LG Chem, Ltd.

Separate Financial Statements
December 31, 2012 and 2011

LG Chem, Ltd.
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December 31, 2012 and 2011

Report of Independent Auditors

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

We have audited the accompanying separate statements of financial position of LG Chem, Ltd. (the "Company") as of December 31, 2012 and 2011, and the related separate statements of income, comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of LG Chem, Ltd. as of December 31, 2012 and 2011, and its financial performance and cash flows for the years then ended, in conformity with international financial reporting standards as adopted by the Republic of Korea ("Korean IFRS").

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. Accordingly, this report is for use by those who are informed about Korean auditing standards and their application in practice.

Samil PricewaterhouseCoopers

Seoul, Korea
March 7, 2013

This report is effective as of March 7, 2013, 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, 2012 and 2011

(in millions of Korean won)	**Notes**	**2012**	**2011**
Assets			
Current assets			
Cash and cash equivalents	3, 5, 6	448,967	1,105,301
Trade receivables	3, 5, 7, 33	2,703,963	2,683,917
Other receivables	3, 5, 7, 33	846,853	184,321
Other financial assets	3, 5, 8, 10	2,352	-
Other current assets	15	117,498	76,981
Inventories	11	2,169,601	2,021,267
Total current assets		6,289,234	6,071,787
Non-current assets			
Other receivables	3, 5, 7	16,033	29,761
Other financial assets	3, 5, 8, 9	21,696	5,846
Investments in subsidiaries	12	788,285	733,486
Investments in associates and joint ventures	12	325,875	250,309
Property, plant and equipment	13	7,100,621	6,110,849
Intangible assets	14	223,360	193,675
Other non-current assets	15	19,683	23,304
Total non-current assets		8,495,553	7,347,230
Total assets		14,784,787	13,419,017
Liabilities and equity			
Liabilities			
Current liabilities			
Trade payables	3, 5, 33	1,193,446	1,226,955
Other payables	3, 5, 33	940,086	1,050,326
Borrowings	3, 5, 16	1,012,874	1,158,793
Other financial liabilities	3, 5, 8, 10	154	536
Provisions	17	1,840	7,223
Current income tax liabilities	30	120,682	274,490
Other current liabilities	5, 19	125,368	115,160
Total current liabilities		3,394,450	3,833,483
Non-current liabilities			
Other payables	3, 5	14,463	40,652
Borrowings	3, 5, 16	909,675	324,316
Other financial liabilities	3, 5, 8, 10	-	146
Provisions	17	11,240	2,314
Defined benefit liability	18	104,213	59,431
Deferred income tax liabilities	30	150,112	57,062
Total non-current liabilities		1,189,703	483,921
Total liabilities		4,584,153	4,317,404

LG Chem, Ltd.
Separate Statements of Financial Position
December 31, 2012 and 2011

(in millions of Korean won)	**Notes**	**2012**	**2011**
Equity			
Share capital	1, 21	369,500	369,500
Capital surplus	35	1,166,764	1,166,764
Other components of equity	23	(15,484)	(15,484)
Accumulated other comprehensive income		(117)	(516)
Retained earnings	22	8,679,971	7,581,349
Total equity		10,200,634	9,101,613
Total liabilities and equity		14,784,787	13,419,017

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

LG Chem, Ltd.
Separate Statements of Income
Years Ended December 31, 2012 and 2011

(in millions of Korean won, except per share amounts)	**Notes**	**2012**	**2011**
Revenue	33	20,442,790	19,809,874
Cost of sales	25, 33	(17,482,874)	(16,192,361)
Gross profit		2,959,916	3,617,513
Selling, general and administrative expenses	24, 25, 33	(1,232,956)	(1,095,131)
Operating profit		1,726,960	2,522,382
Non-operating income(expenses)			
Finance income	5, 27	151,675	247,738
Finance expenses	5, 27	(98,191)	(165,159)
Other non-operating income	5, 28	341,160	417,573
Other non-operating expenses	5, 29	(335,423)	(433,963)
Profit before income tax	30	1,786,181	2,588,571
Income tax expense	30	(345,864)	(560,250)
Profit for the year		1,440,317	2,028,321
Earnings per share for profit for the year (in won)	31		
Basic and diluted earnings per ordinary share for profit for the year		19,582	27,578
Basic and diluted earnings per preferred share for profit for the year		19,632	27,628

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

LG Chem, Ltd.
Separate Statements of Comprehensive Income
Years Ended December 31, 2012 and 2011

(in millions of Korean won)	Notes	2012	2011
Profit for the year		1,440,317	2,028,321
Other comprehensive income			
Actuarial loss on defined benefit liability	18	(62,237)	(53,541)
Cash flow hedges		527	4,767
Income tax effect relating to components of other comprehensive income	30	14,934	11,830
Other comprehensive income for the year, net of tax		(46,776)	(36,944)
Total comprehensive income for the year		1,393,541	1,991,377

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, 2012 and 2011

(in millions of Korean won)	Notes	Share capital	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings	Total equity
Balance at January 1, 2011		369,500	1,157,572	(15,484)	(3,216)	5,888,132	7,396,504
Comprehensive income:							
Profit for the year		-	-	-	-	2,028,321	2,028,321
Actuarial loss on defined benefit liability	18	-	-	-	-	(40,584)	(40,584)
Cash flow hedges		-	-	-	3,640	-	3,640
Total comprehensive income		-	-	-	3,640	1,987,737	1,991,377
Transactions with owners:							
Capital increase from the merger with a subsidiary	35	-	9,192	-	(940)	-	8,252
Dividends	32	-	-	-	-	(294,520)	(294,520)
Total transactions with owners		-	9,192	-	(940)	(294,520)	(286,268)
Balance at December 31, 2011		369,500	1,166,764	(15,484)	(516)	7,581,349	9,101,613
Balance at January 1, 2012		369,500	1,166,764	(15,484)	(516)	7,581,349	9,101,613
Comprehensive income:							
Profit for the year		-	-	-	-	1,440,317	1,440,317
Actuarial loss on defined benefit liability	18	-	-	-	-	(47,175)	(47,175)
Cash flow hedges		-	-	-	399	-	399
Total comprehensive income		-	-	-	399	1,393,142	1,393,541
Transactions with owners:							
Dividends	32	-	-	-	-	(294,520)	(294,520)
Total transactions with owners		-	-	-	-	(294,520)	(294,520)
Balance at December 31, 2012		369,500	1,166,764	(15,484)	(117)	8,679,971	10,200,634

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

LG Chem, Ltd.
Separate Statements of Cash Flows
Years Ended December 31, 2012 and 2011

(in millions of Korean won)	Notes	2012	2011
Cash flows from operating activities			
Cash generated from operations	34	1,931,685	2,711,081
Interest received		21,218	26,203
Interest paid		(53,550)	(42,862)
Dividends		65,103	92,359
Income taxes paid		(391,688)	(583,579)
Net cash generated from operating activities		1,572,768	2,203,202
Cash flows from investing activities			
Decrease in other receivables		2	40,005
Decrease in non-current other receivables		11,241	15,939
Decrease in non-current other financial assets		-	13
Proceeds from disposal of property, plant and equipment		5,034	3,328
Proceeds from disposal of intangible assets		1,942	-
Net increase in cash from the merger with a subsidiary	35	-	10,087
Increase in other receivables		(620,000)	(47,000)
Increase in non-current other receivables		(13,327)	(28,917)
Increase in non-current other financial assets		(15,849)	(1,817)
Acquisition of investments in subsidiaries		(54,800)	(89,767)
Acquisition of investments in associates and joint ventures		(75,565)	(41,381)
Purchases of property, plant and equipment		(1,661,049)	(1,877,500)
Purchases of intangible assets		(32,695)	(26,624)
Net cash used in investing activities		(2,455,066)	(2,043,634)
Cash flows from financing activities			
Proceeds from borrowings		757,451	343,160
Repayments of borrowings		(235,039)	(225,690)
Dividends		(294,525)	(294,527)
Payment of settlement of derivatives		-	(7,378)
Net cash provided by (used in) financing activities		227,887	(184,435)
Net decrease in cash and cash equivalents		(654,411)	(24,867)
Cash and cash equivalents at beginning of year		1,105,301	1,130,818
Exchange losses on cash and cash equivalents		(1,923)	(650)
Cash and cash equivalents at the end of year		448,967	1,105,301

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

1. General information

The Company was spun off on April 1, 2001, from LG Chem Investment Ltd. (formerly LG Chemical Ltd.), to engage in the petrochemicals, industrial materials, and information and electronic materials business. It completed its registration process on April 3, 2001. The Company's shares have been listed on the Korea Stock Exchange since April 25, 2001.

The Company merged with LG Daesan Petrochemical Ltd. on January 1, 2006, and with LG Petrochemical Co., Ltd. on November 1, 2007. The Company also spun off its Industrial Materials segment to LG Hausys, Ltd. on April 1, 2009, and merged with LG Polycarbonate Ltd. on April 1, 2011 (Note 35).

