

LG Chem, Ltd.

**Separate Financial Statements
December 31, 2014 and 2013**

LG Chem, Ltd.
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December 31, 2014 and 2013

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Independent Auditor's Report
(English Translation of a Report Originally Issued in Korean)

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

We have audited the accompanying separate financial statements of LG Chem, Ltd. (the "Company"), which comprise the separate statements of financial position as of December 31, 2014 and 2013, and the separate statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of LG Chem, Ltd. as of December 31, 2014 and 2013, and its financial performance and cash flows for the years then ended in accordance with the Korean IFRS.

Other Matters

The separate financial statements of the Company as of and for the year ended December 31, 2013, were audited in accordance with the previous Korean Standards on Auditing.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

A handwritten signature in black ink that reads "Samil PricewaterhouseCoopers". The signature is written in a cursive, flowing style.

Seoul, Korea
March 5, 2015

This report is effective as of March 5, 2015, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Chem, Ltd.
Separate Statements of Financial Position
December 31, 2014 and 2013

<i>(in millions of Korean won)</i>	Notes	2014	2013
Assets			
Current assets			
Cash and cash equivalents	3, 5, 6	717,965	1,076,468
Trade receivables	3, 5, 7, 32	2,776,022	2,776,773
Other receivables	3, 5, 7, 32	1,019,267	699,520
Other financial assets	3, 5, 8, 9	783	-
Other current assets	14	179,421	139,604
Inventories	10	2,057,422	1,997,556
Non-current asset held for sale	35	5,961	-
Total current assets		6,756,841	6,689,921
Non-current assets			
Other receivables	3, 5, 7	63,369	19,784
Other financial assets	3, 5, 8	5,926	5,846
Investments in subsidiaries	11	914,937	762,738
Investments in associates and joint ventures	11	409,080	367,145
Property, plant and equipment	12	7,379,266	7,273,111
Intangible assets	13	293,027	252,561
Other non-current assets	14	71,000	16,070
Total non-current assets		9,136,605	8,697,255
Total assets		15,893,446	15,387,176
Liabilities and equity			
Liabilities			
Current liabilities			
Trade payables	3, 5, 32	1,021,375	924,340
Other payables	3, 5, 32	1,034,195	904,285
Borrowings	3, 5, 15	1,388,646	1,132,555
Provisions	16	4,448	2,239
Current income tax liabilities		90,353	113,934
Other current liabilities	5, 18	199,023	209,422
Total current liabilities		3,738,040	3,286,775
Non-current liabilities			
Other payables	3, 5	53,631	75,577
Borrowings	3, 5, 15	300,710	706,008
Provisions	16	22,485	17,402
Net defined benefit liability	17	85,407	50,022
Deferred income tax liabilities	29	141,596	173,491
Total non-current liabilities		603,829	1,022,500
Total liabilities		4,341,869	4,309,275

LG Chem, Ltd.
Separate Statements of Financial Position
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<i>(in millions of Korean won)</i>	Notes	2014	2013
Equity			
Share capital	1, 20	369,500	369,500
Capital surplus		1,166,764	1,166,764
Other components of equity	22	(15,484)	(15,484)
Retained earnings	21	10,030,797	9,557,121
Total equity		<u>11,551,577</u>	<u>11,077,901</u>
Total liabilities and equity		<u>15,893,446</u>	<u>15,387,176</u>

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

LG Chem, Ltd.
Separate Statements of Income
Years Ended December 31, 2014 and 2013

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2014	2013
Revenue	32	19,675,975	20,255,935
Cost of sales	24, 32	<u>(17,057,579)</u>	<u>(17,291,982)</u>
Gross profit		2,618,396	2,963,953
Selling, general and administrative expenses	23, 24, 32	<u>(1,485,271)</u>	<u>(1,384,684)</u>
Operating profit		1,133,125	1,579,269
Non-operating income(expenses)			
Finance income	5, 26	170,979	209,675
Finance expenses	5, 26	(114,382)	(189,772)
Other non-operating income	5, 27	349,941	332,554
Other non-operating expenses	5, 28, 34	<u>(467,220)</u>	<u>(460,377)</u>
Profit before income tax	33	1,072,443	1,471,349
Income tax expense	29	<u>(248,947)</u>	<u>(296,957)</u>
Profit for the year		<u>823,496</u>	<u>1,174,392</u>
Earnings per share for profit for the year			
(in won)	30		
Basic and diluted earnings per ordinary share		11,194	15,965
Basic and diluted earnings per preferred share		11,244	16,015

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

LG Chem, Ltd.
Separate Statements of Comprehensive Income
Years Ended December 31, 2014 and 2013

(in millions of Korean won)

	Notes	2014	2013
Profit for the year		823,496	1,174,392
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit liability	17	(72,955)	(3,590)
Income tax effect relating to components of other comprehensive income		17,655	868
Items that will be reclassified subsequently to profit or loss:			
Cash flow hedges		-	154
Income tax effect relating to components of other comprehensive income		-	(37)
Other comprehensive income for the year, net of tax		(55,300)	(2,605)
Total comprehensive income for the year		768,196	1,171,787

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

LG Chem, Ltd.
Separate Statements of Changes in Equity
Years Ended December 31, 2014 and 2013

<i>(in millions of Korean won)</i>	Notes	Share capital	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings	Total equity
Balance at January 1, 2013		369,500	1,166,764	(15,484)	(117)	8,679,971	10,200,634
Comprehensive income:							
Profit for the year		-	-	-	-	1,174,392	1,174,392
Remeasurement of net defined benefit liability	17	-	-	-	-	(2,722)	(2,722)
Cash flow hedges		-	-	-	117	-	117
Total comprehensive income		-	-	-	117	1,171,670	1,171,787
Transactions with owners:							
Dividends	31	-	-	-	-	(294,520)	(294,520)
Total transactions with owners		-	-	-	-	(294,520)	(294,520)
Balance at December 31, 2013		369,500	1,166,764	(15,484)	-	9,557,121	11,077,901
Balance at January 1, 2014		369,500	1,166,764	(15,484)	-	9,557,121	11,077,901
Comprehensive income:							
Profit for the year		-	-	-	-	823,496	823,496
Remeasurement of net defined benefit liability	17	-	-	-	-	(55,300)	(55,300)
Total comprehensive income		-	-	-	-	768,196	768,196
Transactions with owners:							
Dividends	31	-	-	-	-	(294,520)	(294,520)
Total transactions with owners		-	-	-	-	(294,520)	(294,520)
Balance at December 31, 2014		369,500	1,166,764	(15,484)	-	10,030,797	11,551,577

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

LG Chem, Ltd.
Separate Statements of Cash Flows
Years Ended December 31, 2014 and 2013

<i>(in millions of Korean won)</i>	Notes	2014	2013
Cash flows from operating activities			
Cash generated from operations	33	2,196,486	2,321,356
Interest received		41,767	35,323
Interest paid		(45,440)	(50,184)
Dividends		54,457	40,670
Income taxes paid		(345,312)	(279,036)
Net cash generated from operating activities		<u>1,901,958</u>	<u>2,068,129</u>
Cash flows from investing activities			
Decrease in other receivables		910,003	839,014
Decrease in non-current other receivables		11,317	14,190
Proceeds from disposal of property, plant and equipment		8,057	5,965
Proceeds from disposal of intangible assets		66	316
Increase in other receivables		(1,257,819)	(734,600)
Increase in non-current other receivables		(25,126)	(17,959)
Acquisition of investments in subsidiaries		(204,440)	(30,149)
Acquisition of investments in associates and joint ventures		(41,935)	(25,420)
Purchases of property, plant and equipment		(1,126,968)	(1,091,207)
Purchases of intangible assets		(49,674)	(41,877)
Net cash used in investing activities		<u>(1,776,519)</u>	<u>(1,081,727)</u>
Cash flows from financing activities			
Proceeds from borrowings		16,553	-
Repayments of borrowings		(203,196)	(64,199)
Dividends		(294,530)	(294,518)
Net cash used in financing activities		<u>(481,173)</u>	<u>(358,717)</u>
Net increase(decrease) in cash and cash equivalents		(355,734)	627,685
Cash and cash equivalents at beginning of year		1,076,468	448,967
Exchange losses on cash and cash equivalents		(2,769)	(184)
Cash and cash equivalents at the end of year		<u>717,965</u>	<u>1,076,468</u>

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

LG Chem, Ltd.

Notes to the Separate Financial Statements

December 31, 2014 and 2013

1. General information

The Company was spun off on April 1, 2001, from LG Chem Investment Ltd. (formerly LG Chemical Ltd.).

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

As of December 31, 2014, the Company has its manufacturing facilities in Yeosu, Cheongju, Ulsan, Naju, Iksan, Daesan, Ochang, Paju and Gimcheon.

The Company is authorized to issue 292 million shares of ordinary shares with par value of ₩5,000 per share. As of December 31, 2014, the 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 Company is LG Corp., which owns 33.53% of the 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.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying separate financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, financial performance or cash flows, is not presented in the accompanying separate financial statements.

The separate financial statements of the Company have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The preparation of the separate financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 4.

LG Chem, Ltd.
Notes to the Separate Financial Statements
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2.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Company

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

- Enactment of Korean IFRS 2121, *Levies*

Korean IFRS 2121, *Levies* is applied to a liability to pay a levy imposed by the 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 application of this interpretation does not have a material impact on the separate financial statements.

- Amendment to Korean IFRS 1102, *Share-based payment*

Korean IFRS 1102, *Share-based payment*, clarifies the definition of 'vesting conditions' such as 'performance condition', 'service condition' and others. This amendment is applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The application of this amendment does not have a material impact on the separate financial statements.

- 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. The application of this amendment does not have a material impact on the separate financial statements.

- Amendment to Korean IFRS 1036, *Impairment of Assets*

Amendment to Korean IFRS 1036, *Impairment of Assets*, removed certain disclosures of the recoverable amount of cash-generating units which had been included in this amendment by the issuance of Korean IFRS 1113. The application of this amendment does not have a material impact on the separate 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. The application of this amendment does not have a material impact on the separate financial statements.

Other standards, amendments and interpretations which are effective for the annual period beginning on January 1, 2014, do not have a material impact on the separate financial statements of the Company.

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(b) New standards and interpretations not yet adopted

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2014, and not early adopted by the Company are as follows:

- Amendment to Korean IFRS 1027, *Separate Financial Statements*

Amendment to Korean IFRS 1027, *Separate Financial Statements*, requires that the accounting for investments in subsidiaries, jointly controlled entities and associates be accounted for under one of the following methods by each category: at cost, in accordance with the Korean IFRS 1039, or the equity method in Korean IFRS 1028. This amendment is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company expects that the application of this amendment would not have an impact on its financial statements.

