

LG Chem, Ltd. and Subsidiaries
Consolidated Interim Financial Statements
March 31, 2018 and 2017

LG Chem, Ltd. and Subsidiaries
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March 31, 2018 and 2017

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Report on Review of Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

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

Reviewed Financial Statements

We have reviewed the accompanying consolidated interim financial statements of LG Chem, Ltd. and its subsidiaries (collectively referred to as the "Group"). These financial statements consist of the consolidated interim statement of financial position of the Group as at March 31, 2018, and the related consolidated interim statements of profit or loss, comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2018 and 2017, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Conclusion

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

Other Matters

We have audited the consolidated statement of financial position of the Group as at December 31, 2017, and the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, in accordance with Korean Standards on Auditing. We expressed an unqualified opinion on those financial statements, not presented herein, in our audit report dated March 6, 2018. The consolidated statement of financial position as at December 31, 2017, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as at December 31, 2017.

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

Seoul, Korea
May 14, 2018

This report is effective as of May 14, 2018, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Chem, Ltd. and Subsidiaries
Consolidated Interim Statements of Financial Position
March 31, 2018 (Unaudited) and December 31, 2017

| <i>(in millions of Korean won)</i> | Notes | March 31, 2018 (Unaudited) | December 31, 2017 |
|----------------------------------------------|-------------|-------------------------------|-------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 3, 5, 6 | 2,916,612 | 2,249,341 |
| Trade receivables | 3, 5, 7, 31 | 4,708,745 | 4,448,669 |
| Other receivables | 3, 5, 7, 31 | 381,643 | 770,776 |
| Prepaid income taxes | | 259 | 932 |
| Other current assets | 13 | 456,018 | 376,814 |
| Inventories | 9 | 3,783,786 | 3,352,454 |
| Assets held for sale | 35 | 6,584 | 6,595 |
| Total current assets | | 12,253,647 | 11,205,581 |
| Non-current assets | | | |
| Other receivables | 3, 5, 7 | 123,823 | 126,429 |
| Other financial assets | 3, 5, 8 | 24,491 | 23,782 |
| Investments in associates and joint ventures | 1, 10, 33 | 258,752 | 264,096 |
| Deferred tax assets | 28 | 283,999 | 281,506 |
| Property, plant and equipment | 11 | 11,518,116 | 11,211,482 |
| Intangible assets | 12 | 1,847,837 | 1,823,155 |
| Investment properties | | 1,024 | 1,027 |
| Other non-current assets | 13 | 103,810 | 104,163 |
| Total non-current assets | | 14,161,852 | 13,835,640 |
| Total assets | | 26,415,499 | 25,041,221 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade payables | 3, 5, 31 | 1,998,797 | 2,014,779 |
| Other payables | 3, 5, 31 | 1,428,050 | 1,847,222 |
| Borrowings | 3, 5, 14 | 1,593,245 | 1,451,324 |
| Provisions | 15 | 89,502 | 62,940 |
| Income tax payables | 28 | 480,113 | 414,110 |
| Other current liabilities | 3, 5, 17 | 1,183,806 | 854,283 |
| Liabilities held for sale | 35 | 35 | 31 |
| Total current liabilities | | 6,773,548 | 6,644,689 |
| Non-current liabilities | | | |
| Other payables | 3, 5 | 10,181 | 8,646 |
| Borrowings | 3, 5, 14 | 2,643,036 | 1,593,625 |
| Provisions | 15 | 153,337 | 163,476 |
| Net defined benefit liabilities | 16 | 218,115 | 180,681 |
| Deferred tax liabilities | 28 | 38,964 | 42,627 |
| Other non-current liabilities | 17 | 68,078 | 68,900 |
| Total non-current liabilities | | 3,131,711 | 2,057,955 |
| Total liabilities | | 9,905,259 | 8,702,644 |

LG Chem, Ltd. and Subsidiaries
Consolidated Interim Statements of Financial Position
March 31, 2018 (Unaudited) and December 31, 2017

| <i>(in millions of Korean won)</i> | Notes | March 31, 2018 (Unaudited) | December 31, 2017 |
|------------------------------------------------------------|-------|-------------------------------|-------------------|
| Equity | | | |
| Share capital | 1, 19 | 391,406 | 391,406 |
| Capital surplus | | 2,274,386 | 2,274,386 |
| Other components of equity | 21 | (362,676) | (362,676) |
| Accumulated other comprehensive income | | (100,836) | (173,839) |
| Retained earnings | 20 | 14,108,635 | 14,039,250 |
| Equity attributable to owners of the Parent Company | | <u>16,310,915</u> | <u>16,168,527</u> |
| Non-controlling interest | | 199,325 | 170,050 |
| Total equity | | <u>16,510,240</u> | <u>16,338,577</u> |
| Total liabilities and equity | | <u>26,415,499</u> | <u>25,041,221</u> |

The above consolidated interim statements of financial position should be read in conjunction with the accompanying notes.

LG Chem, Ltd. and Subsidiaries
Consolidated Interim Statements of Profit or Loss
Three-Month Periods Ended March 31, 2018 and 2017 (unaudited)

| | Notes | Period Ended March 31 | |
|-------------------------------------------------------------------------------------------------|------------|-----------------------|---------------------|
| | | 2018 (Unaudited) | 2017 (Unaudited) |
| <i>(in millions of Korean won, except per share amounts)</i> | | | |
| Revenue | 31, 33 | 6,553,590 | 6,486,668 |
| Cost of sales | 23, 31 | (5,212,029) | (5,073,053) |
| Gross profit | | 1,341,561 | 1,413,615 |
| Selling and administrative expenses | 22, 23, 31 | (690,720) | (616,707) |
| Operating profit | 33 | 650,841 | 796,908 |
| Finance income | 5, 25 | 81,427 | 63,055 |
| Finance costs | 5, 25 | (67,510) | (107,297) |
| Share of net profit of associates and joint ventures accounted for using the equity method | 10 | 743 | 3,231 |
| Other non-operating income | 5, 26 | 79,225 | 209,564 |
| Other non-operating expenses | 5, 27, 35 | (91,530) | (267,160) |
| Profit before income tax | 32 | 653,196 | 698,301 |
| Income tax expense | 28 | (100,452) | (150,204) |
| Profit for the period | | 552,744 | 548,097 |
| Profit is attributable to: | | | |
| Owners of the Parent Company | | 531,349 | 531,490 |
| Non-controlling interests | | 21,395 | 16,607 |
| Earnings per share attributable to the equity holders of the Parent Company (in won) | 29 | | |
| Basic and diluted earnings per ordinary share | | 6,934 | 6,936 |
| Basic and diluted earnings per preferred share | | 6,947 | 6,949 |

The above consolidated interim statements of profit or loss should be read in conjunction with the accompanying notes.