As of December 31, 2012, 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, 2012, 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 summarized below. These policies have been consistently applied to all 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 consolidated 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 Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The Company's financial statements for the annual period beginning on January 1, 2010, 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.

2.2 Changes in accounting policy and disclosures

(1) New and amended standards adopted by the Company

The Company changed its accounting policy to present the operating income after deducting cost of sales, and selling and administrative expenses from revenue, in accordance with the amendment of Korean IFRS 1001, *Presentation of Financial Statements.*

The Company applies the accounting policy retroactively in accordance with the amended standards and the comparative separate statement of the comprehensive income is restated by reflecting adjustments resulting from the retrospective application. As a result of the changes in the accounting policy, other operating income and expenses of ₩341,160 million and ₩311,241 million, respectively, for the year ended December 31, 2012 (2011: ₩417,573 million and ₩403,083 million, respectively), which include gain or loss on disposal of property, plant and equipment, and others, classified as operating profit under the previous standard, were excluded from operating profit. Consequently, operating profit for the years ended December 31, 2012 and 2011, was lower by ₩29,919 million and ₩14,490 million, respectively, as compared to the amounts under the previous standard. However, there is no material impact on net income and earnings per share for the years ended December 31, 2012 and 2011.

(2) New standards and interpretations not yet adopted

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2012, and not early adopted by the Company are as follows:

- Amendment of Korean IFRS 1001, *Presentation of Financial Statements*

Korean-IFRS 1001, *Presentation of Financial Statements*, requires other comprehensive income items to be presented into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently. This is effective for annual periods beginning on or after July 1, 2012, with early adoption permitted. The Company expects that the application of this amendment would not have a material impact on its financial statements.

- Amendments to Korean IFRS 1019, *Employee Benefits*

According to the amendments to Korean IFRS 1019, *Employee Benefits*, the use of a ‘corridor’ approach is no longer permitted, and therefore all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are now changed to calculating net interest expense (income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities (assets). This amendment will be effective for annual periods beginning on or after January 1, 2013, and the Company expects that the application of this enactment would not have a material impact on its financial statements.

- Enactment of Korean IFRS 1113, *Fair Value Measurement*

Korean IFRS 1113, *Fair Value Measurement*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRSs. Korean IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within the Korean IFRSs. This amendment will be effective for annual periods beginning on or after January 1, 2013, and the Company expects that the application of this enactment would not have a material 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, '*Consolidated and 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 each of the Company's entities 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 Parent Company's functional and the Company's 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 the statement of income, except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of income within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the statement of income within 'other non-operating income or expenses'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognized in the statement of income as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

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

2.6.1 Classification

The Company classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity investments, and other financial liabilities at amortized cost. The classification depends on the purpose for which the financial instruments were acquired and the nature of the instruments. Management determines the classification of its financial instruments at initial recognition.

(1) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are financial instruments held for trading. Financial assets and liabilities are classified in this category if acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives that are not subject to hedge accounting and financial instruments having embedded derivatives are also included in this category. Financial assets and liabilities at fair value through profit or loss are classified as current asset and current liabilities, respectively.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables are presented as 'cash and cash equivalents', 'trade receivables', 'other current receivables' and 'other non-current receivables' in the statement of financial position.

(3) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

(4) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. The Company's available-for-sale financial assets are included in 'other financial assets' in the statement of financial position.

(5) Financial liabilities measured at amortized cost

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial assets that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and as 'trade payables', 'borrowings', and 'other payables' in the statement of financial position. Financial liabilities carried at amortized cost are included in non-current liabilities, except for liabilities with maturities within 12 months after the end of the reporting period, which are classified as current liabilities.

2.6.2 Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade date, the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognized at fair value, and transaction costs are expensed in the statement of income. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the statement of income within 'finance income or expenses' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of income when the Company's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale financial assets are recognized in 'other comprehensive income'. When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognized in equity are recognized in the statement of income.

Interest on available-for-sale financial assets calculated using the effective interest method is recognized in the statement of income as part of 'finance income'. Dividends on available-for-sale equity instruments are recognized in the statement of income as part of 'finance income' when the Company's right to receive payments is established.

2.6.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.6.4 Derecognition

Financial assets are derecognized when the contractual rights to receive cash flows from the investments have expired or have been transferred and the Company has substantially transferred all risks and rewards of ownership. If the risk and rewards of ownership of transferred assets have not been substantially transferred, the Company reviews the level of control retained over that asset and the extent of its continuing involvement to determine if transfers do not qualify for derecognition.

Collaterals (trade receivables and other) provided in transactions of discount and factoring of trade receivables do not meet the requirements for asset derecognition if risks and rewards do not substantially transfer in the event the debtor defaults. Financial liabilities recognized in relation to these transactions are included as 'borrowings' in the statement of financial position.

2.7 Impairment of financial assets

(1) Assets carried at amortized cost

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 group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  1) Adverse changes in the payment status of borrowers in the portfolio; and
  2) National or local economic conditions that correlate with defaults on the assets in the portfolio.

Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted using the initial effective interest rate. The carrying amount of the asset is reduced by the impairment loss amount and the amount of the loss is recognized in the statement of income. In practice, the Company may measure impairment loss based on the fair value of the financial asset using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of income.

(2) Assets classified as available for sale

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. For debt securities, the Company uses the criteria provided in (1) above. In the case of equity investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If such evidence exists for available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of income.

2.8 Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The resulting gain or loss is recognized in the statement of income within 'other operating income and expenses' or 'finance income or expenses' depending on the nature of transactions.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the statement of income within 'other non-operating income or expenses' or 'finance income or expenses'.

Amounts accumulated in equity are reclassified as profit or loss in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income within 'other non-operating income or expenses' or 'finance income or expenses'.

2.9 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.10 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. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads based on normal operating capacity. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Property, plant and equipment

All property, plant and equipment are stated at historical cost or deemed cost less depreciation. Historical cost or deemed cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost less 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 assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.16). Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other non-operating income or expenses' in the statement of income.

2.12 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.13 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to property, plant and equipment are presented as a deduction of related assets and are credited to depreciation over the expected lives of the related assets.

Government grants relating to costs are deferred and recognized in the statement of income over the period necessary to match them with the costs that they are intended to compensate.

2.14 Intangible assets

(1) Goodwill

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.

(2) Industrial property rights

Industrial property rights are shown at historical cost. Industrial property rights have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of industrial property rights over their estimated useful lives of 5 to 15 years.

(3) Other intangible assets

Other intangible assets such as software which meet the definition of an intangible asset are amortized using the straight-line method over their estimated useful lives of 6 to 20 years when the assets are available for use. Membership rights are regarded as intangible assets with indefinite useful lives and not amortized as there is no foreseeable limit to the period over which the asset is expected to be utilized. All membership rights are tested annually for impairment and stated at cost less accumulated impairment losses.

2.15 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.

2.16 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.18 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as 'finance expenses' in the statement of income over the borrowing period using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized 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 current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at reporting date in the countries where the Company operates and generates taxable income. The Company periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. It represents future tax consequences that will arise when recovering or settling the carrying amount of its assets and liabilities. However, the deferred income tax is not accounted for if it arises 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 income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries, joint ventures, and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred income tax assets arising from these assets are recognized only to the extent that it is probable that the temporary difference will be reversed in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Deferred income 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 tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention either to settle the balances on a net basis or to realise the asset and settle the liability simultaneously.

2.20 Provisions

Provisions are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.21 Employee benefits

The Company operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Company operates both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate fund. The Company has no legal or constructive obligations to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For the defined contribution plan, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

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 the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit liability 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 that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Actuarial gains and losses recognized in other comprehensive income are immediately recognized in retained earnings and are not recognized in profit or loss in a subsequent period.

2.22 Share capital

Ordinary shares and preferred shares without mandatory redemption obligation are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any consolidated company purchases the Company’s equity share capital, the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company’s equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received is included in equity attributable to the Company’s equity holders.

2.23 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. Delivery does not occur until the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied. 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.

(c) Dividend income

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

2.24 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lesser) are charged to the statement of income on a straight-line basis over the lease term.

Leases of property, plant and equipment where it transfers substantially all the risks and rewards of ownership to the lessee is classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are recognized as ‘borrowings’. The interest element of the finance cost is charged to the statement of income over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term (Note 16).

2.25 Dividend distribution

Dividend liability is recognized in the financial statements when the dividends are approved by the Company’s shareholders.

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 provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of surplus liquidity.

(1) Market risk

1) Foreign exchange risk

The 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. Each entity manages its foreign exchange risk arising from future commercial transactions and recognized assets and liabilities through foreign currency denominated borrowings and derivative instruments such as forward contracts in co-operation with finance team. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency other than the Company's 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, 2012 and 2011, the Company's monetary assets and liabilities denominated in currencies other than its functional currency, are as follows:

(in millions of Korean won)	**2012**		**2011**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
USD	2,107,939	1,769,248	2,128,545	1,562,544
EUR	86,245	67,796	48,440	41,366
GBP	1,400	1,244	2,429	2,055
JPY and others	25,760	146,412	20,162	144,724

As of December 31, 2012 and 2011, 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:

(in millions of Korean won)	**2012**		**2011**	
	10% Increase	**10% Decrease**	**10% Increase**	**10% Decrease**
USD	33,869	(33,869)	56,600	(56,600)

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) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by financial assets held at variable rates.