2.3 Investments in subsidiaries, associates and joint ventures

The accompanying financial statements are the separate financial statements of the Company prepared in accordance with Korean IFRS 1027, '*Separate Financial Statements*'. Investments in subsidiaries, associates and jointly controlled entities are recorded at acquisition cost based on its direct equity investments. At the date of transition from K-GAAP to Korean IFRS, the Company has used the K-GAAP carrying amount at the transition date as deemed cost. The Company recognizes a dividend from a subsidiary, associate or jointly controlled entity in profit or loss when its right to receive the dividend is established.

2.4 Foreign currency translation

(1) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Korean won', which is the Company's functional and presentation currency.

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

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2.5 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.6 Financial instruments

(a) Classification and measurement

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on trade date.

At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

(b) Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Impairment of loans and receivables is presented as a deduction in an allowance account. Impairment of other financial assets is directly deducted from their carrying amount. The Company writes off financial assets when the assets are determined to be no longer recoverable.

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments over three months; or the disappearance of an active market for that financial asset because of financial difficulties. a significant or prolonged decline in the fair value of an available-for-sale equity instrument its cost is also evidence that the asset is impaired.

(c) Derecognition

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If the Company transfers a financial asset and the transfer does not result in derecognition because the Company has retained substantially of all risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as 'borrowings' in the statement of financial position (Note 15).

2.7 Derivative financial instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the statement of income within 'other non-operating income (expenses)' or 'finance income (expenses)' according to the nature of transactions.

2.8 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted average cost method except goods in transit which is determined using the specific identification method.

2.9 Property, plant and equipment

Property, plant and equipment are stated at its cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Buildings	25 - 50 years
Structures	15 - 50 years
Machinery	6 - 15 years
Others	1 - 6 years

The depreciation method, residual values and useful lives of property, plant and equipment are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

2.10 Borrowing costs

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the year. Other borrowing costs are

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recognized as expenses for the period in which they are incurred.

2.11 Government grants

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Company will comply with the conditions attaching to it. Government grants related to assets are presented by deducting the grants in arriving at the carrying amount of the assets, and grants related to income are deferred and presented by deducting the related expenses for the purpose of the government grants.

2.12 Intangible assets

Goodwill arising on the acquisition of business is included in intangible assets and goodwill arising on the acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or group of CGUs, that is expected to benefit from the synergies of the combination. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Intangible assets, except for goodwill, are initially recognized at its historical cost and carried at its cost less accumulated amortization and accumulated impairment losses.

Internally generated software development costs are the aggregate costs recognized after meeting the asset recognition criteria, including technical feasibility, and determined to have future economic benefits. Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the assets are expected to be utilized. Intangible assets with definite useful life that are amortized using the straight-line method over their estimated useful lives, are as follows:

	Useful lives
Software development costs	3 - 6 years
Industrial property rights	5 - 15 years
Other intangible assets	6 - 20 years

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2.13 Research and development

Costs associated with research are recognized as an expense as incurred. Costs that are identifiable, controllable and directly attributable to development projects are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the development project so that it will be available for use;
- Management intends to complete the development project and use or sell it;
- There is an ability to use or sell the development project;
- It can be demonstrated how the development project will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the development project are available; and
- The expenditure attributable to the development project during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs that are recognized as intangible assets are amortized using the straight-line method over their estimated useful lives of three to six years when the assets are available for use and are tested for impairment.

2.14 Impairment of non-financial assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15 Financial Liabilities

(a) Classification and measurement

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost

LG Chem, Ltd.
Notes to the Separate Financial Statements
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and presented as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

2.16 Current and deferred income tax

The tax expense for the period consists of current and deferred tax. Tax is recognized on the profit for the period in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

Deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax asset is recognized for deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

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2.18 Employee benefits

The Company has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The contributions are recognized as employee benefit expenses when an employee has rendered service.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized as profit or loss for the year.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Company.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the terms of each arrangement.

(a) Sales of goods

Sales of goods are recognized upon delivery of products to customers. The Company recognizes provisions for product warranties and sales returns based on reasonable expectation reflecting warranty obligation and sales return rates incurred historically.

(b) Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

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(c) Dividend income

Dividend income is recognized when the right to receive payment is established.

2.20 Leases

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases where all the risks and rewards of ownership are not transferred to the Company are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term.

Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases and recognized as lease assets and liabilities at the lower of the fair value of the leased property and the present value of the minimum lease payments on the opening date of the lease period.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

2.21 Non-current assets (or disposal group) held-for-sale

Non-current assets (or disposal group) are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The assets are measured at the lower amount between their carrying amount and the fair value less costs to sell.

3. Financial risk management

3.1 Financial risk factors

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

Risk management is carried out by the Company'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 Company's operating units. The Corporate Management Committee reviews and approves 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.

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(1) Market risk

1) Foreign exchange risk

The Company 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 companies to manage their foreign exchange risk against their functional currency. The Company 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. Currency exposure arising from the net assets of the Company's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

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

<i>(in millions of Korean won)</i>	2014		2013	
	Assets	Liabilities	Assets	Liabilities
USD	2,201,805	1,784,921	2,190,311	1,723,107
EUR	138,825	100,672	112,234	88,071
JPY	33,338	89,244	21,895	82,906
GBP and others	2,636	1,921	2,716	4,522

As of December 31, 2014 and 2013, if the Company'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>	2014		2013	
	10% Increase	10% Decrease	10% Increase	10% Decrease
USD	41,688	(41,688)	46,720	(46,720)

The above sensitivity analysis has been performed for monetary assets and liabilities denominated in foreign currencies other than the Company'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.

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The Company adequately minimizes risks from interest rate fluctuations through various policies, such as sharing excess cash within the Company (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 0.1% (10 basis points) higher/lower of interest rate with all other variables held constant on the Company's post-tax profit for the year and on equity as of December 31, 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	(8,251)	(7,847)	(8,251)	(7,847)
Decrease	8,251	7,847	8,251	7,847

(2) Credit risk

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

<i>(in millions of Korean won)</i>	2014			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)	4,582,846	(6,252)	4,576,594	4,579,697	(7,185)	4,572,512
Financial assets at fair value through profit or loss	783	-	783	-	-	-
Total	4,583,629	(6,252)	4,577,377	4,579,697	(7,185)	4,572,512

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

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

To manage credit risks relating to trade receivables, the Company 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.

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

The Company has deposited its cash and cash equivalents and other long-term deposits in several financial institutions such as Woori Bank and Shinhan Bank. The Company has also entered into derivative contracts with several financial institutions. The Company 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.

(3) Liquidity risk

The Company monitors rolling forecasts of the Company'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 Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal financial ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

- 1) The table below analyzes the Company'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)

	December 31, 2014			
	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years
Borrowings (excluding finance lease liabilities)	1,408,669	112,574	203,034	59
Trade and other payables	2,055,570	53,581	50	-
Total	3,464,239	166,155	203,084	59

(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)	1,162,646	425,660	315,220	278
Finance lease liabilities	3,195	-	-	-
Trade and other payables	1,828,625	50,385	25,192	-
Total	2,994,466	476,045	340,412	278

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- 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)

		December 31, 2014			
		Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years
Gross-settled derivative financial liabilities	Trading				
	Inflow	52,445	-	-	-
	Outflow	(51,662)	-	-	-
	Total	783	-	-	-

- 3) The table below analyzes the Company'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)

		December 31, 2014			
		Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years
Financial guarantee contracts ¹		196,514	157	548	192

(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		250,198	144	509	389

¹ The Company and LG Hausys Ltd. have provided the joint guarantee for obligations outstanding as of April 1, 2009, the spin-off date. Also the Company has provided financial guarantee for subsidiaries. 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 Company's capital objectives are to safeguard the Company'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 Company 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 statement of financial position plus net debt.

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

(in millions of Korean won, except for ratios)

	2014	2013
Total borrowings (Note 15) (A)	1,689,356	1,838,563
Less: cash and cash equivalents (B)	(717,965)	(1,076,468)
Net debt (C=A+B)	971,391	762,095
Total liabilities (D)	4,341,869	4,309,275
Total equity (E)	11,551,577	11,077,901

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Total capital (F=C+E)	12,522,968	11,839,996
Gearing ratio (C/F)	7.8%	6.4%
Debt-to-equity ratio (D/E)	37.6%	38.9%

3.3 Fair value estimation

Carrying amount and fair value of financial instruments by category as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets(current)				
Cash and cash equivalents	717,965	1	1,076,468	1
Financial deposits	777,200	1	527,600	1
Trade receivables	2,776,022	1	2,776,773	1
Other receivables(excluding financial deposits)	242,067	1	171,920	1
Derivative financial instruments	783	783	-	-
Financial assets(non-current)				
Financial deposits	26,021	1	24	1
Other non-current receivables(excluding financial deposits)	37,348	1	19,760	1
Other non-current financial assets	5,926	2	5,846	2
Financial liabilities(current)				
Trade and other payables	2,055,570	1	1,828,625	1
Borrowings(current)	1,388,646	1	1,132,555	1
Other current liabilities(dividends payable)	36	1	46	1
Financial liabilities(non-current)				
Borrowings (non-current)	300,710	313,050	706,008	696,103
Other non-current payables	53,631	51,941	75,577	71,730

¹These financial assets and liabilities are not included in the disclosure above as their carrying amount is a reasonable approximation of the fair value.

²All other non-current financial assets of the Company consist of available-for-sale equity securities and are measured at cost (December 31, 2014: ₩ 5,926 million; December 31, 2013: ₩ 5,846 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 disclosure above (Note 8). The Company does not have any plans to dispose of these available-for-sale equity securities in the near future.

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Fair value for measurement and disclosure are determined based on the following method.

1) Derivative financial instruments

The Company determines derivative financial instruments 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. 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.

2) Financial liabilities(non-current)

Fair value of financial liabilities(non-current) are based on cash outflows discounted using Korean won currency note yield in the same credit grade with the Company (AA+), and applied discount rate as of December 31, 2014 and 2013, is as follows:

<i>(in millions of Korean won)</i>	2014	2013
Discount rate	2.26%~2.68%	3.03%~3.80%

3) Fair value hierarchy

Assets measured at fair value or for which the fair value is disclosed are categorized within the fair value hierarchy, and the defined levels are as follows:

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

Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value or its fair value is disclosed as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014			
	Level 1	Level 2	Level 3	Total
Financial assets/liabilities that are measured at fair value				
Derivative financial assets	-	783	-	783
Borrowings (non-current)	-	313,050	-	313,050
Other non-current payables	-	51,941	-	51,941

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<i>(in millions of Korean won)</i>	2013			
	Level 1	Level 2	Level 3	Total
Financial assets/liabilities that are measured at fair value				
Derivative financial assets	-	-	-	-
Borrowings (non-current)	-	696,103	-	696,103
Other non-current payables	-	71,730	-	71,730

4. Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(1) Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 13).