LG Chem, Ltd. and Subsidiaries
Consolidated Interim Statements of Comprehensive Income
Three-Month Periods Ended March 31, 2018 and 2017 (unaudited)

| <i>(in millions of Korean won)</i> | Notes | Period Ended March 31 | |
|----------------------------------------------------------------------------------------|-------|-----------------------|---------------------|
| | | 2018 (Unaudited) | 2017 (Unaudited) |
| Profit for the period | | 552,744 | 548,097 |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified to profit or loss</i> | | | |
| Remeasurements of net defined benefit liability | 16 | (2,663) | (7,321) |
| Gain on valuation of financial assets at fair value through other comprehensive income | | 2,320 | - |
| Shares of remeasurements of net defined benefit liabilities of associates | | 150 | 62 |
| Income tax relating to these items | | (176) | 1,770 |
| <i>Items that may be subsequently reclassified to profit or loss</i> | | | |
| Exchange differences on translation of foreign operations | | 81,096 | (112,297) |
| Changes in valuation of available-for-sale financial instruments | | - | 81 |
| Shares of other comprehensive income of joint ventures and associates | 10 | 1,701 | (3,161) |
| Income tax relating to these items | | (3,330) | (3,357) |
| Other comprehensive income for the period, net of tax | | <u>79,098</u> | <u>(124,223)</u> |
| Total comprehensive income for the period | | <u>631,842</u> | <u>423,874</u> |
| Total comprehensive income for the period is attributable to: | | | |
| Owners of the Parent Company | | 602,567 | 415,710 |
| Non-controlling interest | | 29,275 | 8,164 |

The above consolidated interim statements of comprehensive income should be read in conjunction with the accompanying notes.

LG Chem, Ltd. and Subsidiaries
Consolidated Interim Statements of Changes in Equity
Three-Month Periods Ended March 31, 2018 and 2017 (Unaudited)

(in millions of Korean won)

| | Notes | Attributable to owners of the Parent Company | | | | | Total | Non-controlling interests | Total equity |
|----------------------------------------------------------------------------------------|-------|----------------------------------------------|-----------------|----------------------------|----------------------------------------|-------------------|------------|---------------------------|--------------|
| | | Share capital | Capital surplus | Other components of equity | Accumulated other comprehensive income | Retained earnings | | | |
| Balance at January 1, 2017 | | 369,500 | 1,157,772 | (15,699) | (36,993) | 12,462,772 | 13,937,352 | 113,615 | 14,050,967 |
| Comprehensive income | | | | | | | | | |
| Profit for the period | | - | - | - | - | 531,490 | 531,490 | 16,607 | 548,097 |
| Remeasurements of net defined benefit liability | 16 | - | - | - | - | (5,553) | (5,553) | 2 | (5,551) |
| Exchange differences on translation of foreign operations | | - | - | - | (107,190) | - | (107,190) | (8,445) | (115,635) |
| Change in the fair value of available-for-sale financial instruments | | - | - | - | 62 | - | 62 | - | 62 |
| Others | | - | - | - | (3,161) | 62 | (3,099) | - | (3,099) |
| Total comprehensive income for the period | | - | - | - | (110,289) | 525,999 | 415,710 | 8,164 | 423,874 |
| Transactions with owners: | | | | | | | | | |
| Business combination | 34 | 21,906 | 1,116,614 | (337,211) | - | - | 801,309 | - | 801,309 |
| Purchase of treasury shares | 35 | - | - | (2,250) | - | - | (2,250) | - | (2,250) |
| Dividends | 30 | - | - | - | - | (368,055) | (368,055) | - | (368,055) |
| Total transactions with owners | | 21,906 | 1,116,614 | (339,461) | - | (368,055) | 431,004 | - | 431,004 |
| Balance at March 31, 2017 (Unaudited) | | 391,406 | 2,274,386 | (355,160) | (147,282) | 12,620,716 | 14,784,066 | 121,779 | 14,905,845 |
| Balance at January 1, 2018 | | 391,406 | 2,274,386 | (362,676) | (173,839) | 14,039,250 | 16,168,527 | 170,050 | 16,338,577 |
| Comprehensive income | | | | | | | | | |
| Profit for the period | | - | - | - | - | 531,349 | 531,349 | 21,395 | 552,744 |
| Remeasurements of net defined benefit liability | 16 | - | - | - | - | (1,935) | (1,935) | - | (1,935) |
| Exchange differences on translation of foreign operations | | - | - | - | 69,886 | - | 69,886 | 7,880 | 77,766 |
| Gain on valuation of financial assets at fair value through other comprehensive income | | - | - | - | 1,416 | - | 1,416 | - | 1,416 |
| Others | | - | - | - | 1,701 | 150 | 1,851 | - | 1,851 |
| Total comprehensive income for the period | | - | - | - | 73,003 | 529,564 | 602,567 | 29,275 | 631,842 |
| Transactions with owners: | | | | | | | | | |
| Dividends | 30 | - | - | - | - | (460,058) | (460,058) | - | (460,058) |
| Others | | - | - | - | - | (121) | (121) | - | (121) |
| Total transactions with owners | | - | - | - | - | (460,179) | (460,179) | - | (460,179) |
| Balance at March 31, 2018 (Unaudited) | | 391,406 | 2,274,386 | (362,676) | (100,836) | 14,108,635 | 16,310,915 | 199,325 | 16,510,240 |

The above consolidated interim statements of changes in equity should be read in conjunction with the accompanying notes.

