884	-	45,447
Total	78,784	225,606	68,471	286,073

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Fund transactions with related parties for the six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	Equity contributions in cash	
	2014	2013
Joint ventures		
LG Fuel Cell Systems Inc.	8,402	15,850
KLPE Limited Liability Partnership	<u>33,533</u>	<u>-</u>
	<u>41,935</u>	<u>15,850</u>

Compensation for key management of the Group for the six-month periods ended June 30, 2014 and 2013, consists of:

<i>(in millions of Korean won)</i>	2014	2013
Wages and salaries	22,771	22,379
Pension costs	<u>1,094</u>	<u>1,077</u>
Total	<u>23,865</u>	<u>23,456</u>

Key management includes directors and audit committee members having duties and responsibilities over planning, operations and controlling of the Group's business activities.

There are no provisions held against receivables from related parties and thus, no bad debts expense has been recognized in current and prior period.

Details of the guarantees provided by the Parent Company for related parties at the reporting date are disclosed in Note 19.

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33. Cash generated from operations

Reconciliation between operating profit and net cash inflow (outflow) from operating activities for the six-month periods ended June 30, 2014 and 2013, is as follows:

<i>(in millions of Korean won)</i>	2014	2013
Profit before income tax	643,990	924,323
Adjustments for:		
Depreciation	544,671	497,671
Amortization	14,393	11,269
Pension costs	41,713	39,454
Finance income	(59,289)	(80,694)
Financial expenses	87,249	93,412
Foreign exchange differences	(33,562)	46,799
Gain on disposal of property, plant and equipment	(2,019)	(445)
Gain on disposal of intangible assets	-	(21)
Loss on disposal of property, plant and equipment	7,480	7,492
Loss on disposal of intangible assets	270	20
Impairment loss on property, plant and equipment	30,020	974
Impairment loss on intangible assets	492	-
Other expenses(income)	(15,933)	12,680
Inventories	(9,596)	124,269
Trade receivables	(253,271)	(302,469)
Other receivables	(453)	(6,027)
Settlement of derivatives	2,327	235
Trade payables	130,130	93,798
Other payables	21,859	195,929
Defined benefit liabilities	(2,852)	(4,068)
Other cash flows from operations	4,998	7,234
Cash generated from operations	<u>1,152,617</u>	<u>1,661,835</u>

The principal non-cash transactions for the six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Transfer of construction-in-progress	429,777	918,265
Transfer of machinery-in-transit	69,138	80,063
Reclassification of long-term borrowings into current maturities	260,272	107,808
Transfer to non-current assets held for sale	5,639	-
Gain on valuation of derivatives recognized as other comprehensive income	-	126

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34. Segment information

(1) General information about the Group's reportable segments is as follows:

Segment	Products or services	Major customers
Petrochemicals	PE, PVC, VCM, Alcohol, Plasticizer, ABS/PS, EPS, MBS, SBL, EP, Ethylene, Propylene, BPA and others	LG International Corp., LG Electronics Inc., Daewoo Electronics Inc., National Plastic Co. Ltd., Youl Chon Chemical Co. Ltd., OCI Company Co. Ltd., Mitsui & Co. Ltd., and others
IT & Electronic materials	Polarizers, 3D FPR and others	LG Display Co., BOE, AUO, and others
Energy solutions	Portable batteries, batteries for vehicles, Electricity storage batteries and others	Hewlett-Packard Co., General Motors Corp., and others
Common and others	General management, sales and R&D	

(2) The segment information on revenue and profit and loss for the six-month periods ended June 30, 2014 and 2013, is as follows:

(in millions of Korean won)

	2014				Total
	Petro - Chemicals	IT & Electronic Materials	Energy solutions	Common and others ³	
Total segment revenue	8,930,893	1,385,809	1,405,366	3,869	11,725,937
Inter-segment revenue	95,534	84,522	1,241	3,061	184,358
Revenue from external customers ¹	8,835,359	1,301,287	1,404,125	808	11,541,579
Operating profit (loss) ²	598,914	84,171	42,354	(3,710)	721,729

(in millions of Korean won)

	2013				Total
	Petro - Chemicals	IT & Electronic Materials	Energy solutions	Common and others ³	
Total segment revenue	8,888,733	1,640,563	1,210,140	1,082	11,740,518
Inter-segment revenue	34,191	67,401	1	1,082	102,675
Revenue from external customers ¹	8,854,542	1,573,162	1,210,139	-	11,637,843
Operating profit (loss) ²	690,691	215,844	4,185	(286)	910,434

¹ Revenue from external customers consists of sales of goods. Interest income and dividend income are included in finance income.