(2) Income taxes

The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made (Note 29).

(3) Provisions

The Company recognizes provisions for product warranties and sales return as of the reporting date as described in Note 16. The amounts are estimated based on historical data.

(4) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 17).

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5. Financial instruments by category

(1) Categorizations of financial instruments are as follows:

(in millions of Korean won)

Financial assets	December 31, 2014			Total
	Loans and receivables	Assets at fair value through profit or loss	Assets classified as available-for-sale	
Cash and cash equivalents	717,965	-	-	717,965
Trade receivables	2,776,022	-	-	2,776,022
Other receivables	1,019,267	-	-	1,019,267
Other current financial assets	-	783	-	783
Other non-current receivables	63,369	-	-	63,369
Other non-current financial assets	-	-	5,926	5,926
Total	4,576,623	783	5,926	4,583,332

(in millions of Korean won)

Financial liabilities	December 31, 2014			Total
	Financial liabilities at fair value through profit or loss	Liabilities at amortized cost	Other liabilities ¹	
Trade payables	-	1,021,375	-	1,021,375
Other payables	-	1,034,195	-	1,034,195
Borrowings (current)	-	410,090	978,556	1,388,646
Other current liabilities (dividends payable)	-	36	-	36
Other non-current payables	-	53,631	-	53,631
Borrowings (non-current)	-	300,710	-	300,710
Total	-	2,820,037	978,556	3,798,593

(in millions of Korean won)

Financial assets	December 31, 2013		Total
	Loans and receivables	Assets classified as available-for-sale	
Cash and cash equivalents	1,076,468	-	1,076,468
Trade receivables	2,776,773	-	2,776,773
Other receivables	699,520	-	699,520
Other non-current receivables	19,784	-	19,784
Other non-current financial assets	-	5,846	5,846
Total	4,572,545	5,846	4,578,391

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December 31, 2013

Financial liabilities	Financial liabilities at fair value through profit or loss	Liabilities at amortized cost	Other liabilities¹	Total
Trade payables	-	924,340	-	924,340
Other payables	-	904,285	-	904,285
Borrowings (current)	-	199,846	932,709	1,132,555
Other current liabilities (dividends payable)	-	46	-	46
Other non-current payables	-	75,577	-	75,577
Borrowings (non-current)	-	706,008	-	706,008
Total	-	2,810,102	932,709	3,742,811

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.

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

(in millions of Korean won)

2014

2013

Assets at fair value through profit or loss		
Loss on valuation/ disposal	(1,423)	(1,841)
Hedging derivatives		
Gain on valuation recognized in other comprehensive expenses	-	154
Interest expense	-	(179)
Assets classified as available-for-sale		
Dividend income	(202)	190
Loans and receivables		
Interest income	43,097	32,709
Gain(loss) on foreign currency translation	15,669	(13,079)
Gain(loss) on foreign exchange	32,683	(55,068)
Liabilities at amortized cost		
Interest expense	(35,457)	(40,393)
Gain(loss) foreign currency translation	(6,734)	8,275
Gain(loss) on foreign exchange	(19,173)	15,883
Other liabilities		
Interest expense	(10,145)	(10,651)
Gain(loss) on foreign currency translation	(8,082)	5,289
Gain(loss) on foreign exchange	(24,285)	13,971

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6. Cash and cash equivalents

Details of cash and cash equivalents are as follows:

<i>(in millions of Korean won)</i>	December 31, 2014	December 31, 2013
Bank deposits and cash on hand	40,657	59,344
Financial deposits, others	677,308	1,017,124
Total	<u>717,965</u>	<u>1,076,468</u>

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>	December 31, 2014			December 31, 2013		
	Original amount	Less : allowance for doubtful accounts	Carrying amount	Original amount	Less : allowance for doubtful accounts	Carrying amount
Trade receivables ¹	2,782,274	(6,252)	2,776,022	2,783,958	(7,185)	2,776,773
Other current receivables	1,019,267	-	1,019,267	699,520	-	699,520
Other non-current receivables ²	63,369	-	63,369	19,784	-	19,784
Total	<u>3,864,910</u>	<u>(6,252)</u>	<u>3,858,658</u>	<u>3,503,262</u>	<u>(7,185)</u>	<u>3,496,077</u>

¹ As of December 31, 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)	
	December 31, 2014	December 31, 2013
Carrying amount of transferred assets	978,556	929,635
Carrying amount of related liabilities	(978,556)	(929,635)

² As of December 31, 2014, other non-current receivables amounting to ₩21 million are restricted from withdrawal in connection with maintaining checking accounts (2013: ₩24 million).

Details of other receivables are as follows:

<i>(in millions of Korean won)</i>	December 31, 2014	December 31, 2013
Current		
Non-trade receivables	139,923	144,272
Financial deposits ¹	777,200	527,600
Accrued income	5,908	4,578
Deposits	19,292	23,070

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Loans ²	76,944	-
	<u>1,019,267</u>	<u>699,520</u>
Non-current		
Financial deposits ¹	26,021	24
Loans	-	2
Deposits	<u>37,348</u>	<u>19,758</u>
	<u>63,369</u>	<u>19,784</u>
Total	<u>1,082,636</u>	<u>719,304</u>

¹ As of December 31, 2014, certificates of deposit included within financial deposits amounting to ₩35,800 million have been pledged as collateral to SH Corporation in relation to the acquisition of LG Science Park land.

² The amount represents loans to LG NanoH2O, Inc., a subsidiary newly acquired in 2014, for its operating funds.

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

<i>(in millions of Korean won)</i>	December 31, 2014		December 31, 2013	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Receivables not past due	2,736,154	1,077,000	2,705,067	716,308
Past due but not impaired				
Up to 3 months	40,161	5,620	69,524	2,995
3 to 6 months	286	16	3,116	1
Over 6 months	73	-	680	-
Impaired receivables	<u>5,600</u>	<u>-</u>	<u>5,571</u>	<u>-</u>
Total	<u>2,782,274</u>	<u>1,082,636</u>	<u>2,783,958</u>	<u>719,304</u>

The movements in bad debts allowance for the years ended December 31, 2014 and 2013, are as follows:

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<i>(in millions of Korean won)</i>	2014				2013			
	Trade receivables		Other receivables		Trade receivables		Other receivables	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Beginning balance	7,185	-	-	-	5,769	-	-	-
Additions	83	-	-	-	2,283	-	-	-
Write-off	(971)	-	-	-	(867)	-	-	-
Reversals	-	-	-	-	-	-	-	-
Ending balance	<u>6,252</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,185</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

8. Other financial assets

Details of other financial assets are as follows:

<i>(in millions of Korean won)</i>	December 31, 2014	December 31, 2013
Other financial assets		
Derivatives (Note 9)	783	-
Available-for-sale	5,926	5,846
Less: current portions	(783)	-
Total	<u>5,926</u>	<u>5,846</u>

The movement in financial assets classified as available-for-sale for the years ended December 31, 2014 and 2013, is as follows:

<i>(in millions of Korean won)</i>	2014	2013
Beginning balance	5,846	21,696
Additions	80	-
Transfer ¹	-	(15,850)
Ending balance	<u>5,926</u>	<u>5,846</u>

¹ In 2013, the investments in LG Fuel Cell Systems Inc. was reclassified from available-for-sale financial assets to investment in associate as the Company can exercise significant influence as the executive of the Company is a member of the board of directors of LG Fuel Cell Systems Inc. (Note 11).

Financial assets classified as available-for-sale consist of unlisted 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.

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No impairment losses were recognized for financial assets classified as available-for-sale during the years ended December 31, 2014 and 2013.

9. Derivative financial instruments

Details of derivative financial assets and liabilities are as follows:

(in millions of Korean won)

	December 31, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Current				
Held-for-trading	783	-	-	-
	<u>783</u>	<u>-</u>	<u>-</u>	<u>-</u>

Details of derivative financial contracts as of December 31, 2014, are as follows:

2014					
Classification	Contractor	Contract date	Contract amount		Contract terms
			(in thousands)	Contract period	
Forward exchange	Shinhan Bank and 4 other banks	2014.12.03, others	US\$ 10,000, others	2015.01.02 ~ 2015.01.06	₩ 1117.95/US\$1, others

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)

	December 31, 2014			December 31, 2013		
	Original amount	Valuation allowance	Carrying amount	Original amount	Valuation allowance	Carrying amount
Merchandise	45,936	(826)	45,110	46,656	(675)	45,981
Finished products	939,581	(31,828)	907,753	974,595	(38,034)	936,561
Semi-finished products	345,585	-	345,585	313,093	-	313,093
Work-in-process	465	-	465	1,152	-	1,152
Raw materials	539,469	(2,139)	537,330	533,560	(1,325)	532,235
Supplies	67,395	-	67,395	66,076	-	66,076
Materials-in-transit	153,784	-	153,784	102,458	-	102,458
Total	<u>2,092,215</u>	<u>(34,793)</u>	<u>2,057,422</u>	<u>2,037,590</u>	<u>(40,034)</u>	<u>1,997,556</u>

The cost of inventories recognized as expense and included in 'Cost of Sales' amounted to ₩ 13,887,447 million (2013: ₩ 14,532,084 million).

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11. Investments in subsidiaries, associates and joint ventures

Changes in the carrying amount of investments in subsidiaries, associates and joint ventures for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Beginning balance	1,129,883	1,114,160
Additions	246,375	71,419
Impairment ¹	(52,241)	(55,696)
Ending balance	1,324,017	1,129,883

¹ During 2014, Chinese PVC division, managed as a separate cash-generating unit (hereafter 'CGU') of the Petrochemical business segment, was tested for impairment due to its deteriorating performance in earnings as a result of a significant price drop of the PVC products. The recoverable amount of the CGU is calculated on a basis of the value in use.

During 2013, the US battery division for vehicles, managed as a 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.