LG Chem, Ltd. and Subsidiaries
Consolidated Interim Statements of Cash Flows
Three-Month Periods Ended March 31, 2018 and 2017 (Unaudited)

(in millions of Korean won)

| | Notes | Period Ended March 31 | |
|-----------------------------------------------------------------------------------------------------------------------|-------|-----------------------|---------------------|
| | | 2018 (Unaudited) | 2017 (Unaudited) |
| Cash flows from operating activities | | | |
| Cash generated from operations | 32 | 74,846 | 326,630 |
| Interest received | | 10,295 | 8,855 |
| Interest paid | | (23,636) | (27,552) |
| Dividends received | | 10,000 | 10,030 |
| Income taxes paid | | (34,956) | (94,340) |
| Net cash inflow from operating activities | | 36,549 | 223,623 |
| Cash flows from investing activities | | | |
| Decrease in other receivables | | 467,508 | 477,419 |
| Decrease in other non-current receivables | | 21,751 | 25,233 |
| Proceeds from disposal of investments in associates | | 19,499 | - |
| Proceeds from disposal of available-for-sale financial assets | | 4,659 | - |
| Proceeds from disposal of property, plant and equipment | | 2,364 | 3,479 |
| Proceeds from disposal of intangible assets | | - | 5,632 |
| Government grants received | | - | 29,628 |
| Proceeds from disposal of subsidiaries | | - | 343 |
| Business combination, net of cash acquired | 34 | - | 43,759 |
| Increase in other receivables | | (153,225) | (162,590) |
| Increase in other non-current receivables | | (11,566) | (25,573) |
| Acquisition of investments in associates and joint ventures | | (2,062) | (3,015) |
| Acquisition of financial assets | | (3,016) | (1,201) |
| Acquisition of property, plant and equipment | | (877,870) | (285,818) |
| Acquisition of intangible assets | | (20,896) | (15,175) |
| Net cash inflow (outflow) from investing activities | | (552,854) | 92,121 |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 1,306,047 | 641,885 |
| Capital contribution from non-controlling interests | | - | - |
| Repayments of borrowings | | (135,740) | (910,562) |
| Purchase of treasury shares | | - | (2,250) |
| Net cash inflow (outflow) from financing activities | | 1,170,307 | (270,927) |
| Net increase in cash and cash equivalents | | | |
| Cash and cash equivalents at the beginning of the period | | 2,249,341 | 1,474,367 |
| Effects of exchange rate changes on cash and cash equivalents | | 13,269 | (27,289) |
| Cash and cash equivalents at the end of the period in the consolidated interim statement of financial position | | 2,916,612 | 1,491,895 |

The above consolidated interim statements of cash flows should be read in conjunction with the accompanying notes.

LG Chem, Ltd. and Subsidiaries

Notes to the Consolidated Interim Financial Statements

March 31, 2018 and 2017 (Unaudited), and December 31, 2017

1. General Information

General information about LG Chem, Ltd. (the Parent Company), the controlling company in accordance with Korean IFRS 1110 *Consolidated Financial Statements*, and its subsidiaries (collectively referred to as "the Group") is as follows:

1.1 The Parent Company

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

As at March 31, 2018, the Parent Company has its manufacturing facilities in Yeosu, Daesan, Ochang, Cheongju, Ulsan, Naju, Iksan, Paju, Osong, Onsan and Gimcheon.

The Parent Company is authorized to issue 292 million shares of ordinary shares with par value of ₩5,000 per share. As at March 31, 2018, the Parent Company has issued 70,592,343 ordinary shares (₩352,962 million) and 7,688,800 preferred shares (₩38,444 million). The largest shareholder of the Parent Company is LG Corp., which owns 33.34% of the Parent Company's ordinary shares. Preferred shareholders have no voting rights but are entitled to receive dividends at a rate 1% more than those paid to ordinary shareholders.

1.2 Business Overview

The Group is engaged in Basic materials & Chemicals business, Energy solutions, IT & Electronics materials and Advanced materials business, and also engaged in Life Sciences business acquired through a merger with LG Life Sciences, Ltd. in January 2017. In addition, the Parent Company acquired 100% shares of FarmHannong Co., Ltd., in April 2016, which is engaged to manufacture crop protection products, seeds, fertilizers and others.

The Basic materials & Chemicals business includes production of olefin petrochemicals, such as ethylene, propylene, butadiene from Naphtha, and aromatic petrochemicals such as benzene. It also includes production of synthetic resin and synthetic components from olefin, and aromatic petrochemicals. This business bears characteristics of a large-volume process industry. The Group's major products are PE, PP, BPA, ABS, EP, PVC, plasticizers, acrylic, SAP, synthetic rubber, a special resin, and others.

The Energy solutions business manufactures and supplies batteries ranging from IT & New application batteries for mobile phones and laptop computers, to automotive batteries for electric vehicles and ESS batteries. Demand of small sized batteries for new applications such as electric tools and electric driving devices as well as traditional IT devices is increasing recently and the automotive battery business is also expected to expand rapidly due to an increasing demand of the batteries in associated with enhanced environment regulation in developed countries. Demand for ESS is expanding with an increasing importance of efficient usage of electricity and generation of renewable energy.

The IT & Electronics material business manufactures and supplies various kinds of IT materials such as polarizer, glass substrate, OLED film, semiconductor materials and RO membranes, which will be the next growth engine for future. Advanced materials business manufactures and supplies display and battery materials for LCD Photoresist, OLED materials, battery materials and others.

The Life Sciences business manufactures and supplies pharmaceutical products, such as quinolone antibiotics 'Factive', human growth hormone 'Eutropin', diabetes drug 'Zemiglo', bovine somatotropin 'Boostin', hyaluronic acid filler 'YVOIRE' and others, as well as fine chemical products, such as herbicide 'PYANCHOR' for rice farming and others.