The Company analyzes its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on profit for the year of a 0.1% shift would be a maximum increase of ₩1,118 million (2011: ₩1,025 million) or decrease of ₩1,118 million (2011: ₩1,025 million), respectively.

Based on the various scenarios, the Company manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Company raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Company borrowed at fixed rates directly. Under the interest rate swaps, the Company agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

(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, 2012 and 2011, the maximum degrees of credit exposures are as follows:

(in millions of Korean won)	**2012**			**2011**		
	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)	4,021,535	(5,769)	4,015,766	4,007,899	(4,641)	4,003,258
Financial assets at fair value through profit or loss	2,352	-	2,352	-	-	-
Total	4,023,887	(5,769)	4,018,118	4,007,899	(4,641)	4,003,258

In addition, details of financial guarantees provided by the Company are disclosed in Notes 3.1.(3) and 20.

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.

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 equivalent 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

Cash flow forecasting is performed by consolidated subsidiaries and aggregated by corporate finance team. Finance team 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 on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements - for example, currency restrictions.

The Company's finance team invests surplus cash in interest-bearing current accounts, time deposits, and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

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.

(in millions of Korean won)	**December 31, 2012**			
	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**
Borrowings (excluding finance lease liabilities)	1,043,909	233,183	742,322	284
Finance lease liabilities	2,481	3,195	-	-
Trade and other payables	2,133,689	15,045	-	-
Total	3,180,079	251,423	742,322	284

(in millions of Korean won)	December 31, 2011			
	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**
Borrowings (excluding finance lease liabilities)	1,173,278	30,913	320,600	590
Finance lease liabilities	2,481	2,481	3,195	-
Trade and other payables	2,277,281	40,652	-	-
Total	3,453,040	74,046	323,795	590

2) The table below analyzes the Company'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, 2012			
		Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**
Net-settled derivative financial liabilities	**Hedging**				
	Net-cash flow	(154)	-	-	-
	Subtotal	(154)	-	-	-
Gross-settled derivative financial liabilities	**Trading**				
	Inflow	173,728	-	-	-
	Outflow	(171,376)	-	-	-
	Subtotal	2,352	-	-	-
	Total	2,198	-	-	-

(in millions of Korean won)		December 31, 2011			
		Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**
Net-settled derivative financial liabilities	**Hedging**				
	Net-cash flow	(540)	(147)	-	-
	Total	(540)	(147)	-	-

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, 2012			
	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**
Financial guarantee contracts[1]	335,019	132	470	571

(in millions of Korean won)	December 31, 2011			
	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**
Financial guarantee contracts[1]	418,759	60,121	433	741

[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 20).

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 consolidated statement of financial position plus net debt.

The gearing ratio and debt to equity ratio as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won, except for ratios)	**2012**	**2011**
Total borrowings (Note 16) (A)	1,922,549	1,483,109
Less: cash and cash equivalents (B)	(448,967)	(1,105,301)
Net debt (C=A+B)	1,473,582	377,808
Total liabilities (D)	4,584,153	4,317,404
Total equity (E)	10,200,634	9,101,613
Total capital (F=C+E)	11,674,216	9,479,421
Gearing ratio (C/F)	12.6%	4.0%
Debt to equity ratio (D/E)	44.9%	47.4%

3.3 Fair value estimation

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

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

(1) The following tables present the Company's financial assets and liabilities that are measured at fair value as of December 31, 2012 and 2011:

(in millions of Korean won)	**2012**			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Other current financial assets	-	2,352	-	2,352
Total financial assets	-	2,352	-	2,352
Financial liabilities				
Other current financial liabilities	-	154	-	154
Total financial liabilities	-	154	-	154

(in millions of Korean won)	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Other current financial assets	-	-	-	-
Total financial assets	-	-	-	-
Financial liabilities				
Other current financial liabilities	-	536	-	536
Other non-current financial liabilities	-	146	-	146
Total financial liabilities	-	682	-	682

All other non-current financial assets of the Company consist of available-for-sale equity securities and are measured at cost (December 31, 2012: ₩ 21,696 million; December 31, 2011: ₩ 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 analysis above (Note 9). The Company does not have any plans to dispose these available-for-sale equity securities in the near future.

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses various techniques and makes judgments based on current market conditions. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

Specific valuation techniques used to value financial instruments include:

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

4. Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities after the end of the reporting period 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. These calculations require the use of estimates.

(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.

(3) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(4) Provisions

The Company recognizes provisions for product warranties and sales return as of the reporting date as described in Note 17. The amounts are estimated based on historical data.

(5) Defined benefit liability

The present value of the defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for defined benefit liability are based in part on current market conditions. Additional information is disclosed in Note 18.

5. Financial instruments by category

(1) Categorizations of financial instruments are as follows:

(in millions of Korean won)	December 31, 2012			
Financial assets	**Loans and receivables**	**Assets at fair value through profit or loss**	**Assets classified as available-for-sale**	**Total**
Cash and cash equivalents	448,967	-		448,967
Trade receivables	2,703,963	-		2,703,963
Other receivables	846,853	-		846,853
Other current financial assets	-	2,352		2,352
Other non-current receivables	16,033	-		16,033
Other non-current financial assets	-	-	21,696	21,696
Total	4,015,816	2,352	21,696	4,039,864

(in millions of Korean won)	December 31, 2012		
Financial liabilities	**Hedging derivatives**	**Liabilities at amortized cost**	**Total**
Trade payables	-	1,193,446	1,193,446
Other payables	-	940,086	940,086
Borrowings (current)	-	1,012,874	1,012,874
Other financial liabilities	154	-	154
Other current liabilities	-	44	44
Other non-current payables	-	14,463	14,463
Borrowings (non-current)	-	909,675	909,675
Total	154	4,070,588	4,070,742

(in millions of Korean won)	December 31, 2011			
Financial assets	**Loans and receivables**	**Assets at fair value through profit or loss**	**Assets classified as available-for-sale**	**Total**
Cash and cash equivalents	1,105,301	-	-	1,105,301
Trade receivables	2,683,917	-	-	2,683,917
Other receivables	184,321	-	-	184,321
Other non-current receivables	29,761	-	-	29,761
Other non-current financial assets	-	-	5,846	5,846
Total	4,003,300	-	5,846	4,009,146

(in millions of Korean won)	December 31, 2011		
Financial liabilities	**Hedging derivatives**	**Liabilities at amortized cost**	**Total**
Trade payables	-	1,226,955	1,226,955
Other payables	-	1,050,326	1,050,326
Borrowings (current)	-	1,158,793	1,158,793
Other financial liabilities	536	-	536
Other current payables	-	36	36
Other non-current liabilities	-	40,652	40,652
Borrowings (non-current)	-	324,316	324,316
Other non-current financial liabilities	146	-	146
Total	682	3,801,078	3,801,760

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

(in millions of Korean won)	**2012**	**2011**
Assets at fair value through profit or loss		
Gain(loss) on valuation/ disposal	7,470	(29,431)
Hedging derivatives		
Gain on valuation/ disposal	-	8,914
Gain on valuation recognized in other comprehensive expenses	527	4,767
Interest expense	(740)	(11,903)
Assets classified as available-for-sale		
Loss on valuation/ disposal	-	(2)
Dividend income	157	159
Loans and receivables		
Interest income	26,561	24,115
Gain(loss) on foreign currency translation	(30,797)	10,737
Gain(loss) on foreign exchange	(124,632)	29,218
Liabilities at amortized cost		
Interest expense	(54,544)	(31,691)
Gain(loss) foreign currency translation	38,446	(14,031)
Gain(loss) on foreign exchange	112,575	(33,825)

6. Cash and cash equivalents

Details of cash and cash equivalents are as follows:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Bank deposits and cash on hand	32,572	58,406
Financial deposits, others	416,395	1,046,895
Total	448,967	1,105,301

As of December 31, 2012, non-current receivables amounting to ₩38 million are restricted from withdrawal in connection with maintaining checking accounts (2011: ₩40 million).