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>	2014		2013
	Tianjin LG DAGU Chemical Co.,Ltd.	Tianjin LG Bohai Chemical Co.,Ltd.	LG Chem Michigan Inc.
Impaired amount	18,238	34,003	55,696
Pre-tax discount rate	12.0%	12.0%	13.8%
Growth rate for subsequent years after five years	0%	0%	0%

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Details of investments in subsidiaries and associates as of December 31, 2014 and 2013, are as follows:

	Location	Ownership (%)		Carrying amount	
		2014	2013	2014	2013
Subsidiaries					
Tianjin LG Dagu Chemical Co.,Ltd.	China	75	75	6,027	24,265
Ningbo LG Yongxing Chemical Co.,Ltd.	China	75	75	135,908	135,908
Ningbo Zhenhai LG Yongxing Trade Co., Ltd. ¹	China	-	-	-	-
LG Chemical Hong Kong Ltd.	Hong Kong	100	100	11,159	11,159
LG Chem America, Inc.	USA	100	100	3,620	3,620
LG Chemical India Pvt. Ltd. ²	India	100	100	54,929	54,929
LG Polymer India Pvt. Ltd. ²	India	-	-	-	-
LG Chemical (Guangzhou) Engineering Plastics Co.,Ltd.	China	100	100	21,911	21,911
LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd. ³	China	81	81	282,865	252,738
LG Chem (Taiwan), Ltd.	Taiwan	100	100	18	18
LG Chem Display Materials (Beijing) Co.,Ltd.	China	90	90	13,444	13,444
Tianjin LG Bohai Chemical Co.,Ltd. ⁴	China	65	65	71,844	105,847
Tianjin LG BOTIAN Chemical Co.,Ltd. ⁴	China	41	41	9,550	9,550
LG Chem (China) Investment Co.,Ltd. ⁵	China	100	100	73,673	67,777
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	China	90	90	14,733	14,733
LG Chem Europe GmbH	Germany	100	100	3,085	3,085
LG Chem Poland Sp. z o.o.	Poland	100	100	15,402	15,402
LG Chem Michigan Inc.	USA	100	100	7,726	7,726
LG Chem Power Inc.	USA	100	100	19,553	19,553
LGC Petrochemical India Private Limited.	India	100	100	299	299
Haengboknuri	Korea	100	100	600	600
LG CHEM TK Kimya SANAVI VE TIC. Ltd. STI.	Turkey	100	100	174	174
LG Chem Japan Co.,Ltd. ⁶	Japan	100	-	1,406	-
LG NanoH2O, Inc. ⁷	USA	100	-	151,411	-
NanoH2O Singapore Private Ltd. ⁷	Singapore	-	-	-	-
NanoH2O (Jiangsu) Water Processing Technology Co. Ltd ⁷	China	-	-	-	-
LG Chem (Nanjing) New Energy Battery Co., Ltd. ⁸	China	50	50	15,600	-
				<u>914,937</u>	<u>762,738</u>
Associates					
LG Holdings (HK) Ltd.	Hong Kong	26	26	77,535	77,535
TECWIN Co.,Ltd.	Korea	20	20	2,861	2,861
LG Chem Brasil INTERMEDICAO DE NEGOCIOS DO SETOR QUIMICO LTDA. ⁹	Brazil	100	100	579	579
LG Fuel Cell Systems Inc. ¹⁰	USA	20	18	30,671	22,269
				<u>111,646</u>	<u>103,244</u>
Joint ventures					
LG Vina chemical Co.,Ltd.	Vietnam	40	40	1,313	1,313
HL Greenpower Co.,Ltd.	Korea	49	49	14,210	14,210
SEETEC Co.,Ltd.	Korea	50	50	58,416	58,416

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CNOOC & LG Petrochemicals Co.,Ltd.	China	50	50	40,230	40,230
KLPE Limited Liability Partnership ¹¹	Kazakhstan	50	50	183,265	149,732
				<u>297,434</u>	<u>263,901</u>
Total				<u>409,080</u>	<u>367,145</u>

¹ As of December 31, 2014, Ningbo LG Yongxing Chemical Co.,Ltd. owns 100% of Ningbo Zhenhai LG Yongxing Trade Co.,Ltd. shares.

² LG Chemical India Pvt. Ltd. owns 100% of LG Polymer India Pvt. Ltd. shares.

³ In 2014, the Company acquired additional shares of LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd. for ₩30,127 million.

⁴ As of December 31, 2014, Tianjin LG Bohai Chemical Co., Ltd. owns 20.30% of Tianjin LG Botian Chemical Co.,Ltd. shares.

⁵ During the year, the Company acquired additional shares of LG Chem (China) Investment Co.,Ltd. for ₩5,896 million.

⁶ LG Chem Japan Inc. was established during the year and the Company newly acquired 100% of its shares for ₩1,406 million.

⁷ During the year, the Company newly acquired 100% of shares of NanoH2O Inc. for ₩151,411 million and NanoH2O Inc. changed its name to LG NanoH2O Inc. LG NanoH2O Inc. owns 100% of NanoH2O Singapore Private Ltd. and NanoH2O (Jiangsu) Water Processing Technology Co. Ltd. shares.

⁸ During the year, the Company newly acquired 50 % of shares of LG Chem (Nanjing) New Energy Battery Co., Ltd. for ₩ 15,600 million. Although the Company owns less than 50% of the voting rights of LG Chem (Nanjing) New Energy Battery Co., Ltd, the Company is considered to have control over the investment, as the Company can exercise the majority voting rights in its decision-making process in accordance with the shareholders' agreement.

⁹ Classified as an investment in associate due to its small size.

¹⁰ During the year, the 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%.

¹¹ During the year, the Company acquired additional shares of KLPE Limited Liability Partnership for ₩33,533 million.

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12. Property, plant and equipment

Changes in the carrying amount of property, plant and equipment for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014										
	Land	Buildings	Structures	Machinery	Vehicles	Tools	Equipment	Others	Construction-in-progress	Machinery-in-transit	Total
Beginning balance											
Cost	806,284	1,811,743	824,525	8,342,904	32,174	573,424	206,319	210,205	569,193	154,545	13,531,316
Accumulated depreciation	-	(296,504)	(320,906)	(4,933,956)	(23,162)	(328,041)	(132,788)	(137,122)	-	-	(6,172,479)
Accumulated impairment	(539)	(2,149)	(1,634)	(33,047)	(90)	(6,800)	(750)	-	(40,717)	-	(85,726)
	805,745	1,513,090	501,985	3,375,901	8,922	238,583	72,781	73,083	528,476	154,545	7,273,111
Acquisitions/ Transfer	97,191	127,579	46,691	711,346	2,247	103,681	20,192	80,759	929,284	110,048	2,229,018
Disposals/ Transfer	(490)	(4,589)	(174)	(9,688)	(10)	(5,753)	(422)	-	(982,283)	(179,862)	(1,183,271)
Depreciation	-	(39,830)	(33,299)	(664,202)	(2,807)	(73,335)	(21,552)	(68,648)	-	-	(903,673)
Impairment	(81)	(784)	(922)	(7,426)	(55)	(910)	(165)	-	(19,677)	-	(30,020)
Transfer to non-current assets held for sale (Note 35)	-	-	-	(5,517)	(43)	(311)	(28)	-	-	-	(5,899)
Ending balance	902,365	1,595,466	514,281	3,400,414	8,254	261,955	70,806	85,194	455,800	84,731	7,379,266
Cost	903,729	1,936,318	863,951	8,907,547	32,269	647,171	218,520	251,722	491,155	84,731	14,337,113
Accumulated depreciation	-	(336,291)	(347,006)	(5,451,339)	(23,915)	(377,488)	(146,593)	(166,528)	-	-	(6,849,160)
Accumulated impairment	(1,364)	(4,561)	(2,664)	(55,794)	(100)	(7,728)	(1,121)	-	(35,355)	-	(108,687)
	902,365	1,595,466	514,281	3,400,414	8,254	261,955	70,806	85,194	455,800	84,731	7,379,266
<i>(in millions of Korean won)</i>	2013										
	Land	Buildings	Structures	Machinery	Vehicles	Tools	Equipment	Others	Construction-in-progress	Machinery-in-transit	Total
Beginning balance											
Cost	707,492	1,660,018	705,265	7,295,250	33,988	513,579	190,176	197,705	1,087,454	220,245	12,611,172
Accumulated depreciation	-	(260,502)	(292,614)	(4,377,919)	(24,489)	(288,286)	(117,943)	(109,411)	-	-	(5,471,164)
Accumulated impairment	-	(5)	(7)	(584)	-	(3,978)	(17)	-	(34,796)	-	(39,387)
	707,492	1,399,511	412,644	2,916,747	9,499	221,315	72,216	88,294	1,052,658	220,245	7,100,621
Acquisitions/ Transfer	98,321	152,251	124,232	1,118,581	3,010	89,580	20,937	35,185	896,285	141,012	2,679,394
Disposals/ Transfer	-	(322)	(2,014)	(9,651)	(816)	(6,375)	(78)	-	(1,413,748)	(206,712)	(1,639,716)
Depreciation	-	(36,459)	(31,265)	(617,340)	(2,676)	(63,120)	(19,569)	(50,396)	-	-	(820,825)
Impairment	(68)	(1,891)	(1,612)	(32,436)	(95)	(2,817)	(725)	-	(6,719)	-	(46,363)
Ending balance	805,745	1,513,090	501,985	3,375,901	8,922	238,583	72,781	73,083	528,476	154,545	7,273,111
Cost	806,284	1,811,743	824,525	8,342,904	32,174	573,424	206,319	210,205	569,193	154,545	13,531,316
Accumulated depreciation	-	(296,504)	(320,906)	(4,933,956)	(23,162)	(328,041)	(132,788)	(137,122)	-	-	(6,172,479)
Accumulated impairment	(539)	(2,149)	(1,634)	(33,047)	(90)	(6,800)	(750)	-	(40,717)	-	(85,726)

During the year ended December 31, 2014, the Company capitalized ₩6,384 million of borrowing costs (2013: ₩26,698 million) to property, plant and equipment.

The details of property, plant and equipment that have been pledged as collateral for certain bank loans as of December 31, 2014 and 2013, are as follows:

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<i>(in millions of Korean won)</i>	2014				
	Carrying amount	Collateral value	Related account	Related amount	Mortgagee
Land	3,294	3,844	Borrowings (Note 15)	1,498	Kookmin Bank
Building	9,264	4,943			
<i>(in millions of Korean won)</i>					
	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 was classified as follows:

<i>(in millions of Korean won)</i>	2014	2013
Cost of sales	841,864	765,968
Selling, general and administrative expenses	61,576	54,681
Others	233	176
Total	<u>903,673</u>	<u>820,825</u>

The Company performs impairment test for property, plant and equipment annually. The separator division, managed as a CGU in Information & Electronic Materials business segments, has been tested for impairment resulting from unexpected decrease in sales. 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 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>	2014	2013
Impaired amount		
Property, plant and equipment	23,053	46,363
Intangible assets	415	3,091
Key assumptions		
Pre-tax discount rate	14.4%	14.4%
Growth rate for subsequent years after five years	0%	0%

The Company decided to dispose of certain property, plant and equipment and intangible assets (Note 35). 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:

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(in millions of Korean won)

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 years ended December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

2014

	Develop- ment costs	Industrial property rights	Goodwill	Memberships	Others	Total
Beginning balance	42,829	100,770	33,415	51,028	24,519	252,561
Acquisitions/ Transfer	30,442	36,958	-	592	9,800	77,792
Disposals/ Transfer	(6,721)	(60)	-	(2,018)	(17)	(8,816)
Amortization	(13,319)	(7,792)	-	-	(6,845)	(27,956)
Impairment	(126)	(274)	-	(61)	(31)	(492)
Transfer to non-current assets held for sale (Note 35)	(61)	-	-	-	(1)	(62)
Ending balance	<u>53,044</u>	<u>129,602</u>	<u>33,415</u>	<u>49,541</u>	<u>27,425</u>	<u>293,027</u>

(in millions of Korean won)

2013

	Develop- ment costs	Industrial property rights	Goodwill	Memberships	Others	Total
Beginning balance	41,063	78,610	33,415	51,091	19,181	223,360
Acquisitions/ Transfer	21,315	30,638	-	367	10,661	62,981
Disposals/ Transfer	(8,869)	(21)	-	(296)	(1)	(9,187)
Amortization	(10,568)	(5,785)	-	-	(5,149)	(21,502)
Impairment	(112)	(2,672)	-	(134)	(173)	(3,091)
Ending balance	<u>42,829</u>	<u>100,770</u>	<u>33,415</u>	<u>51,028</u>	<u>24,519</u>	<u>252,561</u>

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Amortization of intangible assets was classified as follows:

<i>(in millions of Korean won)</i>	2014	2013
Cost of sales	8,715	7,510
Selling, general and administrative expenses	19,241	13,992
Total	<u>27,956</u>	<u>21,502</u>

Research and development costs recognized as expenses for the year ended December 31, 2014, amount to ₩ 496,103 million (2013: ₩ 443,461 million).