LG Chem, Ltd. and Subsidiaries

Notes to the Consolidated Interim Financial Statements

March 31, 2018 and 2017 (Unaudited), and December 31, 2017

FarmHannong Co., Ltd., subsidiary of the Parent Company, manufactures and sells crop protection products, seeds, fertilizers and others. The crop protection business provides high value products such as environmentally-friendly pesticide. The fertilizer business leads developing a next generation fertilizers such as eco-friendly organic and functional fertilizers, and potting soil. The seed business puts priority on retaining various genetic resources and developing rare breeds with high profit in order to remain competitive in a future food industry.

1.3 Consolidated Subsidiaries, Associates and Joint Ventures

| March 31, 2018 | | | | |
|-----------------------------------------------------------------|-----------------------------|-------------------|---------------|------------------------------------------------------|
| | Percentage of ownership (%) | Business location | Closing month | Business activities |
| Consolidated subsidiaries | | | | |
| Ningbo LG Yongxing Chemical Co., Ltd. ¹ | 75 | China | December | ABS/SBL manufacturing and sales |
| Ningbo Zhenhai LG Yongxing Trade Co., Ltd. ¹ | 75 | China | December | ABS sales |
| LG Chem HK Ltd. | 100 | Hong Kong | December | Sales and trading |
| LG Chem America, Inc. ² | 100 | USA | December | Sales and trading |
| LG Chemical India Pvt. Ltd. ³ | 100 | India | December | Synthetic resin manufacturing and sales |
| LG Polymers India Pvt. Ltd. ³ | 100 | India | December | PS manufacturing |
| LG Chemical (Guangzhou) Engineering Plastics Co., Ltd. | 100 | China | December | EP manufacturing and sales |
| LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. | 100 | China | December | Battery/ Polarizer Manufacturing and sales |
| LG Chem (Taiwan), Ltd. | 100 | Taiwan | December | Polarizer manufacturing and sales |
| LG Chem Display Materials (Beijing) Co., Ltd. | 100 | China | December | Polarizer manufacturing |
| Tianjin LG Bohai Chemical Co., Ltd. ⁴ | 75 | China | December | PVC, VCM, EDC manufacturing and sales |
| Tianjin LG BOTIAN Chemical Co., Ltd. ⁴ | 56 | China | December | SBS manufacturing and sales |
| LG Chem (China) Investment Co., Ltd. | 100 | China | December | China holding company |
| LG Chem (Tianjin) Engineering Plastics Co., Ltd. | 100 | China | December | ABS/EP manufacturing and sales |
| LG Chem Europe GmbH | 100 | Germany | December | Sales and trading |
| LG Chem Poland Sp. z o.o. | 100 | Poland | December | Polarizer manufacturing |
| LG Chem Michigan Inc. ² | 100 | USA | December | Automotive battery research and manufacturing |
| LGC Petrochemical India Private Ltd. | 100 | India | December | Synthetic resin manufacturing and sales |
| HAENGBOKNURI CO., LTD. | 100 | Korea | December | Facility management and general cleaning |
| LG CHEM TK Kimya SANAYI VE TIC. Ltd. STI. | 100 | Turkey | December | Sales and trading |
| LG Chem Japan Co., Ltd. | 100 | Japan | December | Sales and trading |
| LG NanoH2O, Inc. ² | 100 | USA | December | Water processing membrane research and manufacturing |
| NanoH2O (Jiangsu) Water Processing Technology Co. Ltd. | 100 | China | December | Water processing membrane research and manufacturing |
| Nanjing LG Chem New Energy Battery Co., Ltd. ⁵ | 50 | China | December | Automotive battery manufacturing and sales |
| LG Chem (Chongqing) Engineering Plastics Co., Ltd. | 100 | China | December | EP manufacturing and sales |
| LG Chem Wroclaw Energy sp. z o.o. | 100 | Poland | December | Automotive battery research and manufacturing |
| LG Chem(HUIZHOU) Petrochemical Co., Ltd. | 70 | China | December | ABS manufacturing and sales |
| FarmHannong Co., Ltd. ⁶ | 100 | Korea | December | Agricultural pesticide manufacturing |
| FarmHwaong Co., Ltd. ^{6,7} | 58 | Korea | December | Vegetables and fruit farming |
| Farm Hannong (Heilongjiang) Chemical Co., Ltd. ⁶ | 100 | China | December | Agricultural pesticide manufacturing |
| LG Life Sciences India Pvt. Ltd. | 100 | India | December | Pharmaceutical products sales |

LG Chem, Ltd. and Subsidiaries

Notes to the Consolidated Interim Financial Statements

March 31, 2018 and 2017 (Unaudited), and December 31, 2017

| | | | | |
|----------------------------------------------------------------------------------|-----|-----------|----------|----------------------------------------------------------------|
| LG Life Sciences (Beijing) Co., Ltd. | 100 | China | December | Pharmaceutical products sales |
| LG Life Sciences (Thailand) Ltd. | 100 | Thailand | December | Pharmaceutical products sales |
| LG Life Sciences America Inc. ⁶ | 100 | USA | December | Agricultural pesticide sales |
| Sarangnuri Ltd. | 100 | Korea | December | Pharmaceutical products packaging |
| LG Chem Hai Phong Vietnam Co., Ltd. | 100 | Vietnam | December | Polarizer manufacturing and sales |
| LG Chem Australia Pty Ltd. | 100 | Australia | December | ESS sales |
| LG Chem Mexico S.A. de C.V. ⁸ | 100 | Mexico | December | Sales and trading |
| FarmHannong(Thailand) Ltd. ^{6,9} | 100 | Thailand | December | Research and development on seeds |
| Associates | | | | |
| LG Holdings (HK) Ltd. | 26 | Hong Kong | December | Sales and trading |
| TECWIN Co., Ltd. | 21 | Korea | December | Environment solution and Construction of chemical plant |
| LG Chem BRASIL INTERMEDIACAO DE NEGOCIOS DO SETOR QUIMICO LTDA. ¹⁰ | 100 | Brazil | December | Sales and trading |
| LG Chem Malaysia SDN.BHD. ¹⁰ | 100 | Malaysia | December | Sales and trading |
| LG Fuel Cell Systems Inc. | 23 | USA | December | Power fuel cell research |
| FJ Composite Material Co., Ltd. | 33 | Japan | May | Heat diffuser research and manufacturing |
| WUXI CL New Energy Technology Ltd. ¹¹ | 30 | China | December | ESS manufacturing and sales |
| LG Life Sciences Poland Ltd. ¹⁰ | 100 | Poland | December | Pharmaceutical products sales |
| Combustion Synthesis Co., Ltd. ¹² | 30 | Japan | March | Nitride-based ceramic powder production |
| Joint ventures | | | | |
| LG VINA Chemical Co., Ltd. | 40 | Vietnam | December | DOP production and sales |
| HL Greenpower Co., Ltd. | 49 | Korea | December | Automotive battery manufacturing and sales |
| SEETEC Co., Ltd. | 50 | Korea | December | Plant utility and distribution, research assistance service |