7. Trade and other receivables

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

(in millions of Korean won)	December 31, 2012			December 31, 2011		
	Original amount	Less : allowance for doubtfu accounts	Carrying amount	Original amount	Less : allowance for doubtful accounts	Carrying amount
Trade receivables[1]	2,709,732	(5,769)	2,703,963	2,688,558	(4,641)	2,683,917
Other current receivables	846,853	-	846,853	184,321	-	184,321
Other non-current receivables	16,033	-	16,033	29,761	-	29,761
Total	3,572,618	(5,769)	3,566,849	2,902,640	(4,641)	2,897,999

[1] As of December 31, 2012, trade receivables transferred to financial institutions but not fully derecognized are as follows: (Note 16)

(in millions of Korean won)	Loans and receivables (trade receivables collateralized borrowings) December 31, 2012	December 31, 2011
Carrying amount of transferred assets	992,617	924,133
Carrying amount of related liabilities	(992,617)	(924,133)
For those liabilities that have recourse only to the transferred assets:		
Fair value of transferred assets	992,617	924,133
Fair value of related liabilities	(992,617)	(924,133)
Net position	-	-

Details of other receivables are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Current		
Non-trade receivables	184,591	163,210
Financial deposits	632,000	12,000
Accrued income	7,192	1,850
Deposits	23,070	7,261
	846,853	184,321
Non-current		
Financial deposits	38	40
Loans	25	581
Deposits	15,970	29,140
	16,033	29,761
Total	862,886	214,082

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

(in millions of Korean won)	December 31, 2012		December 31, 2011	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Receivables not past due	2,654,521	860,610	2,575,359	212,736
Past due but not impaired	49,883	2,276	109,787	1,346
Up to 3 months	44,315	2,082	107,334	1,189
3 to 6 months	3,928	-	1,125	157
Over 6 months	1,640	194	1,328	-
Impaired receivables	5,328	-	3,412	-
Total	2,709,732	862,886	2,688,558	214,082

The movements in bad debt allowance for the years ended December 31, 2012 and 2011, are as follows:

	2012				2011			
	Trade receivables		Other receivables		Trade receivables		Other receivables	
(in millions of Korean won)	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Beginning balance	4,641	-	-	-	6,153	-	-	-
Additions	1,874	-	-	-	-	-	-	-
Reversals	-	-	-	-	(2,000)	-	-	-
Write-off	(746)	-	-	-	(202)	-	-	-
Increase from the merger	-	-	-	-	690	-	-	-
Ending balance	5,769	-	-	-	4,641	-	-	-

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

8. Other financial assets and liabilities

Details of other financial assets and liabilities are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Other financial assets		
Derivatives (Note 10)	2,352	-
Available-for-sale (Note 9)	21,696	5,846
Less: current portions	(2,352)	-
Total	21,696	5,846
Other financial liabilities		
Derivatives (Note 10)	154	682
Less: current portions	(154)	(536)
Total	-	146

9. Financial assets classified as available-for-sale

The movement in financial assets classified as available-for-sale for the years ended December 31, 2012 and 2011, is as follows:

(in millions of Korean won)	**2012**	**2011**
Beginning balance	5,846	4,044
Additions	15,850	1,817
Disposals	-	(15)
Ending balance	21,696	5,846

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.

No impairment losses were recognized for financial assets classified as available-for-sale during the years ended December 31, 2012 and 2011.

10. Derivative financial instruments

Details of derivative financial assets and liabilities are as follows:

(in millions of Korean won)	**December 31, 2012**		**December 31, 2011**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Current				
Cash flow hedges	-	154	-	536
Held-for-trading	2,352	-	-	-
	2,352	154	-	536
Non-current				
Cash flow hedges	-	-	-	146

Details of derivative financial contracts are as follows:

	December 31, 2012				
Classification	**Contractor**	**Contract date**	**Contract amount (in thousands)**	**Contract period**	**Contract terms**
Forward exchange	BOA and 13 other banks	2012.10.10, various	US$ 10,000, various	2013.01.03 ~ 2013.02.22, various	₩1119.32 / US$, various
Interest rate swap	HSBC	2006.10.11	₩ 3,000,000	2006.10.11 ~ 2013.09.05	Received: 3 month CD, Paid: 4.61%
	HSBC	2007.06.15	US$ 4,500	2007.06.15 ~ 2013.09.05	Received: 3 month Libor Paid: 5.59%

	December 31, 2011				
Classification	**Contractor**	**Contract date**	**Contract amount (in thousands)**	**Contract period**	**Contract terms**
Interest rate swap	HSBC	2006.10.11	₩ 7,000,000	2006.10.11 ~ 2013.09.05	Received: 3 month CD, Paid: 4.61%
	HSBC	2007.06.15	US$ 10,500	2007.06.15 ~ 2013.09.05	Received: 3 month Libor Paid: 5.59%

Trading derivative financial instrument is classified as a current asset or liability. Hedging derivative financial instrument is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months.

There was no ineffective portion of cash flow hedges.

11. Inventories

Details of inventories are as follows:

	December 31, 2012			December 31, 2011		
(in millions of Korean won)	**Original amount**	**Valuation allowance**	**Carrying amount**	**Original amount**	**Valuation allowance**	**Carrying amount**
Merchandise	73,820	(700)	73,120	77,294	-	77,294
Finished products	963,884	(15,916)	947,968	996,882	(9,324)	987,558
Semi-finished products	280,019	-	280,019	283,073	-	283,073
Work-in-process	363	-	363	3,508	-	3,508
Raw materials	594,500	(959)	593,541	479,817	(133)	479,684
Supplies	57,281	-	57,281	50,446	-	50,446
Materials-in-transit	217,309	-	217,309	139,704	-	139,704
Total	2,187,176	(17,575)	2,169,601	2,030,724	(9,457)	2,021,267

The cost of inventories recognized as expense and included in ‘Cost of Sales’ amounted to ₩14,685,493 million (2011: ₩13,835,831 million).

12. Investments in subsidiaries, associates and joint ventures

Changes in the carrying amount of investments in subsidiaries, associates and joint venture for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Beginning balance	983,795	935,260
Additions	130,365	185,483
Merger	-	(136,948)
Ending balance	1,114,160	983,795

Details of investments in subsidiaries and associates as of December 31, 2012 and 2011, are as follows:

Subsidiaries	Country	Ownership (%)		Carrying amount	
		2012	2011	2012	2011
Tianjin LG Dagu Chemical Co.,Ltd.	China	75	75	24,265	24,265
Ningbo LG Yongxing Chemical Co.,Ltd.[1]	China	75	75	135,908	135,908
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	83	81	223,662	175,277
LG Chem (Taiwan), Ltd.	Taiwan	100	100	18	18
LG Chem Display Materials (Beijing) Co.,Ltd.[4]	China	90	90	13,444	12,450
Tianjin LG Bohai Chemical Co.,Ltd.[5]	China	65	65	105,847	105,847
LG Chem (China) Investment Co.,Ltd.[6]	China	100	100	67,777	62,357
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	63,422	63,422
LG Chem Power Inc.	USA	100	100	19,553	19,553
Tianjin LG Botian Chemical Co.,Ltd.[5]	China	41	41	9,550	9,550
Ningbo Zhenhai LG Yongxing Trade Co., Ltd.[1]	China	-	-	-	-
Total				788,285	733,486

Associates and joint ventures	Country	Ownership (%)		Carrying amount	
		2012	2011	2012	2011
LG Vina chemical Co.,Ltd.	Vietnam	40	40	1,313	1,313
HL Greenpower Co.,Ltd.	Korea	49	49	14,210	14,210
LG Holdings (HK) Ltd.	Hong Kong	26	26	77,535	77,535
TECWIN Co.,Ltd.	Korea	20	20	2,861	2,861
SEETEC Co.,Ltd.	Korea	50	50	58,416	58,416
LG Chem Brasil INTERMEDICAO DE NEGOCIOS DO SETOR QUIMICO LTDA.[7]	Brazil	100	100	258	258
CNOOC & LG Petrochemicals Co.,Ltd.	China	50	50	40,230	40,230
KLPE Limited Liability Partnership[8]	Kazakhstan	50	50	131,052	55,486
Total				325,875	250,309

[1] As of December 31, 2012, Ningbo LG Yongxing Chemical Co.,Ltd. owns 100% of Ningbo Zhenhai LG Yongxing Trade Co.,Ltd. shares and disposed all of LG Yongxing International Trading Co.,Ltd. shares.

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

[3] In 2012, the Company acquired additional shares of LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd. for ₩48,385 million.

[4] In 2012, the Company acquired additional shares of LG Chem Display Materials (Beijing) Co.,Ltd. for ₩994 million.

[5] As of December 31, 2012, Tianjin LG Bohai Chemical Co., Ltd. owns 20.30% of Tianjin LG Botian Chemical Co.,Ltd. shares.

[6] In 2012, the Company acquired additional shares of LG Chem (China) Investment Co.,Ltd. for ₩5,420 million.

[7] Classified as investment in associates and joint ventures due to its small scale.

[8] In 2012, Ammonia Production and Distribution Limited Liability Partnership changed its name to KLPE Limited Liability Partnership. Also, the Company acquired additional shares of KLPE LLC. for ₩75,566 million.