Goodwill is allocated to the Company's cash-generating units (CGUs) identified according to operating segment. The carrying amount of allocated goodwill by CGUs are as follows:

<i>(in millions of Korean won)</i>	CGUs	<u>Carrying amount</u>
Goodwill arising on the acquisition of LG Petrochemical Co., Ltd.		
NCC		2,468
ABS		927
PO		900
PVC		755
Acrylic		682
Plasticizer		587
BPA		518
Other		1,356
		<u>8,193</u>
Goodwill arising on the acquisition of SAP business		
Acrylic business		25,222
		<u>25,222</u>
Total		<u>33,415</u>

The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a four-year period. Cash flows beyond the four-year period are estimated using 0% of expected growth rate. Management determined pre-tax cash flow based on past performance and its expectations of market development. The discount rate used is pre-tax and reflect specific risks relating to the relevant operating segments. Discount rate used for value-in-use calculations for the current year is 11.7%. The recoverable amounts based on value-in-use calculations exceeded carrying amounts and accordingly, no impairment was recognized for the year ended December 31, 2014.

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14. Other current and non-current assets

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

<i>(in millions of Korean won)</i>	December 31, 2014	December 31, 2013
Current		
Advance payments	7,854	3,383
Prepaid expenses	13,003	18,804
Prepaid value added tax	52,416	53,838
Others	106,148	63,579
Total	<u>179,421</u>	<u>139,604</u>
Non-current		
Long-term prepaid expenses	12,456	16,070
Others	58,544	-
Total	<u>71,000</u>	<u>16,070</u>

15. Borrowings

The carrying amount of borrowings is as follows:

<i>(in millions of Korean won)</i>	December 31, 2014	December 31, 2013
Current		
Short-term borrowings	978,556	929,635
Current maturities of bank loans	310,126	122
Current maturities of debentures	99,964	199,724
Current maturities of finance lease liabilities	-	3,074
	<u>1,388,646</u>	<u>1,132,555</u>
Non-current		
Bank loans	1,292	307,028
Debentures	299,418	398,980
	<u>300,710</u>	<u>706,008</u>
Total	<u>1,689,356</u>	<u>1,838,563</u>

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Details of current borrowings are as follows:

<i>(in millions of Korean won)</i>	Bank	Latest maturity date	Annual interest rate (%) at December 31, 2014	Carrying Amount	
				December 31, 2014	December 31, 2013
Notes discounted ¹	Woori Bank, others	2015.07.22	Libor+0.70, various	978,556	929,635

¹ As of December 31, 2014, trade receivables transferred to financial institutions but not derecognized are accounted for as collateralized borrowing transaction (Note 7).

Details of non-current borrowings are as follows:

(in millions of Korean won)

December 31, 2014						
	Bank	Annual interest rate (%)	Latest maturity date	Total amount	Current maturities	Long-term debts
Won currency borrowings	Kookmin Bank	2.70	2018.07.14	711	127	584
	Kookmin Bank	2.70	2020.03.21	787	79	708
	Korea Development Bank	3.53	2015.07.19	200,000	200,000	-
Foreign currency borrowings	Nova Scotia Bank	3Libor + 1.54	2015.07.20	54,960	54,960	-
	BTMU	3Libor + 1.54	2015.07.20	54,960	54,960	-
Total				311,418	310,126	1,292

(in millions of Korean won)

December 31, 2013						
	Bank	Annual interest rate (%)	Latest maturity date	Total amount	Current maturities	Long-term debts
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	Nova Scotia Bank	3Libor + 1.54	2015.07.20	52,765	-	52,765
	BTMU	3Libor + 1.54	2015.07.20	52,765	-	52,765
Total				307,150	122	307,028

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)

		December 31, 2014				
	Financial institution	Annual interest rate (%)	Latest maturity date	Total amount	Current	Non-current
Won currency debentures	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			(618)	(36)	(582)
Total				399,382	99,964	299,418

(in millions of Korean won)

		December 31, 2013				
	Financial institution	Annual interest rate (%)	Latest maturity date	Total amount	Current maturities	Long-term debts
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:

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

The finance lease liabilities were liabilities associated with sales and leaseback arrangements of property, plant and equipment of the MTBE factory and fully redeemed during the year ended December 31, 2014.

The present value of finance lease liabilities is as follows:

(in millions of Korean won)

	December 31, 2014			December 31, 2013		
	Minimum lease payments	Future finance costs	Present value	Minimum lease payments	Future finance costs	Present value
Within 1 year	-	-	-	3,195	121	3,074

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16. Provisions

Changes in the carrying amount of provisions for the years ended December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		
	Sales returns ¹	Warranty ²	Total
Beginning balance	1,893	17,748	19,641
Additions	32,911	6,401	39,312
Used amount	(30,484)	(1,536)	(32,020)
Ending balance	4,320	22,613	26,933
Less : current portion	(4,320)	(128)	(4,448)
Total	<u>-</u>	<u>22,485</u>	<u>22,485</u>

(in millions of Korean won)

	2013		
	Sales returns ¹	Warranty ²	Total
Beginning balance	1,630	11,450	13,080
Additions	24,219	6,940	31,159
Used amount	(23,956)	(642)	(24,598)
Ending balance	1,893	17,748	19,641
Less : current portion	(1,893)	(346)	(2,239)
Total	<u>-</u>	<u>17,402</u>	<u>17,402</u>

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.

17. Net defined benefit liabilities

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

(in millions of Korean won)

	December 31, 2014	December 31, 2013
Present value of obligations ¹	603,990	436,233
Fair value of plan assets	(518,583)	(386,211)
Liability in the statement of financial position	<u>85,407</u>	<u>50,022</u>

¹ The present value of retirement benefit obligations is net of existing contributions to the National Pension Plan of ₩847 million as of December 31, 2014 (2013: ₩883 million).

The amounts recognized in the statements of income for the years ended December 31, 2014 and 2013, are as follows:

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<i>(in millions of Korean won)</i>	2014	2013
Current service cost ¹	87,434	74,744
Past service cost	24,410	-
Interest cost	3,685	3,866
Total, included in employee benefit expenses	115,529	78,610

¹ The above amounts excluded ₩674 million (2013: ₩535 million) of expenses capitalized to construction in progress and development costs.

Severance costs recognized for defined contribution plan for the year ended December 31, 2014, amounted to ₩1,486 million (2013: ₩1,263 million).

The amounts recognized in the statement of income for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Cost of sales	87,832	55,418
Selling, general and administrative expenses	29,183	24,455
Total	117,015	79,873

Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Beginning balance	436,233	365,879
Transfer in	1,918	1,320
Transfer out	(1,467)	(1,999)
Current service cost	88,108	75,279
Past service cost	24,410	-
Interest expense	18,075	13,307
Remeasurements:		
Actuarial gains and losses arising from changes in demographic assumptions	1,161	(3,562)
Actuarial gains and losses arising from changes in financial assumptions	59,097	(16,595)
Actuarial gains and losses arising from experience adjustments	11,485	22,588
Others	266	21
Payments from plans:	(35,296)	(20,005)
Ending balance	603,990	436,233

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Changes in the fair value of plan assets for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Beginning balance	386,211	261,666
Transfer in	352	72
Transfer out	(638)	(46)
Interest income	14,390	9,441
Remeasurements:		
Return on plan assets (excluding amounts included in interest income)	(946)	(1,138)
Contributions:		
Employers	145,000	130,000
Payments from plans	(25,044)	(13,176)
Administrative costs	(742)	(608)
Ending balance	<u>518,583</u>	<u>386,211</u>

The actual return on plan assets for the year ended December 31, 2014, was ₩13,444 million (2013: ₩8,303 million).

The principal actuarial assumptions used are as follows:

	December 31, 2014	December 31, 2013
Discount rate	3.1%	4.1%
Future salary increase	5.1%	5.1%

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	(63,117)	75,536
Salary growth rate:		
Increase(decrease) in defined benefit obligations	73,337	(62,656)

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 year.

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Plan assets consist of:

(in millions of Korean won)

	December 31, 2014				December 31, 2013			
	Quoted price	Unquoted price	Total	Composi-tion	Quoted price	Unquoted price	Total	Composi-tion
Insurance contracts with guaranteed yield	518,583	-	518,583	100%	386,211	-	386,211	100%
	518,583	-	518,583	100%	386,211	-	386,211	100%

As of December 31, 2014, the weighted average duration of the defined benefit obligations is 12.07 years.

The Company reviews the funding level on an annual basis and has a policy to eliminate deficit in the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2015, are ₩134,627 million.

18. Other current liabilities

Other current liabilities consist of as follows:

(in millions of Korean won)

	December 31, 2014	December 31, 2013
Advances from customers	9,478	9,215
Dividends payable	36	46
Withholding	22,840	38,482
Unearned revenues	11,234	15,664
Non-trade payables	105,046	60,906
Accrued expenses	50,389	85,109
Total	199,023	209,422

19. Commitments and contingencies

- (1) The 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 December 31, 2014, the Company has been provided with guarantees from the Seoul Guarantee Insurance for the execution of supply contracts.
- (3) As of December 31, 2014, the Company has provided one blank promissory note to the Korea National Oil Corporation as collateral in relation to petroleum import surcharges.
- (4) As of December 31, 2014, the Company has bank overdraft agreements with several banks for up to ₩64,000 million and US\$50 million, and has entered into contracts with several financial institutions, for discounting notes from export for up to US\$ 1,409 million, and for letters of credit for up to ₩64,000 million and US\$374 million, and for the guaranteed payments in foreign currency for up to US\$ 109 million. The Company also has comprehensive line of credit agreements with several financial institutions for up to ₩220,000 million and US\$425 million.