¹ As at March 31, 2018, Ningbo LG Yongxing Chemical Co., Ltd. owns 100% of Ningbo Zhenhai LG Yongxing Trading Co., Ltd.'s shares.

² During the period ended March 31, 2018, LG Chem Power Inc. was merged into LG Chem Michigan Inc. In addition, during the period ended March 31, 2018, the shares of LG Chem America, Inc. and LG NanoH2O, Inc., wholly owned by the Parent Company, was contributed to LG Chem Michigan Inc.

³ As at March 31, 2018, LG Chemical India Pvt. Ltd. owns 100% of LG Polymers India Pvt. Ltd.'s shares.

⁴ As at March 31, 2018, Tianjin LG Bohai Chemical Co., Ltd. owns 20.30% of Tianjin LG BOTIAN Chemical Co., Ltd.'s shares.

⁵ Although the Parent Company owns less than 50% of the voting rights of Nanjing LG Chem New Energy Battery Co., Ltd., the Parent Company is considered to have control over the investee as the Parent Company can exercise the majority voting rights in its decision-making process in accordance with the shareholders' agreement.

⁶ As at March 31, 2018, FarmHannong Co., Ltd. owns 100% of Farm Hannong (Heilongjiang) Chemical Co., Ltd., LG Life Sciences America Inc. and FarmHannong(Thailand) Ltd., and also holds 57.87% of FarmHwaong Co., Ltd.

⁷ As at March 31, 2018, FarmHwaong Co., Ltd.'s assets and liabilities are classified as assets and liabilities held for sale (Note 35).

⁸ During the period ended March 31, 2018, the Group newly acquired 100% shares of LG Chem Mexico S.A. de C.V. for ₩394 million.

⁹ During the period ended March 31, 2018, the Group newly acquired 100% shares of FarmHannong(Thailand) Ltd. for ₩ 2,586 million.

¹⁰ Classified as an investment in associate due to its small size.

LG Chem, Ltd. and Subsidiaries
Notes to the Consolidated Interim Financial Statements
March 31, 2018 and 2017 (Unaudited), and December 31, 2017

¹¹ During the period ended March 31, 2018, the Parent Company acquired additional shares of WUXI CL New Energy Technology Ltd. for ₩ 559 million.

¹² During the period ended March 31, 2018, the Group newly acquired shares of Combustion Synthesis Co., Ltd. for ₩ 1,503 million.

1.4 Summarized Financial Information of Subsidiaries, Associates and Joint Ventures

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

(in millions of Korean won)

| | March 31, 2018 | | | | |
|-----------------------------------------------------------------|-----------------------|--------------------|---------------|----------------|-----------------------------------------|
| | Assets | Liabilities | Equity | Revenue | Profit (loss) for the period |
| Subsidiaries | | | | | |
| Ningbo LG Yongxing Chemical Co., Ltd. | 1,107,087 | 458,841 | 648,246 | 538,322 | 68,450 |
| Ningbo Zhenhai LG Yongxing Trade Co., Ltd. | 6,118 | 2,347 | 3,771 | 7,426 | 148 |
| LG Chem HK Ltd. | 102,648 | 85,454 | 17,194 | 130,039 | 211 |
| LG Chem America, Inc. | 195,192 | 175,012 | 20,180 | 170,416 | 828 |
| LG Chemical India Pvt. Ltd. | 32,707 | 21 | 32,686 | - | - |
| LG Polymers India Pvt. Ltd. | 126,469 | 45,382 | 81,087 | 60,864 | 3,437 |
| LG Chemical (Guangzhou) Engineering Plastics Co., Ltd. | 106,581 | 40,650 | 65,931 | 52,597 | (1,568) |
| LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. | 2,664,258 | 1,490,023 | 1,174,235 | 717,508 | 23,440 |
| LG Chem (Taiwan), Ltd. | 116,242 | 56,973 | 59,269 | 42,598 | (1,212) |
| LG Chem Display Materials (Beijing) Co., Ltd. | 41,643 | 14,443 | 27,200 | 22,006 | 283 |
| Tianjin LG Bohai Chemical Co., Ltd. | 343,386 | 235,573 | 107,813 | 140,365 | 10,136 |
| Tianjin LG BOTIAN Chemical Co., Ltd. | 52,311 | 46,902 | 5,409 | 36,954 | 3,067 |
| LG Chem (China) Investment Co., Ltd. | 357,587 | 184,081 | 173,506 | 13,546 | 1,331 |
| LG Chem (Tianjin) Engineering Plastics Co., Ltd. | 66,939 | 20,147 | 46,792 | 21,142 | (549) |
| LG Chem Europe GmbH | 267,634 | 235,244 | 32,390 | 161,439 | 2,419 |
| LG Chem Poland Sp. z o.o. | 66,916 | 31,175 | 35,741 | 31,976 | 1,147 |
| LG Chem Michigan Inc. | 335,648 | 195,828 | 139,820 | 82,536 | 3,632 |
| LGC Petrochemical India Private Ltd. | 2,604 | 455 | 2,149 | 1,058 | 81 |
| HAENGBOKNURI CO., LTD. | 2,351 | 932 | 1,419 | 2,005 | 66 |
| LG CHEM TK Kimya SANAYI VE TIC. Ltd. STI. | 6,625 | 5,135 | 1,490 | 7,723 | 56 |
| LG Chem Japan Co., Ltd. | 3,664 | 354 | 3,310 | 1,415 | 151 |
| LG NanoH2O, Inc. ¹ | 11,830 | 1,784 | 10,046 | 4,222 | 792 |
| NanoH2O (Jiangsu) Water Processing Technology Co. Ltd. | 4,079 | 1,217 | 2,862 | - | (172) |
| Nanjing LG Chem New Energy Battery Co., Ltd. | 519,749 | 415,519 | 104,230 | 116,049 | (2,043) |
| LG Chem (Chongqing) Engineering Plastics Co., Ltd. | 36,126 | 6,298 | 29,828 | 8,550 | (730) |
| LG Chem Wroclaw Energy sp. z o.o. | 366,754 | 245,374 | 121,380 | 10,752 | (9,086) |
| LG Chem(HUIZHOU) Petrochemical Co., Ltd. | 309,979 | 221,185 | 88,794 | 77,415 | 3,042 |
| FarmHannong Co., Ltd. ¹ | 1,278,938 | 719,898 | 559,040 | 236,936 | 28,231 |
| LG Life Sciences India Pvt. Ltd. | 6,198 | 4,169 | 2,029 | 2,482 | (150) |
| LG Life Sciences (Beijing) Co., Ltd. | 1,217 | 10 | 1,207 | 233 | (6) |
| LG Life Sciences (Thailand) Ltd. | 9,976 | 5,154 | 4,822 | 6,118 | 1,263 |
| Sarangnuri Ltd. | 243 | 57 | 186 | 78 | 20 |
| LG Chem Hai Phong Vietnam Company Ltd. | 8,650 | 4,710 | 3,940 | 3,499 | 759 |
| LG Chem Australia Pty Ltd. | 705 | 72 | 633 | 413 | 100 |
| LG Chem Mexico S.A. de C.V. | 340 | 34 | 306 | - | (83) |