13. Property, plant and equipment

Changes in the carrying amount of property, plant and equipment for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012										
	Land	**Buildings**	**Structures**	**Machinery**	**Vehicles**	**Tools**	**Equipment**	**Others**	**Construction-in-progress**	**Machinery-in-transit**	**Total**
Beginning balance	599,951	1,218,985	287,131	2,103,100	11,817	178,027	51,981	115,291	1,238,810	305,756	6,110,849
Cost	599,951	1,446,876	554,608	6,026,114	35,946	427,530	164,857	186,155	1,273,606	305,756	11,021,399
Accumulated depreciation	-	(227,886)	(267,470)	(3,922,430)	(24,129)	(245,525)	(112,859)	(70,864)	-	-	(4,871,163)
Accumulated impairment	-	(5)	(7)	(584)	-	(3,978)	(17)	-	(34,796)	-	(39,387)
Acquisitions/ Transfer	107,541	213,887	151,256	1,307,605	1,954	98,908	37,536	20,619	1,360,675	281,623	3,581,604
Disposals/ Transfer	-	(382)	(130)	(4,371)	(1,342)	(745)	(338)	(250)	(1,546,827)	(367,134)	(1,921,519)
Depreciation	-	(32,979)	(25,613)	(489,587)	(2,930)	(54,875)	(16,963)	(47,366)	-	-	(670,313)
Ending balance	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
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)

(in millions of Korean won)	2011										
	Land	**Buildings**	**Structures**	**Machinery**	**Vehicles**	**Tools**	**Equipment**	**Others**	**Construction-in-progress**	**Machinery-in-transit**	**Total**
Beginning balance	426,397	945,614	267,321	1,794,238	6,820	129,576	46,145	61,650	825,367	168,953	4,672,081
Cost	426,397	1,150,391	512,179	5,337,402	28,562	343,216	151,482	94,667	860,163	168,953	9,073,412
Accumulated depreciation	-	(200,543)	(244,851)	(3,525,450)	(21,742)	(209,662)	(105,320)	(33,017)	-	-	(4,340,585)
Accumulated impairment	-	(4,234)	(7)	(17,714)	-	(3,978)	(17)	-	(34,796)	-	(60,746)
Increasing of merger	11,380	27,364	10,953	74,758	-	5	84	-	805	-	125,349
Acquisitions/ Transfer	162,174	274,556	31,275	646,774	8,218	95,753	20,585	93,889	1,576,704	282,656	3,192,584
Disposals/ Transfer	-	(975)	(81)	(3,898)	(8)	(2,136)	(142)	-	(1,164,066)	(145,853)	(1,317,159)
Depreciation	-	(27,574)	(22,337)	(408,772)	(3,213)	(45,171)	(14,691)	(40,248)	-	-	(562,006)
Ending balance	599,951	1,218,985	287,131	2,103,100	11,817	178,027	51,981	115,291	1,238,810	305,756	6,110,849
Cost	599,951	1,446,876	554,608	6,026,114	35,946	427,530	164,857	186,155	1,273,606	305,756	11,021,399
Accumulated depreciation	-	(227,886)	(267,470)	(3,922,430)	(24,129)	(245,525)	(112,859)	(70,864)	-	-	(4,871,163)
Accumulated impairment	-	(5)	(7)	(584)	-	(3,978)	(17)	-	(34,796)	-	(39,387)

During the year ended December 31, 2012, the Company capitalized ₩28,236 million of borrowing costs (2011: ₩22,160 million) to property, plant and equipment.

As of December 31, 2012, certain property, plant and equipment have been pledged as collaterals for certain bank loans for up to a maximum of ₩8,787 million (2011: ₩8,787 million).

As of December 31, 2012, the Company has a finance lease agreement on certain property, plant and equipment at the MTBE factory. The carrying amount of leased assets and depreciation are as follows:

(in millions of Korean won)	**December31, 2012**	**December31, 2011**
Carrying amount	12	41
Depreciation	29	2,182

The said agreement is non-cancellable finance lease agreements and the lease term is 15 years.

Depreciation of property, plant and equipment was classified as follows:

(in millions of Korean won)	**2012**	**2011**
Cost of sales	619,278	518,393
Selling, general and administrative expenses	49,316	43,142
Others[1]	1,719	471
Total	670,313	562,006

[1] Amounts capitalized as development costs are included.

14. Intangible assets

Changes in the carrying amount of intangible assets for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**					
	Develop-ment costs	**Industrial property rights**	**Goodwill**	**Memberships**	**Others**	**Total**
Beginning balance	32,826	61,856	33,415	50,488	15,090	193,675
Acquisitions/ Transfer	23,869	21,040	-	2,571	8,347	55,827
Disposals/ Transfer	(6,825)	(854)	-	(1,968)	(6)	(9,653)
Amortization	(8,807)	(3,432)	-	-	(4,250)	(16,489)
Ending balance	41,063	78,610	33,415	51,091	19,181	223,360

(in millions of Korean won)	2011					
	Development costs	**Industrial property rights**	**Goodwill**	**Memberships**	**Others**	**Total**
Beginning balance	24,642	47,836	33,415	48,422	13,381	167,696
Increase due to merger	-	1	-	401	299	701
Acquisitions/ Transfer	15,276	16,558	-	1,665	5,079	38,578
Disposals/ Transfer	-	(8)	-	-	-	(8)
Amortization	(7,092)	(2,531)	-	-	(3,669)	(13,292)
Ending balance	32,826	61,856	33,415	50,488	15,090	193,675

Amortization of intangible assets was classified as follows:

(in millions of Korean won)	**2012**	**2011**
Cost of sales	5,949	4,567
Selling, general and administrative expenses	10,540	8,725
Total	16,489	13,292

Impairment tests for goodwill

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:

(in millions of Korean won)

CGUs	**Carrying amount**
Goodwill arising on the acquisition of LG Petrochemical Co., Ltd.	
NCC	4,724
PO	977
Special resin	255
Synthetic rubber	600
Petrochemistry BPA	1,637
	8,193
Goodwill arising on the acquisition of SAP business	
Acrylic business	25,222
	25,222
Total	33,415

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 12.82%. The recoverable amounts based on value-in-use calculations exceeded carrying amounts and accordingly, no impairment was recognized for the year ended December 31, 2012.

15. Other current and non-current assets

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

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Current		
Advance payments	1,000	-
Prepaid expenses	17,347	18,477
Prepaid value added tax	48,378	44,683
Others	50,773	13,821
Total	117,498	76,981
Non-current		
Long-term prepaid expenses	19,683	23,304
Total	19,683	23,304

16. Borrowings

The carrying amount of borrowings are as follows:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Current		
Short-term borrowings	992,617	924,133
Current maturities of bank loans	18,097	82,760
Current maturities of debentures	-	149,922
Current maturities of finance lease liabilities	2,160	1,978
	1,012,874	1,158,793
Non-current		
Bank loans	308,567	20,357
Debentures	598,034	298,725
Finance lease liabilities	3,074	5,234
	909,675	324,316
Total	1,922,549	1,483,109

Details of borrowings are as follows:

Current borrowings

(in millions of Korean won)	Bank	Latest maturity date	Annual interest rate (%) at December 31, 2012	Carrying Amount December 31, 2012	Carrying Amount December 31, 2011
Notes discounted[1]	Woori Bank, others	2013.06.16	3Libor+1.00,	992,617	924,133

[1] As of December 31, 2012, trade receivables transferred to financial institutions but not derecognized are accounted for as collateralized borrowing transaction (Note 7).

Non-current borrowings

(in millions of Korean won)

	December 31, 2012					
	Bank	Annual interest rate (%)	Latest maturity date	Total amount	Current maturities	Long-term debts
Won currency borrowings	Kookmin Bank	3.00	2020.03.21	850	90	760
	Kookmin Bank	3.00	2018.07.14	819	122	697
	Korea Development Bank	3.53	2015.07.19	200,000	-	200,000
	BTMU	3CD+0.60	2013.09.05	7,500	7,500	-
Foreign currency borrowings	Sumitomo Mitsui Banking Corporation	3Libor+0.60	2013.09.05	4,820	4,820	-
	Mizuho	3Libor+0.60	2013.09.05	3,213	3,213	-
	Nova Scotia Bank	3Libor+1.54	2015.07.20	53,555	-	53,555
	HSBC	3Libor+0.60	2013.09.05	2,410	2,410	-
	BTMU	3Libor+1.54	2015.07.20	53,555	-	53,555
	Less: discount on borrowings			(58)	(58)	-
Total				326,664	18,097	308,567

(in millions of Korean won)

	December 31, 2011					
	Bank	Annual interest rate (%)	Latest maturity date	Total amount	Current maturities	Long-term debts
Won currency borrowings	Kookmin Bank	3.00	2020.03.21	932	82	850
	Kookmin Bank	3.00	2018.07.14	931	112	819
	BTMU	CD+0.60	2013.09.05	17,500	10,000	7,500
Foreign currency borrowings	Korea Development Bank	3Libor+0.36	2012.01.10	57,665	57,665	-
	Sumitomo Mitsui Banking Corporation	3Libor+0.60	2013.09.05	12,110	6,920	5,190
	Mizuho	3Libor+0.60	2013.09.05	8,073	4,613	3,460
	HSBC	3Libor+0.60	2013.09.05	6,055	3,460	2,595
	Less: discount on borrowings			(149)	(92)	(57)
Total				103,117	82,760	20,357

Certain property, plant and equipment have been pledged as collaterals for the above non-current borrowings (Note 13).