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- (5) As of December 31, 2014, the Company has B2B purchase arrangements with several financial institutions amounting to ₩300,000 million.
- (6) As of December 31, 2014, the Company has been named as a plaintiff in 5 legal actions involving ₩1,737 million in claims and a defendant in 4 legal actions with ₩1,538 million in claims. The ultimate outcome of these cases cannot be determined at this time.
- (7) As of December 31, 2014, the consumers in U.S and Canada have filed a class actions against the Company 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 December 31, 2014, the Company has technology license agreements with STYRON EUROPE GmbH and other companies for the production of Polycarbonate products. Further, the Company has entered into manufacture and production technical contracts with Exxon Mobile and others.
- (9) The Company has entered into license agreement with LG Corp. to use trademarks on the products that the Company manufactures and sells, and on the services the Company provides in relation to its business.
- (10) As of December 31, 2014, the Company has long-term purchase contracts for certain raw materials from a supplier, who has credit guarantee agreements amounting to US\$ 152 million and US\$ 70 million with financial institutions. Further, as of December 31, 2014, the Company has a contract of US\$ 1 million guarantees with financial institutions in regard to a delivery commitment for certain products and the Company has a contract of US\$ 90 million guarantees for advances received from customers with financial institutions.
- (11) As of December 31, 2014, the Company has guaranteed the repayment of various obligations of its subsidiaries and associates. The outstanding balance of such guarantees as of December 31, 2014, amounts to US\$ 175 million and EUR 3 million (total equivalent to ₩ 196,370 million) (2013: US\$ 215 million, EUR 3 million and PLN 52 million, total equivalent to ₩ 250,066 million).

Details of guarantees provided as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

Guarantee beneficiary	Guarantee period	Financial institution	December 31, 2014	
			Amount of guarantee	Outstanding loan amount
LG NanoH2O, Inc.	2014.10.01 ~ 2015.09.30	Citibank	32,976	7,694
LG Chem Europe GmbH	2014.01.02 ~ 2015.01.02	Shinhan Bank	4,010	-
LG Chem Michigan, Inc.	2014.05.27 ~ 2017.05.27	Mizuho Bank	65,952	65,952
"	2014.03.31 ~ 2017.03.31	SMBC	43,968	21,984
"	2013.11.18 ~ 2016.11.16	JP Morgan	27,480	27,480
"	2014.08.18 ~ 2015.08.18	Wells Fargo	21,984	21,984
Total			196,370	145,094

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Guarantee beneficiary	Guarantee period	Financial institution	December 31, 2013	
			Amount of guarantee	Outstanding loan amount
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	-	HSBC	63,684	63,684
"	-	Bank of America	31,842	31,842
LG Chem Poland Sp. z o.o.	-	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	SMBC	21,106	21,106
"	2013.11.18 ~ 2016.11.16	JP Morgan	47,489	47,489
Total			250,066	235,645

In addition, the Company provides Letter of Comfort (LOC) in relation to certain borrowings of subsidiaries.

Further, as of December 31, 2014, the Company 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)	December 31, 2014	December 31, 2013
Property, plant and equipment	414,813	307,286

20. Equity

Changes in share capital and share premium are as follows:

(in millions of Korean won)	Ordinary shares		Preferred shares		Share premium
	Number of shares	Amount	Number of shares	Amount	
January 1, 2013	66,271,100	331,356	7,628,921	38,144	897,840
December 31, 2013	66,271,100	331,356	7,628,921	38,144	897,840
December 31, 2014	66,271,100	331,356	7,628,921	38,144	897,840

Changes in treasury shares are as follows:

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<i>(in millions of Korean won)</i>	Number of shares		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
Purchase of treasury shares	3	-	-	-
December 31, 2014	359,795	5,519	15,484	13,855

The Company intends to sell its treasury shares in the future.

21. Retained earnings

Details of retained earnings are as follows:

<i>(in millions of Korean won)</i>	December 31, 2014	December 31, 2013
Legal reserve ¹	184,750	184,750
Discretionary reserve ²	9,077,851	8,200,700
Retained earnings before appropriation	768,196	1,171,671
Total	10,030,797	9,557,121

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 Pursuant to the Special Tax Treatment Control Law, the Company is required to appropriate, as a reserve for business rationalization, a portion of retained earnings equal to tax reductions arising from investment and other tax credits. This reserve may be distributed as dividends after reversal.

22. Other components of equity

Details of other components of equity are as follows:

<i>(in millions of Korean won)</i>	December 31, 2014	December 31, 2013
Treasury shares (Note 20)	(15,484)	(15,484)

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23. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Wages and salaries	319,453	268,531
Pension costs (Note 17)	29,183	24,455
Welfare expense	59,293	55,572
Travel expense	27,707	29,567
Water & utilities	24,467	23,018
Packaging expense	5,392	6,516
Rental expense	77,366	79,414
Commission expense	254,733	236,806
Depreciation (Note 12)	61,576	54,681
Advertising expense	16,254	15,747
Freight expense	354,973	341,682
Training expense	11,046	11,557
Amortization (Note 13)	19,241	13,992
Sample expense	9,915	11,211
Others	214,672	211,935
Total	1,485,271	1,384,684

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 years ended December 31, 2014 and 2013, consist of:

<i>(in millions of Korean won)</i>	2014	2013
Changes in inventories	(2,126)	4,683
Raw materials and consumables used	12,702,927	13,597,683
Purchase of merchandise	1,186,646	929,718
Employee benefit expense (Note 25)	1,171,723	1,002,260
Advertising expense	17,395	16,938
Transportation expense	380,534	370,560
Service fees	367,602	335,547
Depreciation and amortization	931,396	842,151
Operating lease payments	40,908	35,955
Other expenses	1,745,845	1,541,171
Total	18,542,850	18,676,666

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25. Employee benefit expense

Details of employee benefit expenses for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Wages and salaries	973,618	849,415
Pension costs – Defined benefit plan (Note 17)	115,529	78,610
Pension costs – Defined contribution plan (Note 17)	1,486	1,263
Others	81,090	72,972
Total	1,171,723	1,002,260

26. Financial income and expenses

Details of finance income and expenses for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Finance income		
Interest income ¹	43,097	32,709
Dividend income	54,362	41,224
Foreign exchange gain	65,329	129,768
Gain on foreign exchange translation	19	2,385
Gain on settlement of trading derivatives	7,389	3,589
Gain on valuation of trading derivatives	783	-
Total	170,979	209,675
Finance expenses		
Interest expense ²	39,218	24,525
Foreign exchange loss	58,387	158,827
Loss on foreign exchange translations	7,182	990
Loss on settlement of trading derivatives	9,595	5,430
Total	114,382	189,772

¹ Details of interest income are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Bank deposits	41,095	32,700
Other receivables	2,002	9
Total	43,097	32,709

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² Details of interest expense are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Interest on bank overdraft and borrowings	21,383	25,611
Interest on finance lease liabilities	122	320
Interest on debentures	23,994	24,541
Other interest expenses	103	751
Capitalized interest for qualifying assets	(6,384)	(26,698)
Total	<u>39,218</u>	<u>24,525</u>

27. Other non-operating income

Details of other non-operating income for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Foreign exchange gains	303,458	300,840
Gain on foreign currency translation	30,207	13,382
Gain on disposal of property, plant and equipment	2,845	891
Gain on disposal of intangible assets	16	21
Others	13,415	17,420
Total	<u>349,941</u>	<u>332,554</u>

28. Other non-operating expenses

Details of other non-operating expenses for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Foreign exchange loss	321,175	296,995
Loss on foreign currency translation	22,191	14,292
Loss on disposal of property, plant and equipment	15,913	14,184
Loss on disposal of intangible assets	2,211	6,146
Impairment loss on property, plant and equipment (Note 12)	30,020	46,363
Impairment loss on of intangible assets (Note 12)	492	3,091
Impairment loss on investments in subsidiaries (Note 11)	52,241	55,696
Donations	19,559	20,953
Others	3,418	2,657
Total	<u>467,220</u>	<u>460,377</u>

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29. Income taxes

Details of income tax expense are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Current tax on profit for the year	223,084	278,667
Adjustments in respect of prior years	40,103	(5,920)
Deferred tax-movement in temporary differences	(49,758)	40,478
Deferred tax–tax credit carryforwards	17,863	(17,136)
	<u>231,292</u>	<u>296,089</u>
Current tax charged directly to equity	17,655	868
Income tax expense	<u>248,947</u>	<u>296,957</u>

Income taxes charged directly to components of other comprehensive income for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Current tax		
Remeasurements of net defined benefits liabilities	(17,655)	(868)
Deferred tax		
Cash flow hedges	-	(37)

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The movement in deferred tax assets (liabilities) for the years ended December 31, 2014 and 2013, is as follows:

(in millions of Korean won)

	2014			Ending balance
	Beginning balance	Increase(Decrease)		
		Profit for the year	Other comprehensive income	
Defined benefit liability	89,239	60,449	(17,426)	132,262
Plan assets	(92,322)	(32,385)	(229)	(124,936)
Reserve for research and human resources development	(234,740)	62,920	-	(171,820)
Allowance for doubtful accounts	679	-	-	679
Property, plant and equipment	31,236	(12,203)	-	19,033
Investments in subsidiaries, associates and joint ventures	(1,046)	-	-	(1,046)
Accrued interest income	(1,108)	(322)	-	(1,430)
Others	11,238	(11,046)	-	192
	<u>(196,824)</u>	<u>67,413</u>	<u>(17,655)</u>	<u>(147,066)</u>
Tax credit carryforwards	23,333	(17,863)	-	5,470
Deferred tax charged directly to equity	-	-	-	-
Deferred income tax assets(liabilities)	<u>(173,491)</u>	<u>49,550</u>	<u>(17,655)</u>	<u>(141,596)</u>

(in millions of Korean won)

	2013			Ending balance
	Beginning balance	Increase(Decrease)		
		Profit for the year	Other comprehensive income	
Defined benefit liability	72,829	17,003	(593)	89,239
Plan assets	(62,627)	(29,420)	(275)	(92,322)
Reserve for research and human resources development	(181,500)	(53,240)	-	(234,740)
Allowance for doubtful accounts	632	47	-	679
Property, plant and equipment	18,804	12,432	-	31,236
Investments in subsidiaries, associates and joint ventures	(1,046)	-	-	(1,046)
Accrued interest income	(1,741)	633	-	(1,108)
Others	(1,697)	12,935	-	11,238
	<u>(156,346)</u>	<u>(39,610)</u>	<u>(868)</u>	<u>(196,824)</u>
Tax credit carryforwards	6,197	17,136	-	23,333
Deferred tax charged directly to equity	37	-	(37)	-
Deferred income tax assets(liabilities)	<u>(150,112)</u>	<u>(22,474)</u>	<u>(905)</u>	<u>(173,491)</u>

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The reconciliation between income tax expense and accounting profit is as follows:

<i>(in millions of Korean won)</i>	2014	2013
Profit before income tax	<u>1,072,443</u>	<u>1,471,349</u>
Income tax expense based on applicable tax rate	263,639	355,605
Tax adjustments		
Income not subject to tax	(19,005)	(970)
Expenses not deductible for tax purposes	21,007	20,341
Tax credit	(76,611)	(76,790)
Others	<u>59,917</u>	<u>(1,229)</u>
Income tax expense ¹	<u>248,947</u>	<u>296,957</u>
Effective tax rate (income tax expense/ profit before income tax)	<u>23.21%</u>	<u>20.18%</u>

Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook of the economic environment, and the overall future industry outlook. Management periodically considers these factors in reaching its conclusion.