LG Chem, Ltd. and Subsidiaries
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Associates

| | | | | | |
|--------------------------------------------------------------------|---------|--------|---------|--------|----------|
| LG Holdings (HK) Ltd. | 245,657 | 45,516 | 200,141 | 12,413 | 4,295 |
| TECWIN Co., Ltd. | 79,106 | 32,206 | 46,900 | - | - |
| LG Chem BRASIL INTERMEDIACAO DE NEGOCIOS DO SETOR QUIMICO LTDA. | 83 | 170 | (87) | 329 | (131) |
| LG Chem Malaysia SDN.BHD. | 278 | 43 | 235 | 178 | (9) |
| LG Fuel Cell Systems Inc. | 37,193 | 7,889 | 29,304 | 1,447 | (13,606) |
| FJ Composite Material Co., Ltd. | 7,356 | 2,983 | 4,373 | 533 | (51) |
| WUXI CL New Energy Technology Ltd. | 7,282 | 3,382 | 3,900 | - | (140) |
| LG Life Sciences Poland Ltd. | 86 | 81 | 5 | 27 | (57) |
| Combustion Synthesis Co., Ltd. | 1,399 | 22 | 1,377 | 85 | (93) |

Joint ventures

| | | | | | |
|----------------------------|---------|---------|---------|---------|-------|
| LG VINA Chemical Co., Ltd. | 18,388 | 10,224 | 8,164 | 13,376 | 474 |
| HL Greenpower Co., Ltd. | 184,259 | 146,391 | 37,868 | - | - |
| SEETEC Co., Ltd. | 322,763 | 39,074 | 283,689 | 125,471 | 3,254 |

¹ Included its subsidiaries' financial information from an intermediate parent perspective and not applied adjustments of a fair value evaluation due to the business combination in the consolidated financial statements.

(in millions of Korean won)

| | December 31, 2017 | | | 2017 | |
|--------------------------------------------------------------------|-------------------|-------------|-----------|---------|---------------------------------|
| | Assets | Liabilities | Equity | Revenue | Profit (loss) for the period |
| Subsidiaries | | | | | |
| Ningbo LG Yongxing Chemical Co., Ltd. | 1,007,732 | 449,049 | 558,683 | 528,347 | 49,107 |
| Ningbo Zhenhai LG Yongxing Trade Co., Ltd. | 10,420 | 6,927 | 3,493 | 9,783 | 212 |
| LG Chem HK Ltd. | 96,752 | 79,690 | 17,062 | 132,673 | 209 |
| LG Chem America, Inc. | 191,011 | 171,566 | 19,445 | 186,942 | 3,108 |
| LG Chemical India Pvt. Ltd. | 32,716 | 5 | 32,711 | - | 6 |
| LG Polymers India Pvt. Ltd. | 93,999 | 15,651 | 78,348 | 66,477 | 5,708 |
| LG Chemical (Guangzhou) Engineering Plastics Co., Ltd. | 109,443 | 44,342 | 65,101 | 46,608 | 1,110 |
| LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. | 2,410,548 | 1,301,136 | 1,109,412 | 662,410 | 34,048 |
| LG Chem (Taiwan), Ltd. | 122,310 | 60,462 | 61,848 | 45,939 | 1,308 |
| LG Chem Display Materials (Beijing) Co., Ltd. | 40,158 | 14,196 | 25,962 | 15,064 | 717 |
| Tianjin LG Bohai Chemical Co., Ltd. | 349,416 | 255,165 | 94,251 | 132,224 | 8,665 |
| Tianjin LG BOTIAN Chemical Co., Ltd. | 48,438 | 46,298 | 2,140 | 42,332 | (4,754) |
| LG Chem (China) Investment Co., Ltd. | 324,605 | 153,146 | 171,459 | 15,812 | 2,214 |
| LG Chem (Tianjin) Engineering Plastics Co., Ltd. | 64,708 | 19,057 | 45,651 | 24,542 | 493 |
| LG Chem Europe GmbH | 231,237 | 202,012 | 29,225 | 126,984 | 4,789 |
| LG Chem Poland Sp. z o.o. | 64,841 | 30,877 | 33,964 | 20,907 | 1,094 |
| LG Chem Michigan Inc. | 232,301 | 138,085 | 94,216 | 51,610 | 7,108 |
| LG Chem Power Inc. | 18,640 | 6,013 | 12,627 | 11,313 | 713 |
| LGC Petrochemical India Private Ltd. | 2,502 | 390 | 2,112 | 1,044 | 84 |
| HAENGBOKNURI CO., LTD. | 2,292 | 939 | 1,353 | 1,654 | (6) |
| LG CHEM TK Kimya SANAYI VE TIC. Ltd. STI. | 6,618 | 5,113 | 1,505 | 5,056 | 104 |
| LG Chem Japan Co., Ltd. | 3,462 | 470 | 2,992 | 1,448 | 158 |
| LG NanoH2O, Inc. ¹ | 10,269 | 971 | 9,298 | 4,215 | 713 |
| NanoH2O (Jiangsu) Water Processing Technology Co. Ltd. | 4,103 | 1,173 | 2,930 | - | (1,733) |
| Nanjing LG Chem New Energy Battery Co., Ltd. | 478,421 | 375,998 | 102,423 | 49,503 | 5,538 |
| LG Chem (Chongqing) Engineering Plastics Co., Ltd. | 35,028 | 5,559 | 29,469 | 4,564 | (1,184) |