Debentures

(in millions of Korean won)

	December 31, 2012					
	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			(1,966)	-	(1,966)
Total				598,034	-	598,034

(in millions of Korean won)

	December 31, 2011					
	Financial institution	**Annual interest rate (%)**	**Latest maturity date**	**Total amount**	**Current maturities**	**Long-term debts**
Won currency debentures	Woori Security	4.85	2012.04.29	150,000	150,000	-
	Woori Security	3.83	2014.12.05	200,000	-	200,000
	Woori Security	4.03	2016.12.05	100,000	-	100,000
	Less: discount on debentures			(1,353)	(78)	(1,275)
Total				448,647	149,922	298,725

Finance lease liabilities

December 31, 2012					
Bank	**Annual interest rate (%)**	**Latest maturity date**	**Total amount**	**Current maturities**	**Long-term debts**
Hyundai Oil Bank	9.00	2014.10.29	5,234	2,160	3,074

December 31, 2011					
Bank	**Annual interest rate (%)**	**Latest maturity date**	**Total amount**	**Current maturities**	**Long-term debts**
Hyundai Oil Bank	9.00	2014.10.29	7,212	1,978	5,234

The finance lease liabilities are liabilities associated with sales and leaseback arrangements of property, plant and equipment of the MTBE factory (Note 13).

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

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

(in millions of Korean won)	**December 31, 2012**		**December 31, 2011**	
	Carrying amount	**Fair value**[1]	**Carrying amount**	**Fair value**[1]
Bank loans	308,567	305,203	20,357	20,242
Debentures	598,034	616,213	298,725	300,675
Finance lease liabilities	3,074	3,031	5,234	5,052
Total	909,675	924,447	324,316	325,969

[1] Fair values are based on cash flows discounted using Korean won currency note yield in the same credit grade with the Company(AA+).

The present value of finance lease liabilities is as follows:

(in millions of Korean won)	**December 31, 2012**			**December 31, 2011**		
	Minimum lease payments	**Future finance costs**	**Present value**	**Minimum lease payments**	**Future finance costs**	**Present value**
Within 1 year	2,481	321	2,160	2,481	503	1,978
1 to 5 years	3,195	121	3,074	5,676	442	5,234

17. Provisions

Changes in the carrying amount of provisions for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**		
	Sales returns [1]	**Warranty** [2]	**Total**
Beginning balance	2,851	6,686	9,537
Additions	6,604	9,318	15,922
Used amount	(7,825)	(507)	(8,332)
Reversals	-	(4,047)	(4,047)
Ending balance	1,630	11,450	13,080
Less : current portion	(1,630)	(210)	(1,840)
Total	-	11,240	11,240

(in millions of Korean won)	**2011**		
	Sales returns [1]	**Warranty** [2]	**Total**
Beginning balance	2,779	2,127	4,906
Additions		8,946	17,718
Used amount	8,772	(4,387)	(13,087)
Reversals	(8,700)	-	-
Ending balance	2,851	6,686	9,537
Less : current portion	(2,851)	(4,372)	(7,223)
Total	-	2,314	2,314

[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.

18. Defined benefit liability

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

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Present value of obligations[1]	365,879	252,050
Fair value of plan assets	(261,666)	(192,619)
Liability in the statement of financial position	104,213	59,431

[1] The present value of retirement benefit obligations is net of existing contributions to the National Pension Plan of ₩945 million as of December 31, 2012 (2011: ₩979 million).

The amounts recognized in the statements of income for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Current service cost[1]	51,736	42,046
Interest cost	12,093	8,629
Expected return on plan assets	(7,475)	(6,764)
Total, included in employee benefit expenses	56,354	43,911

[1] The above amounts excluded ₩1,224 million (2011: ₩582 million) of expenses capitalized to construction in progress and development costs.

Severance costs recognized for defined contribution plan for the year ended December 31, 2012, amounted to ₩951 million (2011 : ₩522 million).

The amounts recognized in the statement of income for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Cost of sales	38,603	29,994
Selling, general and administrative expenses	18,702	14,439
Total	57,305	44,433

Actuarial gains and losses recognized as other comprehensive income for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Actuarial losses before tax	(62,237)	(53,541)
Income tax effect	15,062	12,957
Actuarial losses after tax	(47,175)	(40,584)

As of December 31, 2012, ₩111,892 million (2011: ₩64,717 million) of accumulated actuarial losses are included in other comprehensive income.

Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Beginning balance	252,050	157,782
Transfer in	2,019	886
Current service cost	52,960	42,628
Interest expense	12,093	8,629
Actuarial losses(before tax)	62,304	53,926
Benefits paid	(15,547)	(14,634)
Increase due to merger	-	2,833
Ending balance	365,879	252,050

Changes in the fair value of plan assets for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Beginning balance	192,619	151,726
Transfer in	-	430
Expected return on plan assets	7,475	6,764
Actuarial gains/(losses) (before tax)	67	385
Employer contributions	70,000	40,000
Benefits paid	(8,495)	(8,638)
Increase due to merger	-	1,952
Ending balance	261,666	192,619

The actual return on plan assets for the year ended December 31, 2012, was ₩7,542 million (2011: ₩7,149 million).

The principal actuarial assumptions used are as follows:

	December 31, 2012	**December 31, 2011**
Discount rate	3.7%	4.9%
Expected return on plan assets	3.9%	4.3%
Future salary increase	5.1%	4.8%

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

(in millions of Korean won)	**Increase by 1%**	**Decrease by 1%**
Discount rate:		
Increase(decrease) of defined benefit obligations	(35,748)	42,495

Plan assets consist of:

(in millions of Korean won)	**December 31, 2012**		**December 31, 2011**	
	Amount	**Proportion**	**Amount**	**Proportion**
Equity instruments	36,128	14%	35,973	19%
Time deposits	88,858	34%	66,377	34%
Insurance contracts with guaranteed yield	136,680	52%	90,269	47%
Total	261,666	100%	192,619	100%

The amounts of experience adjustments on the defined benefit obligations and the plan assets are as follows:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**	**December 31, 2010**	**December 31, 2009**
Present value of defined benefit obligations	365,879	252,050	157,782	218,128
Fair value of plan assets	(261,666)	(192,619)	(151,726)	(164,867)
Deficit in the plan	104,213	59,431	6,056	53,261
Experience adjustments on plan liabilities	(13,616)	(25,232)	(20,393)	(4,674)
Experience adjustments on plan assets	67	385	(1,002)	2,068

19. Other current liabilities

Other current liabilities consist of as follows:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Advances from customers	18,185	14,346
Dividends payable	44	36
Withholding	41,906	36,829
Unearned revenues	8,415	8,434
Others	56,818	55,515
Total	125,368	115,160

20. 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, 2012 and 2011, the Company has been provided with guarantees from the Seoul Guarantee Insurance for the execution of supply contracts.

(3) As of December 31, 2012, 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, 2012, the Company has bank overdraft agreements with several banks for up to ₩104,000 million and US$50 million, and has entered into contracts with several financial institutions, for discounting notes from export for up to US$ 1,454 million, and for letters of credit for up to ₩64,000 million and US$247 million, and for the guaranteed payments in foreign currency for up to US$ 5 million. The Company also has comprehensive line of credit agreements with several financial institutions for up to ₩200,000 million and US$410.

(5) As of December 31, 2012, the Company has B2B purchase arrangements with several financial institutions amount to ₩270,000 million.

(6) As of December 31, 2012, the Company has been named as a plaintiff for 2 legal actions involving ₩200 million in claims and defendant for six legal actions with ₩1,598 million in claims. The ultimate outcome of these cases cannot be determined at this time.

(7) As of December 31, 2012, the Company has been investigated by U.S. Department of Justice for price fixing of small secondary batteries. However, this case would not have a material impact on its financial statements.

(8) As of December 31, 2012, 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, 2012, the Company has a long-term purchase contract for certain raw materials and the supplier has made US$ 132 million of credit guarantee contract with financial institutions. Further, as of December 31, 2012, the Company has a contract of US$ 3 million and US$ 80 million guarantee with financial institutions in regard to a delivery contract for certain products and a purchase contract for raw materials, respectively.