Details of deductible (taxable) temporary differences unrecognized as deferred tax assets (liabilities) as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won, except per share)</i>	2014	2013
Investment in subsidiaries	15,525	(57,677)
Goodwill	<u>(8,193)</u>	<u>(8,193)</u>
Total	<u>7,332</u>	<u>(65,870)</u>

The expiration of tax loss carryforwards is as follows:

<i>(in millions of Korean won)</i>	2014	2013
2019	1,333	1,333

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30. Earnings per share

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

Basic earnings per share attributable to the owners of the Company for the years ended December 31, 2014 and 2013, is computed as follows:

<i>(in millions of Korean won, except per share)</i>	2014	2013
Profit attributable to ordinary shares ¹	737,782	1,052,299
Weighted average number of ordinary shares outstanding ²	65,911,308	65,911,310
Basic earnings per ordinary share (in won)	11,194	15,965
 <i>(in millions of Korean won)</i>	 2014	 2013
Profit attributable to preferred shares ¹	85,714	122,093
Weighted average number of preferred shares outstanding ²	7,623,402	7,623,402
Basic earnings per preferred share (in won)	11,244	16,015

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

<i>(in millions of Korean won)</i>	2014	2013
Profit for the year	823,496	1,174,392
Ordinary shares dividends (A)	263,645	263,645
Preferred shares dividends (B)	30,875	30,875
Undistributed earnings for the year	528,976	879,872
Undistributed earnings available for ordinary shares (C)	474,137	788,654
Undistributed earnings available for preferred shares (D)	54,839	91,218
Profit for the year attributable to ordinary shares (A+C)	737,782	1,052,299
Profit for the year attributable to preferred shares (B+D)	85,714	122,093

² Weighted average numbers of shares are calculated as follows:

	Period	2014		
		Number of shares	Number of days	Number of shares x days
Ordinary shares				
Beginning balance	2014. 1. 1 ~ 2014.12.31	65,911,308	365	24,057,627,420
Purchase of treasury shares	2014.12.31 ~ 2014.12.31	(3)	1	(3)
Total				24,057,627,417

Weighted average number of ordinary shares outstanding: 24,057,627,417 / 365 = 65,911,308 shares

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Preferred shares	2014			
	Period	Number of shares	Number of days	Number of shares x days
Beginning	2014. 1. 1 ~ 2014.12.31	7,623,402	365	2,782,541,730
Total				2,782,541,730

Weighted average number of preferred shares outstanding: $2,782,541,730 / 365 = 7,623,402$ shares

Ordinary shares	2013			
	Period	Number of shares	Number of days	Number of shares x days
Beginning balance	2013. 1. 1 ~ 2013.12.31	65,911,310	365	24,057,628,150
Purchase of treasury shares	2013.12.31 ~ 2013.12.31	(2)	1	(2)
Total				24,057,628,148

Weighted average number of ordinary shares outstanding: $24,057,628,148 / 365 = 65,911,310$ shares

Preferred shares	2013			
	Period	Number of shares	Number of days	Number of shares x days
Beginning	2013. 1. 1 ~ 2013.12.31	7,623,402	365	2,782,541,730
Total				2,782,541,730

Weighted average number of preferred shares outstanding: $2,782,541,730 / 365 = 7,623,402$ shares

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

31. Dividends

Details of dividends are as follows:

	2014	2013
Number of shares entitled to dividends: shares issued and outstanding (par value per share: ₩5,000)		
Ordinary shares	65,911,305	65,911,308
Preferred shares	7,623,402	7,623,402
Dividend per share (in won)		
Ordinary shares: cash	4,000 (80%)	4,000 (80%)
Preferred shares: cash	4,050 (81%)	4,050 (81%)
Cash dividends to distribute (in millions of Korean won)		
Ordinary shares	263,645	263,645
Preferred shares	30,875	30,875
	294,520	294,520

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Dividend payout ratios for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Dividends (A)	294,520	294,520
Profit for the year attributable to owners of the parent company (B)	<u>823,496</u>	<u>1,174,392</u>
Dividend payout ratio (A/B)	<u>35.76%</u>	<u>25.08%</u>

Dividend yield ratios for the years ended December 31, 2014 and 2013, are as follows:

<i>(in Korean won)</i>	<u>2014</u>		<u>2013</u>	
	Ordinary shares	Preferred Shares	Ordinary shares	Preferred Shares
Dividend per share (A)	4,000	4,050	4,000	4,050
Market value at the end of year (B) ¹	<u>186,250</u>	<u>144,375</u>	<u>293,875</u>	<u>153,875</u>
Dividend yield ratio (A/B)	<u>2.15%</u>	<u>2.81%</u>	<u>1.36%</u>	<u>2.63%</u>

¹ Average price in the stock market during the week preceding the two business days before the record date of the shareholders' list for the general meeting of shareholders related to above dividends.

32. Related party transactions

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

Details of other related parties, excluding subsidiaries, associates and joint ventures (Note 11) that have sales and other transactions with the Company or have receivables and payables balances as of December 31, 2014 and 2013, are as follows:

<u>Name</u>	<u>Classification</u>
SERVEONE Co., Ltd.,	A subsidiary of LG Corp.
LG CNS Co., Ltd.	"
LG Siltron Incorporated	"
LG Management Development Institute	"
LG SPORTS Ltd.	"
LG MMA Corporation	A joint venture of LG Corp.
LG-TOYO Engineering Co., Ltd.	A subsidiary of SERVEONE Co., Ltd.
LG N-Sys Inc.	A subsidiary of LG CNS Co., Ltd.
BNE PARTNERS, Inc.	"
EVERON	"

LG Chem, Ltd.
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Significant transactions, which occurred in the ordinary course of business with related parties for the years ended December 31, 2014 and 2013, are summarized as follows:

(in millions of Korean won)

	2014			
	Sales and others	Purchases and others		
		Purchase of raw material /merchandise	Acquisition of property, plant and equipment and intangible assets	Others
Entities with significant influence over the Company				
LG Corp.	12	-	-	54,191
Subsidiaries				
Ningbo LG Yongxing Chemical Co.,Ltd.	12,819	-	-	-
LG Chem HK Ltd.	189,032	-	-	3,326
LG Chem America, Inc.	688,628	-	-	2,860
LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd.	680,334	1,294,314	-	2,699
LG Chem (Taiwan), Ltd.	199,580	500	-	7,277
LG Chem Display Materials (Beijing) Co.,Ltd.	11	-	-	6,990
Tianjin LG Bohai Chemical Co.,Ltd.	17,992	-	-	-
LG Chem (China) Investment Co.,Ltd.	-	-	-	30,882
LG Chem Europe GmbH	357,783	-	-	12,804
LG Chem Poland Sp. z o.o.	17,668	73	-	11,724
LG NanoH2O, Inc.	2,019	-	-	-
Other	67,837	906	-	18,471
Associates and joint ventures				
SEETEC Co.,Ltd.	76,171	175,822	10	78,008
TECWIN Co.,Ltd.	18	378	2,218	32
HL Greenpower Co.,Ltd.	80,184	-	-	-
Other	1,009	-	-	1,371
Others				
LG MMA Corporation	123,991	135,752	-	-
SERVEONE Co., Ltd.,	24,382	337,086	149,828	68,068
LG CNS Co., Ltd.	835	5,088	65,954	41,204
Other	4,869	837	26,632	9,858
Key management				
Key management	-	-	-	34,953
Total	2,545,174	1,950,756	244,642	384,718

LG Chem, Ltd.
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(in millions of Korean won)

	2013			
	Sales and others	Purchases and others		
		Purchase of raw material /merchandise	Acquisition of property, plant and equipment and intangible assets	Others
Entities with significant influence over the Company				
LG Corp.	13	-	-	54,841
Subsidiaries				
Ningbo LG Yongxing Chemical Co.,Ltd.	38,009	9,412	-	13
LG Chem HK Ltd.	247,519	-	-	3,047
LG Chem America, Inc.	599,135	-	-	2,717
LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd.	524,827	1,390,114	-	2,963
LG Chem (Taiwan), Ltd.	245,433	1,026	-	8,316
LG Chem Display Materials (Beijing) Co.,Ltd.	-	-	-	12,666
Tianjin LG Bohai Chemical Co.,Ltd.	17,216	-	-	-
LG Chem (China) Investment Co.,Ltd.	-	-	-	31,366
LG Chem Europe GmbH	235,271	-	-	8,562
LG Chem Poland Sp. z o.o.	23,638	44	-	12,746
Other	18,791	1,049	-	10,833
Associates and joint ventures				
SEETEC Co.,Ltd.	59,413	171,866	33	78,537
TECWIN Co.,Ltd.	35	5,752	-	-
HL Greenpower Co.,Ltd.	74,893	-	-	152
Other	1,326	-	-	1,003
Others				
LG MMA Corporation	133,570	142,259	-	2,058
SERVEONE Co., Ltd.,	19,791	359,687	257,160	35,470
LG CNS Co., Ltd.	77	4,594	43,048	39,393
Other	4,139	6,245	14,865	11,935
Key management				
Key management	-	-	-	36,728
Total	2,243,096	2,092,048	315,106	353,346