² Management assesses the performance of the operating segments based on a measure of operating profit of segment.

³ Common and other segments include operating segments not qualifying as a reportable segment, supporting divisions as well as R&D divisions.

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(3) The segment information on assets and liabilities as of June 30, 2014 and December 31, 2013, is as follows:

(in millions of Korean won)

	June 30, 2014				
	Petro - Chemicals	IT & Electronic Materials	Energy solutions	Common and others	Total
Total assets for the segment ¹	8,569,580	3,028,938	3,166,179	2,899,494	17,664,191
Investments in associates and joint ventures	199,151	-	18,032	257,976	475,159
Total liabilities for the segment ¹	2,481,020	601,597	1,405,397	1,342,503	5,830,517

(in millions of Korean won)

	December 31, 2013				
	Petro - Chemicals	IT & Electronic Materials	Energy solutions	Common and others	Total
Total assets for the segment ¹	8,812,651	2,953,818	3,111,555	2,568,440	17,446,464
Investments in associates and joint ventures	182,571	-	16,746	248,550	447,867
Total liabilities for the segment ¹	2,542,105	574,215	1,304,868	1,299,614	5,720,802

¹ Assets and liabilities are measured in a manner consistent with those in the financial statements and allocated on the basis of segment operation.

(4) The external sales by geographical segments from continuing operations for the six-month periods ended June 30, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Korea ¹	4,804,201	4,966,124
China	4,952,266	5,034,606
South East Asia	732,896	700,164
America	1,023,403	879,743
Europe	770,658	611,706
Others	1,539,094	1,583,224
Eliminations	<u>(2,280,939)</u>	<u>(2,137,724)</u>
Total	<u>11,541,579</u>	<u>11,637,843</u>

¹ Domestic sales include the exports made through local letters of credit.

(5) There is no external customer attributing to more than 10% of total revenue for the six-month periods ended June 30, 2014 and 2013.

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35. Business combination

(1) During the period, the Group acquired 100% interest in NanoH2O Inc., which produces water purification filter and is located in the United States. As a result of the merger, the Group expects revenue growth through market diversification, which includes entering into new industrial markets.

(2) Goodwill amounting to ₩167,169 million arising from the business combination is due to acquisition of NanoH2O Inc.'s pre-existing customer base and the revenue growth generated by combining the operations of the Group and NanoH2O Inc.

(3) The following table summarizes the consideration paid for NanoH2O Inc., the fair value of assets acquired and liabilities assumed at the acquisition date:

<i>(in millions of Korean won)</i>	Amount
Consideration	
Cash and cash equivalents	151,411
	<hr/> 151,411 <hr/>
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	14,993
Property, plant and equipment	11,630
Intangible assets	43,751
Inventories	2,243
Trade and other(non-current) receivables	8,229
Trade and other(non-current) payables	(5,608)
Borrowings	(72,219)
Deferred income tax liabilities	(18,777)
Total identifiable net assets	<hr/> (15,758) <hr/>
Goodwill	167,169
Total	<hr/> 151,411 <hr/>

(4) During the business combination process, the Parent Company provided USD 70,000 thousand as working capital loans and NanoH2O Inc. recognized the corresponding amount as borrowings.

(5) The fair value of trade and other(non-current) receivables is ₩8,229 million and includes trade receivables with a fair value of ₩790 million. The gross contractual amount for trade and other(non-current) receivables due is ₩8,229 million, which are expected to be collected during the normal course of the business.

(6) The Group has entered into performance incentive agreements with certain employees of NanoH2O. In order to guarantee the agreements, the Group has entered into an escrow agreement with a financial institution and deposited other non-current receivables of USD 6,369 thousand.

(7) The revenue and profit included in the consolidated statement of income since the acquisition date, contributed by NanoH2O Inc. were ₩808 million and ₩3,429 million, respectively.

(8) Had NanoH2O Inc. been consolidated from January 1, 2014, the consolidated statement of income would show revenue of ₩1,968 million and profit of ₩43,330 million.

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36. Non-current assets held for sale

The Group decided to sell certain property, plant and equipment and intangible assets related to the toner division with the approval of the management on June 25, 2014. The related assets were reclassified as non-current assets held for sale. The disposal is expected to be completed by 2014.

Details of assets of disposal group classified as held-for-sale as of June 30, 2014, are as follows:

<i>(in millions of Korean won)</i>	Amount
Assets of disposal group	
Property, plant and equipment	5,577
Intangible assets	<u>62</u>
Total	<u>5,639</u>

(2) Assets of the disposal group were measured at fair value immediately before the initial classification of the assets as held for sale; the related impairment loss amounting ₩7,044 million was recognized as other non-operating expenses.