(11) As of December 31, 2012, the Company has guaranteed the repayment of various obligations of its subsidiaries and associates. The outstanding balance of such guarantees as of December 31, 2012, amounts to US$ 235 million, EUR 3 million and PLN 52 million (total equivalent to ₩274,898 million) (2011: US$ 214 million, EUR 3 million and PLN 52 million, total equivalent to ₩268,650 million). Details of guarantees provided as of December 31, 2012 and 2011, are as follows:

(in millions of Korean won)

		December 31, 2012		
Guarantor	**Guarantee beneficiary**	**Financial institution**	**Amount of guarantee**	**Outstanding loan amount**
The Company	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	HSBC	64,821	64,821
	〃	Bank of America	32,411	32,411
	LG Chem Poland Sp. z o.o.	Nordea Bank	18,107	9,325
	LG Chem Europe GmbH	Shinhan Bank	4,249	-
	LG Chem Michigan, Inc.	Bank of America	26,778	26,778
	〃	Mizuho Bank	64,266	64,266
	〃	SMBC	42,844	28,920
	〃	JP Morgan	21,422	-
	LG Chem Power, Inc.	Comerica Bank	-	-
			274,898	226,521

(in millions of Korean won)

		December 31, 2011		
Guarantor	**Guarantee beneficiary**	**Financial institution**	**Amount of guarantee**	**Outstanding loan amount**
The Company	LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd.	Bank of China	33,430	33,430
	〃	HSBC	45,999	45,999
	〃	Bank of America	34,499	34,499
	LG Chem Poland Sp. z o.o.	Nordea Bank	17,610	9,836
	LG Chem Europe GmbH	Shinhan Bank	4,482	-
	LG Chem Michigan, Inc.	Bank of America	28,833	28,833
	〃	Mizuho Bank	69,198	34,599
	〃	SMBC	23,066	23,066
	LG Chem Power, Inc.	Comerica Bank	11,533	-
			268,650	210,262

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

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Property, plant and equipment	996,850	1,107,653

21. Equity

Changes in share capital and share premium are as follows:

(in millions of Korean won)	Ordinary shares		Preferred shares		
	Number of shares	Amount	Number of shares	Amount	Share premium
January 1, 2011	66,271,100	331,356	7,628,921	38,144	897,840
December 31, 2011	66,271,100	331,356	7,628,921	38,144	897,840
December 31, 2012	66,271,100	331,356	7,628,921	38,144	897,840

Changes in treasury shares are as follows:

(in millions of Korean won)	Number of shares			
	Ordinary shares	Preferred shares	Carrying amount	Gain on sale of treasury shares
January 1, 2011	359,781	5,519	15,484	13,855
Purchase of treasury shares	3	-	-	-
December 31, 2011	359,784	5,519	15,484	13,855
Purchase of treasury shares	6	-	-	-
December 31, 2012	359,790	5,519	15,484	13,855

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

22. Retained earnings

Details of retained earnings are as follows:

(in millions of Korean won)	December 31, 2012	December 31, 2011
Legal reserve [1]	179,029	149,577
Discretionary reserve [2]	7,107,800	5,444,030
Unappropriated retained earnings	1,393,142	1,987,742
Total	8,679,971	7,581,349

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

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.

23. Other components of equity

Details of other components of equity are as follows:

(in millions of Korean won)	**December 31, 2012**	**December 31, 2011**
Treasury shares (Note 21)	(15,484)	(15,484)

24. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Wages and salaries	215,664	211,719
Pension costs (Note 18)	18,702	14,439
Welfare expense	50,183	41,066
Travel expense	23,834	17,944
Water & utilities	18,858	17,068
Packaging expense	4,709	4,521
Rental expense	79,365	73,657
Commission expense	223,766	189,666
Depreciation(Note 13)	49,316	43,142
Advertising expense	20,079	17,964
Freight expense	314,734	280,163
Training expense	11,244	10,262
Amortization (Note 14)	10,540	8,725
Sample expense	12,082	7,542
Others	179,880	157,253
Total	1,232,956	1,095,131

25. 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, 2012 and 2011, consist of:

(in millions of Korean won)	**2012**	**2011**
Changes in inventories	49,963	(233,501)
Increase of Inventory from the merger	-	53,223
Raw materials and consumables used	13,845,744	13,210,090
Purchase of merchandise	789,786	806,019
Employee benefit expense (Note 26)	837,265	772,959
Advertising expense	21,299	18,964
Transportation expense	341,297	304,262
Service fees	305,646	267,492
Depreciation, amortization	685,083	574,827
Operating lease payments	32,762	30,734
Other expenses	1,806,985	1,482,423
Total	18,715,830	17,287,492

26. Employee benefit expense

(in millions of Korean won)	**2012**	**2011**
Wages and salaries	715,843	676,567
Pension costs – Defined benefit plan (Note 18)	56,354	43,911
Pension costs – Defined contribution plan (Note 18)	951	522
Others	64,117	51,959
Total	837,265	772,959

27. Financial income and expense

Details of finance income and expense for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Finance income		
Interest income[1]	26,561	24,115
Dividend income	65,103	92,359
Foreign exchange gain	39,651	85,562
Gain on foreign exchange translation	7,722	288

Gain on settlement of trading derivatives	10,286	36,500
Gain on settlement of hedging derivatives	-	8,914
Gain on valuation of trading derivatives	2,352	-
Total	151,675	247,738
Finance expense		
Interest expense[2]	27,048	21,434
Foreign exchange loss	63,916	75,085
Loss on foreign exchange translations	2,059	2,707
Loss on settlement of trading derivatives	5,168	65,931
Others	-	2
Total	98,191	165,159

[1] Details of interest income are as follows:

(in millions of Korean won)	**2012**	**2011**
Bank deposits	26,552	24,102
Other receivables	9	13
Total	26,561	24,115

[2] Details of interest expense are as follows:

(in millions of Korean won)	**2012**	**2011**
Interest on bank overdraft and borrowings	28,845	22,566
Interest on finance lease liabilities	502	669
Interest on debentures	23,876	8,512
Other interest expenses	2,061	11,847
Capitalized interest for qualifying assets	(28,236)	(22,160)
Total	27,048	21,434

28. Other non-operating income

Details of other non-operating income for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Foreign exchange gains	285,765	359,407
Gain on foreign currency translation	31,352	19,021
Gain on disposal of property, plant and equipment	1,415	1,990
Gain on disposal of intangible assets	7	-
Others	22,621	37,155
Total	341,160	417,573

29. Other non-operating expenses

Details of other non-operating expenses for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Foreign exchange loss	273,557	374,491
Loss on foreign currency translation	29,366	19,896
Loss on disposal of property, plant and equipment	3,940	5,903
Loss on disposal of intangible assets	1,033	8
Donations	24,182	24,258
Others	3,345	9,407
Total	335,423	433,963

30. Income taxes

Details of income tax expense are as follows:

(in millions of Korean won)	**2012**	**2011**
Current tax on profit for the year	262,971	500,392
Adjustments in respect of prior years	(25,091)	(6,293)
Deferred tax	92,922	53,194
	330,802	547,293
Current tax charged directly to equity	15,062	12,957
Income tax expense	345,864	560,250

The income taxes charged directly to components of other comprehensive income for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Current tax		
Actuarial losses on defined benefit liability	15,062	12,957
Deferred tax		
Cash flow hedges	(128)	(1,127)

The movement in deferred tax assets (liabilities) for the years ended December 31, 2012 and 2011, is as follows:

(in millions of Korean won)	2012			
		Increase(Decrease)		
	Beginning balance	Profit for the year	Other comprehensive income	Ending balance
Defined benefit liability	46,139	26,690	-	72,829
Plan assets	(46,139)	(16,488)	-	(62,627)
Reserve for research and human resources development	(94,380)	(87,120)	-	(181,500)
Allowance for doubtful accounts	3,210	(2,578)	-	632
Property, plant and equipment	7,684	2,079	-	9,763
Investments in subsidiaries, associates and joint ventures	(1,046)	-	-	(1,046)
Accrued interest income	(448)	(1,293)	-	(1,741)
Others	27,753	(14,212)	-	13,541
	(57,227)	(92,922)	-	(150,149)
Deferred tax charged directly to equity	165	-	(128)	37
Deferred income tax assets(liabilities)	(57,062)	(92,922)	(128)	(150,112)

(in millions of Korean won)	2011				
		Increase(Decrease)			
	Beginning balance	Profit for the year	Other comprehensive income	Merger	Ending balance
Defined benefit liability	25,959	19,573	-	607	46,139
Plan assets	(31,354)	(14,356)	-	(429)	(46,139)
Reserve for research and human resources development	(59,562)	(34,818)	-	-	(94,380)
Allowance for doubtful accounts	5,070	(1,860)	-	-	3,210
Property, plant and equipment	5,419	2,265	-	-	7,684
Investments in subsidiaries, associates and joint ventures	(1,046)	-	-	-	(1,046)
Accrued interest income	(954)	506	-	-	(448)
Others	42,593	(24,504)	-	9,664	27,753
	(13,875)	(53,194)	-	9,842	(57,227)
Deferred tax charged directly to equity	1,028	-	(1,127)	264	165
Deferred income tax assets(liabilities)	(12,847)	(53,194)	(1,127)	10,106	(57,062)

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

(in millions of Korean won)	**2012**	**2011**
Profit before income tax	1,786,181	2,588,571
Income tax expense based on applicable tax rate	431,794	626,408
Tax adjustments		
Income not subject to tax	(8)	(1,294)
Expenses not deductible for tax purposes	8,215	19,864
Tax credit	(95,448)	(110,751)
Effect from change of tax rate	-	5,180
Others	1,311	20,843
Income tax expense[1]	345,864	560,250
Effective tax rate (income tax expense/ profit before income tax)	19.36%	21.64%

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.

31. 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 EPS for ordinary shares and preferred shares.