LG Chem, Ltd.
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Year-end balances of receivables and payables as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014			
	Receivables			
	Trade receivables and others	Loan receivables	Other receivables	Total
Entities with significant influence over the Company				
LG Corp.	-	-	8,167	8,167
Subsidiaries				
Ningbo LG Yongxing Chemical Co.,Ltd.	1,375	-	3,286	4,661
LG Chem HK Ltd.	12,691	-	-	12,691
LG Chem America, Inc.	156,256	-	1,411	157,667
LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd.	148,805	-	37,575	186,380
LG Chem (Taiwan), Ltd.	68,482	-	1,963	70,445
LG Chem Display Materials (Beijing) Co.,Ltd.	-	-	136	136
Tianjin LG Bohai Chemical Co.,Ltd.	1,516	-	140	1,656
LG Chem Europe GmbH	112,927	-	78	113,005
LG Chem Poland Sp. z o.o.	3,900	-	2,126	6,026
LG NanoH2O, Inc.	-	76,944	2,116	79,060
Other	15,413	-	7,080	22,493
Associates and joint ventures				
SEETEC Co.,Ltd.	-	-	-	-
TECWIN Co.,Ltd.	-	-	-	-
HL Greenpower Co.,Ltd.	18,402	-	-	18,402
Other	-	-	15	15
Others				
LG MMA Corporation	8,397	-	416	8,813
SERVEONE Co., Ltd.,	2,872	-	25,903	28,775
LG CNS Co., Ltd.	588	-	-	588
Other	2,870	-	3,724	6,594
Key management				
Key management	-	-	-	-
Total	554,494	76,944	94,136	725,574

LG Chem, Ltd.
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(in millions of Korean won)

	2014			
	Payables			
	Trade payables	Borrowings	Other payables	Total
Entities with significant influence over the Company				
LG Corp.	-	-	7	7
Subsidiaries				
LG Chem HK Ltd.	-	-	264	264
LG Chem America, Inc.	-	-	261	261
LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd.	-	-	209,036	209,036
LG Chem (Taiwan), Ltd.	-	-	771	771
LG Chem Display Materials (Beijing) Co.,Ltd.	29	-	575	604
LG Chem (China) Investment Co.,Ltd.	-	-	2,240	2,240
LG Chem Europe GmbH	-	-	1,169	1,169
LG Chem Poland Sp. z o.o.	-	-	1,064	1,064
LG NanoH2O, Inc.	-	-	-	-
Other	22	-	2,035	2,057
Associates and joint ventures				
SEETEC Co.,Ltd.	-	-	24,310	24,310
TECWIN Co.,Ltd.	-	-	886	886
Others				
LG MMA Corporation	9,589	-	-	9,589
SERVEONE Co., Ltd.,	-	-	144,021	144,021
LG CNS Co., Ltd.	-	-	25,328	25,328
Other	-	-	5,409	5,409
Key management				
Key management	-	-	41,280	41,280
Total	9,640	-	458,656	468,296

LG Chem, Ltd.
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(in millions of Korean won)

	2013			
	Receivables			
	Trade receivables and others	Loan receivables	Other receivables	Total
Entities with significant influence over the Company				
LG Corp.	-	-	6,935	6,935
Subsidiaries				
Ningbo LG Yongxing Chemical Co.,Ltd.	1,940	-	1,233	3,173
LG Chem HK Ltd.	20,805	-	-	20,805
LG Chem America, Inc.	119,420	-	770	120,190
LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd.	97,304	-	72,537	169,841
LG Chem (Taiwan), Ltd.	73,866	-	53	73,919
Tianjin LG Bohai Chemical Co.,Ltd.	3,946	-	159	4,105
LG Chem (China) Investment Co.,Ltd.	-	-	-	-
LG Chem Europe GmbH	66,992	-	70	67,062
LG Chem Poland Sp. z o.o.	8,408	-	101	8,509
LG NanoH2O, Inc.	-	-	-	-
Other	4,802	-	5,705	10,507
Associates and joint ventures				
SEETEC Co.,Ltd.	-	-	-	-
TECWIN Co.,Ltd.	-	-	-	-
HL Greenpower Co.,Ltd.	11,440	-	-	11,440
Other	22	-	-	22
Others				
LG MMA Corporation	14,864	-	419	15,283
SERVEONE Co., Ltd.,	2,395	-	25,857	28,252
LG CNS Co., Ltd.	-	-	-	-
Other	2,805	-	3,724	6,529
Key management				
Key management	-	-	-	-
Total	429,009	-	117,563	546,572

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(in millions of Korean won)

	2013			
	Payables			
	Trade payables	Borrowings	Other payables	Total
Entities with significant influence over the Company				
LG Corp.	-	-	64	64
Subsidiaries				
Ningbo LG Yongxing Chemical Co.,Ltd.	-	-	3,257	3,257
LG Chem HK Ltd.	-	-	236	236
LG Chem America, Inc.	-	-	265	265
LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd.	-	-	254,366	254,366
LG Chem (Taiwan), Ltd.	-	-	1,802	1,802
LG Chem Display Materials (Beijing) Co.,Ltd.	-	-	804	804
LG Chem (China) Investment Co.,Ltd.	-	-	2,891	2,891
LG Chem Europe GmbH	-	-	857	857
LG Chem Poland Sp. z o.o.	-	-	1,214	1,214
LG NanoH2O, Inc.	-	-	-	-
Other	-	-	1,158	1,158
Associates and joint ventures				
SEETEC Co.,Ltd.	-	-	21,135	21,135
TECWIN Co.,Ltd.	-	-	1,719	1,719
HL Greenpower Co.,Ltd.	-	-	89	89
Other	-	-	56	56
Others				
LG MMA Corporation	11,897	-	117	12,014
SERVEONE Co., Ltd.,	-	-	146,836	146,836
LG CNS Co., Ltd.	-	-	21,166	21,166
Other	-	-	7,456	7,456
Key management				
Key management	-	-	43,237	43,237
Total	11,897	-	508,725	520,622

LG Chem, Ltd.
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Fund transactions with related parties for the years ended December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014		2013
	Equity contributions in cash	Loans	Equity contributions in cash
Subsidiaries			
LG Chem (China) Investment Co.,Ltd.	5,896	-	-
LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd.	30,127	-	29,076
LG Chem Japan Co., Ltd.	1,406	-	-
LG NanoH2O, Inc.	151,411	72,219	-
Nanjing LG Chem New Energy Battery Co., Ltd.	15,600	-	-
Haengboknuri	-	-	600
LGC Petrochemical India Private Limited	-	-	299
LG CHEM TK KIMYA SANAYI VE TICARET LIMITED SIRKETI	-	-	174
Associates and joint ventures			
LG Fuel Cell Systems Inc.	8,402	-	6,419
KLPE Limited Liability Partnership	33,533	-	18,680
LG Chem BRASIL INTERMEDICAO DE NEGOCIOS DO SETOR QUIMICO LTDA.	-	-	321
Total	246,375	72,219	55,569

Compensation for key management of the Company for the years ended December 31, 2014 and 2013, consists of:

(in millions of Korean won)

	2014	2013
Wages and salaries	33,073	34,675
Pension costs	1,880	2,053
Total	34,953	36,728

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

The receivables from related parties are mainly from sales transactions. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

Details of the guarantees provided by the 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 years ended December 31, 2014 and 2013, is as follows:

<i>(in millions of Korean won)</i>	2014	2013
Profit before income tax	1,072,443	1,471,349
Adjustments for:		
Depreciation	903,440	820,649
Amortization	27,956	21,502
Pension costs	115,529	78,610
Finance income	(135,073)	(93,134)
Finance expense	77,403	45,237
Foreign exchange differences	24,285	(13,647)
Gain on disposal of property, plant and equipment	(2,845)	(891)
Loss on disposal of property, plant and equipment	15,913	14,184
Loss on impairment of property, plant and equipment	30,020	46,363
Gain on disposal of intangible assets	(16)	(21)
Loss on disposal of intangible assets	2,211	6,146
Loss on impairment of intangible assets	492	3,091
Loss on Impairment investments in subsidiaries	52,241	55,696
Other expenses	4,482	29,988
Inventories	(49,375)	153,707
Trade receivables	12,988	(86,913)
Other receivables	(36,872)	26,535
Settlement of derivatives	(2,206)	511
Trade payables	98,489	(264,768)
Other payables	153,055	155,224
Defined benefit liability	(153,774)	(137,534)
Other cash flows from operations	(14,300)	(10,528)
Cash generated from operations	<u>2,196,486</u>	<u>2,321,356</u>

The principal non-cash transactions for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Transfer of construction-in-progress	982,283	1,413,748
Transfer of machinery-in-transit	179,862	206,712
Reclassification of long-term borrowings into current maturities	409,944	202,798
Transfer to non-current assets held for sale	5,961	-
Gain on valuation of derivatives recognized as other comprehensive income	-	154

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34. Appropriation of retained earnings

The appropriation of retained earnings for the years ended December 31, 2014 and 2013, is as follows:

(Dates of appropriation: March 13, 2015 and March 14, 2014 for the years ended December 31, 2014 and 2013, respectively)

<i>(in millions of Korean won)</i>	2014	2013
Unappropriated retained earnings carried over from prior year	-	-
Profit for the year	823,496	1,174,392
Remeasurements of net defined benefits liabilities	<u>(55,300)</u>	<u>(2,722)</u>
Retained earnings before appropriation	<u>768,196</u>	<u>1,171,670</u>
Transfer from other reserves		
Reserve for technology development	<u>160,000</u>	<u>80,000</u>
Appropriation of retained earnings		
Legal reserve	-	-
Dividends	294,520	294,520
Reserve for technology development	<u>633,676</u>	<u>957,150</u>
	<u>928,196</u>	<u>1,251,670</u>

35. Non-current assets held for sale

The Company 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 the first quarter of 2015.

Details of assets of disposal group classified as held-for-sale as of December 31, 2014, are as follows:

<i>(in millions of Korean won)</i>	Amount
Assets of disposal group	
Property, plant and equipment	5,899
Intangible assets	<u>62</u>
Total	<u>5,961</u>

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.

LG Chem, Ltd.
Notes to the Separate Financial Statements
December 31, 2014 and 2013

36. Approval of financial statements

The separate financial statements for the year ended December 31, 2014, were approved by the Board of Directors on January 26, 2015, which is subject to change with approval of shareholders at the annual shareholders' meeting.

**Report on independent accountants’
Review of Internal Accounting Control System**

To the Representative Director
LG Chem, Ltd.

We have reviewed the accompanying management’s report on the operations of the Internal Accounting Control System (“IACS”) of LG Chem, Ltd. (the “Company”) as of December 31, 2014. The Company’s management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management’s report on the operations of the IACS and issue a report based on our review. The management’s report on the operations of the IACS of the Company states that “based on its assessment of the operations of the IACS as of December 31, 2014, the Company’s IACS has been designed and is operating effectively as of December 31, 2014, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association.”

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management’s report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company’s IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company’s IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2014, and we did not review management's assessment of its IACS subsequent to December 31, 2014. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

March 5, 2015

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Audit Committee of
LG Chem, Ltd.

I, as the Internal Accounting Control Officer (“IACO”) of LG Chem, Ltd. (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2014.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2014, in all material respects, in accordance with the IACS standards.

January 19, 2015

Suk-Jeh Cho, Internal Accounting Control System Officer

Jin-Soo Park, Chief Executive Officer