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| | | | | | |
|--------------------------------------------------------------------|-----------|---------|---------|---------|---------|
| LG Chem Wroclaw Energy sp. z o.o. | 330,033 | 202,131 | 127,902 | 5,329 | 2,653 |
| LG Chem(HUIZHOU) Petrochemical Co., Ltd. | 290,840 | 208,170 | 82,670 | 75,710 | (907) |
| FarmHannong Co., Ltd. ¹ | 1,152,122 | 621,754 | 530,368 | 253,921 | 34,702 |
| LG Life Sciences India Pvt. Ltd. | 7,143 | 4,923 | 2,220 | 2,535 | (382) |
| LG Life Sciences (Beijing) Co., Ltd. | 1,191 | 20 | 1,171 | 199 | 8 |
| LG Life Sciences (Thailand) Ltd. | 10,008 | 6,595 | 3,413 | 5,565 | 905 |
| Sarangnuri Ltd. | 227 | 60 | 167 | 67 | 17 |
| LG Chem Hai Phong Vietnam Company Ltd. | 4,480 | 1,266 | 3,214 | - | - |
| LG Chem Australia Pty Ltd. | 559 | 12 | 547 | - | - |
| Associates | | | | | |
| LG Holdings (HK) Ltd. | 249,896 | 60,681 | 189,215 | 11,925 | 3,690 |
| TECWIN Co., Ltd. | 79,106 | 32,206 | 46,900 | - | - |
| LG Chem BRASIL INTERMEDIACAO DE NEGOCIOS DO SETOR QUIMICO LTDA. | 164 | 123 | 41 | 526 | (15) |
| LG Chem Malaysia SDN.BHD. | 252 | 19 | 233 | 138 | (8) |
| LG Fuel Cell Systems Inc. | 48,444 | 4,701 | 43,743 | 435 | (8,715) |
| FJ Composite Material Co., Ltd. | 7,052 | 2,858 | 4,194 | 766 | 122 |
| WUXI CL New Energy Technology Ltd. | 4,521 | 1,180 | 3,341 | - | - |
| LG Life Sciences Poland Ltd. | 124 | 72 | 52 | - | - |
| Joint ventures | | | | | |
| LG VINA Chemical Co., Ltd. | 17,539 | 9,242 | 8,297 | 13,390 | 755 |
| HL Greenpower Co., Ltd. | 190,881 | 151,728 | 39,153 | 85,422 | 331 |
| SEETEC Co., Ltd. | 344,189 | 43,751 | 300,438 | 124,368 | 6,019 |

¹ Included its subsidiaries' financial information from an intermediate parent perspective and not applied adjustments of a fair value evaluation due to the business combination in the consolidated financial statements.

1.5 Changes in Scope for Consolidation

Subsidiaries newly included in the consolidation for the three-month period ended March 31, 2018, are as follows:

| Subsidiary | Reason |
|-----------------------------|-------------------|
| LG Chem Mexico S.A. de C.V. | Newly established |
| FarmHannong(Thailand) Ltd. | Newly established |

Subsidiaries excluded from the consolidation for the three-month period ended March 31, 2018, are as follows:

| Subsidiary | Reason |
|--------------------|-----------------------------------|
| LG Chem Power Inc. | Merged into LG Chem Michigan Inc. |

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2. Summary of Significant Accounting Policies

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

2.1 Basis of Preparation

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

The Group's consolidated interim financial statements for the three-month period ended March 31, 2018, have been prepared in accordance with Korean IFRS 1034 *Interim Financial Reporting*. These consolidated interim financial statements have been prepared in accordance with Korean IFRS which is effective or early adopted as at March 31, 2018.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018.

- Korean IFRS 1109 *Financial Instruments*

The Group has applied Korean IFRS 1109 *Financial Instruments* on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures have not been restated. The application of the standard has following impacts on the financial statements.