Basic earnings per share attributable to the owners of the Company for the years ended December 31, 2012 and 2011, is computed as follows:

(in millions of Korean won)	**2012**	**2011**
Profit attributable to ordinary shares [1]	1,290,657	1,817,702
Weighted average number of ordinary shares outstanding [2]	65,911,316	65,911,319
Basic earnings per ordinary share (in won)	19,582	27,578

(in millions of Korean won)	**2012**	**2011**
Profit attributable to preferred shares[1]	149,660	210,619
Weighted average number of preferred shares outstanding[2]	7,623,402	7,623,402
Basic earnings per preferred share (in won)	19,632	27,628

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

(in millions of Korean won)	**2012**	**2011**
Profit for the year	1,440,317	2,028,321
Ordinary shares dividends (A)	263,645	263,645
Preferred shares dividends (B)	30,875	30,875
Undistributed earnings for the year	1,145,797	1,733,801
Undistributed earnings available for ordinary shares (C)	1,027,012	1,554,057
Undistributed earnings available for preferred shares (D)	118,785	179,744
Profit for the year attributable to ordinary shares (A+C)	1,290,657	1,817,702
Profit for the year attributable to preferred shares (B+D)	149,660	210,619

[2] Weighted average numbers of shares are calculated as follows:

	2012			
Ordinary shares	**Period**	**Number of shares**	**Number of days**	**Number of shares x days**
Beginning	2012. 1. 1 ~ 2012.12.31	65,911,316	366	24,123,541,656
Purchase of treasury shares	2012.12.31 ~2012.12.31	(6)	1	(6)
Total				24,123,541,650

Weighted average number of ordinary shares outstanding: 24,123,541,650 / 366 = 65,911,316 shares

	2012			
Preferred shares	**Period**	**Number of shares**	**Number of days**	**Number of shares x days**
Beginning	2012. 1. 1 ~ 2012.12.31	7,623,402	366	2,790,165,132
Total				2,790,165,132

Weighted average number of preferred shares outstanding: 2,790,165,132 / 366 = 7,623,402 share

	2011			
Ordinary shares	**Period**	**Number of shares**	**Number of days**	**Number of shares x days**
Beginning	2011. 1. 1 ~ 2011.12.31	65,911,319	365	24,057,631,435
Purchase of treasury shares	2011.12.31 ~2011.12.31	(3)	1	(3)
Total				24,057,631,432

Weighted average number of ordinary shares outstanding: 24,057,631,432 / 365 = 65,911,319 shares

	2011			
Preferred shares	**Period**	**Number of shares**	**Number of days**	**Number of shares x days**
Beginning	2011. 1. 1 ~ 2011.12.31	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.

32. Dividends

Details of dividends are as follows:

	2012	2011
Number of shares entitled to dividends: shares issued and outstanding (par value per share: ₩5,000)		
Ordinary shares	65,911,310	65,911,316
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

Dividend payout ratios for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	2012	2011
Dividends (A)	294,520	294,520
Profit for the year attributable to owners of the parent company (B)	1,440,317	2,028,321
Dividend payout ratio (A/B)	20.45%	14.52%

Dividend yield ratios for the years ended December 31, 2012 and 2011, are as follows:

	2012		2011	
(in Korean won)	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)	330,000	102,000	317,500	107,500
Dividend yield ratio (A/B)	1.21%	3.97%	1.26%	3.77%

33. Related party transactions

Significant transactions, which occurred in the ordinary course of business with related parties for the years ended December 31, 2012 and 2011, and the related account balances as of December 31, 2012 and 2011, are summarized as follows:

(in millions of Korean won)	2012		2011	
	Sales	**Purchases**	**Sales**	**Purchases**
Entities with significant influence over the Company[1]	12	54,844	11	46,427
Subsidiaries	1,754,733	1,415,723	1,671,640	1,120,834
Associates and joint ventures	117,073	185,712	94,337	193,163
Key management	-	32,523	-	45,225
Others [2]	30,521	818,365	22,208	762,626
Total	1,902,339	2,507,167	1,788,196	2,168,275

(in millions of Korean won)	2012		2011	
	Receivables	**Payables**	**Receivables**	**Payables**
Entities with significant influence over the Company[1]	6,948	1,456	6,432	5,284
Subsidiaries	479,328	285,534	371,694	213,322
Associates and joint ventures	29,609	22,334	23,604	28,345
Key management	-	44,588	-	60,681
Others [2]	36,963	165,060	32,607	144,303
Total	552,848	518,972	434,337	451,935

[1] The largest shareholder of the Company is LG Corp., which owns 33.53% of the Company's ordinary shares (Note 1).
[2] Includes LG Corp.'s subsidiaries.

Compensation for key management of the Company for the years ended December 31, 2012 and 2011, consists of:

(in millions of Korean won)	2012	2011
Wages and salaries	31,221	31,424
Pension costs	1,302	2,426
Other long-term employee benefits	-	11,375
Total	32,523	45,225

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 20.

34. Cash generated from operations

Reconciliation between operating profit and net cash inflow (outflow) from operating activities for the years ended December 31, 2012 and 2011, is as follows:

(in millions of Korean won)	**2012**	**2011**
Profit before income tax	1,786,181	2,588,571
Adjustments for:		
Depreciation	668,594	561,535
Amortization	16,489	13,292
Pension costs	56,354	43,911
Finance income	(142,005)	(181,196)
Finance expense	62,113	109,968
Foreign exchange differences	(61,565)	14,903
Gain on disposal of property, plant and equipment	(1,415)	(1,990)
Loss on disposal of property, plant and equipment	3,940	5,903
Gain on disposal of intangible assets	(7)	-
Loss on disposal of intangible assets	1,033	8
Other expenses	16,351	5,060
Inventories	(152,404)	(233,207)
Trade receivables	(48,139)	(416,051)
Other receivables	(60,982)	(64,343)
Settlement of derivatives	5,118	(27,237)
Trade payables	(23,638)	166,835
Other payables	(120,082)	172,931
Defined benefit liability	(75,033)	(45,540)
Other cash flows from operations	782	(2,272)
Cash generated from operations	1,931,685	2,711,081

The principal non-cash transactions for the years ended December 31, 2012 and 2011, are as follows:

(in millions of Korean won)	**2012**	**2011**
Transfer of construction-in-progress	1,546,827	1,164,066
Transfer of machinery-in-transit	367,134	145,853
Reclassification of long-term borrowings into current maturities	21,128	233,202
Gain on valuation of derivatives recognized as other comprehensive income	527	4,767

35. Merger

In order to enhance market dominance and business competitive by maximizing synergy and completing vertical intergration, based on the resolution of the Board of Directors on December 17, 2010, on April 1, 2011, the Company merged with the LG Polycarbonate Ltd., which the Company had previously wholly owned.

This merger is a business combination involving entities or businesses under common control. Therefore, the amount of acquired assets and assumed liabilities recognized as the amount recognized on the separate financial statements is the same as the amount recognized on the consolidated financial statements. The difference in the holding shares' book value and the fair value has been recognized as capital surplus or accumulated other comprehensive income. Following is the merger accounting methods for the acquired assets and assumed liabilities:

(in millions of Korean won)	Amount
Ⅰ. Consideration transferred[1]	₩ 136,948
Ⅱ. Book value of identifiable net assets[2]	145,200
Ⅲ. Additional paid-in and other capital and accumulated other comprehensive income(Ⅱ - Ⅰ)	8,252

[1] Book value of stockholding have LG Polycarbonate Ltd.
[2] Assets and liabilities were recognized on book value from consolidated financial statements. It includes cash and cash equivalents of ₩10,087 million.

36. Appropriation of retained earnings

The appropriation of retained earnings for the years ended December 31, 2012 and 2011, is as follows:

(Dates of appropriation: March 15, 2013 and March 16, 2012 for the years ended December 31, 2012 and 2011, respectively)

(in millions of Korean won)	**2012**	**2011**
Retained earnings before appropriation		
Unappropriated retained earnings carried over from prior year	-	5
Profit for the year	1,440,317	2,028,321
Actuarial losses	(47,175)	(40,584)
	1,393,142	1,987,742
Transfer from other reserves		
Reserve for technology development	30,000	27,739
Appropriation of retained earnings		
Legal reserve	5,721	29,452
Dividends	294,520	294,520
Reserve for technology development	1,122,901	1,691,509
	1,423,142	2,015,481

37. Approval of financial statements

The separate financial statements for the year ended December 31, 2012, were approved by the Board of Directors on January 29, 2013.

Report of 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, 2012. 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, 2012, the Company's IACS has been designed and is operating effectively as of December 31, 2012, 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 international financial reporting standards as adopted by the Republic of Korea ("Korean IFRS"). 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, 2012, and we did not review management's assessment of its IACS subsequent to December 31, 2012. 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.

March 7, 2013

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, 2012.

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, 2012, in all material respects, in accordance with the IACS standards

January 25, 2013

Suk-Jeh Cho, Internal Accounting Control System Officer

Jin-Soo Park, Chief Executive Officer