On the date of initial application, January 1, 2018, the financial instruments of the Group with any reclassifications noted, were as follows:

| | Measurement category | | Carrying amount | | |
|-------------------------------------|----------------------------------------|-----------------------------------------------------|---------------------|---------------------|------------|
| | Korean IFRS 1039 | Korean IFRS 1109 | Korean IFRS 1039 | Korean IFRS 1109 | Difference |
| Current financial assets | | | | | |
| | | Amortized costs | 4,448,669 | 4,218,196 | (230,473) |
| Trade receivables | Amortized costs | Fair value through other comprehensive income | - | 230,473 | 230,473 |
| Cash and cash equivalents | Amortized costs | Amortized costs | 2,249,341 | 2,249,341 | - |
| Other receivables | Amortized costs | Amortized costs | 770,776 | 770,776 | - |
| Non-current financial assets | | | | | |
| Equity instruments | Available-for-sale financial assets | Fair value through other comprehensive income | 23,782 | 16,982 | (6,800) |
| Debt instruments | Available-for-sale financial assets | Fair value through profit or loss | - | 6,800 | 6,800 |
| Other receivables | Amortized costs | Amortized costs | 126,429 | 126,429 | - |

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(i) Financial assets at amortized cost classified as fair value through other comprehensive income

Certain trade receivables were reclassified from financial assets at amortized cost to fair value through other comprehensive income, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. As a result, debt instruments with a fair value of ₩ 230,473 million were reclassified from financial assets at amortized cost to financial assets at fair value through other comprehensive income on January 1, 2018.

(ii) Reclassification of equity investments from available-for-sale to fair value through other comprehensive income

The Group elected to present changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are not held for trading, in other comprehensive income. As a result, assets with a fair value of ₩16,982 million were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income. As at January 1, 2018, as related accumulated other comprehensive income of ₩ 418 million were not reclassified to profit or loss even though these assets are disposed of.

(iii) Reclassification of equity investments from available-for-sale to fair value through profit or loss

As at January 1, 2018, the Group classified equity investments, amounted of ₩6,800 million from available-for-sale to fair value through profit or loss, and did not classified to amortized costs as their cash flows are not solely payment of principal.

(iv) Other financial assets

Equity securities held for trading and contingent consideration are all required to be held as fair value through profit or loss under Korean IFRS 1109. There was no impact on the amounts recognized in relation to these assets from the adoption of Korean IFRS 1109.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group has elected to apply Korean IFRS 1115 *Revenue from Contracts with Customers*. In accordance with the transition provisions in Korean IFRS 1115, comparative figures have not been restated. The Group does not expect the amendment to have a significant impact on the financial statements.

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

- Amendments to Korean IFRS 1102 *Share-based Payment*

- Enactment of Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

(b) *New standards and interpretations not adopted by the Group*

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2018 and have not been early adopted by the Group are set out below.

- Enactment of Korean IFRS 1116 *Leases*

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2.2 Significant Accounting Policies

Significant accounting policies and method of computation used in the preparation of the consolidated interim financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2017, except for the changes due to the application of amendment and enactments of standards described in Note 2.1.(a) and the ones described below.

2.2.1 Income Tax Expense

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

2.2.2 Financial Assets

(a) Classification

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses are recorded in either profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Group reclassifies debt investments only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, the Group presents subsequent changes in fair value of the investments in equity instruments in other comprehensive income at initial recognition.

(b) Measurement

At initial recognition, the Group measures a financial asset, in the case of a financial asset not at fair value through profit or loss, at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset or the issuance of the financial liabilities. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Hybrid (combined) contracts with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into one of the following three measurement categories:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized

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cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets using the effective interest rate method is included in 'finance income'.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (and reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets using the effective interest rate method is included in 'finance income'. Foreign exchange gains and losses are presented in 'other non-operating income or other expenses' and impairment loss is presented in 'other non-operating expenses'.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'other income or other expenses' in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Fair value gains and losses on equity investments in other comprehensive income is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as 'finance income' when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'other income or other expenses' in the statement of profit or loss as applicable. Impairment loss (and reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(c) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

2.2.3 Revenue Recognition

From January 1, 2018, the Group has applied Korean IFRS 1115 *Revenue from Contracts with Customers*.

(a) Identify performance obligation

With regard to the contract of selling products to the customer, the Group identifies the services provided separately to the customer as a different performance obligation. When the Group makes

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a sales contract with the customer, the standard warranty period for each product and customer is set up considering the legal warranty period. Even though the standard warranty period has been expired, the warranties are recognized as a revenue and is identified as a separate performance obligation when the Group provides additional warranties for the quality of product or when the customer has an option to purchase additional warranties separately.

(b) A performance obligation satisfied at a point in time

The revenue from the sale of goods is recognized at the time they are delivered to the customer. Delivery occurs when the products have been shipped to the specific 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 group has objective evidence that all criteria for acceptance have been satisfied.

The goods are often sold with volume discounts, and it is the group's policy to sell its products to the customer with a right of return. Accumulated experience is used to estimate for the discounts and the refund, and the volume discounts is calculated based on the periodical forecast sales. The warranty provision for the sales is reasonably estimated and recognized properly.

(c) Refunds

A gross contract liability for the expected refunds to customers is recognized as adjustment to revenue, and the Group has a right to recover the product from the customer where the customer exercises his right of return and recognizes an asset and a corresponding adjustment to cost of sales. A right to recover the products is measured at former carrying amount of the product less the costs to recover the products.

(d) Significant financing component

As a practical expedient, the Group need not adjust the promised amount of consideration for the effects of a significant financing component as the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service is generally one year or less.

3. Financial Risk Management

3.1 Financial Risk Factors

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

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

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(1) Market risk

1) Foreign exchange risk

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

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

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

As at March 31, 2018 and December 31, 2017, the Group's monetary assets and liabilities denominated in currencies other than its functional currency, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | | December 31, 2017 | |
|------------------------------------|-----------------------|--------------------|--------------------------|--------------------|
| | Assets | Liabilities | Assets | Liabilities |
| USD | 1,963,345 | 1,708,562 | 2,337,448 | 1,561,175 |
| EUR | 171,598 | 206,762 | 174,464 | 21,226 |
| JPY | 30,727 | 107,230 | 36,304 | 109,162 |
| CNY and others | 52,426 | 426 | 60,616 | 1,512 |

As at March 31, 2018 and December 31, 2017, if the Group's functional currency had weakened / strengthened by 10% against the US dollar with all other variables held constant, profit before income tax would have been affected as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | | December 31, 2017 | |
|------------------------------------|-----------------------|---------------------|--------------------------|---------------------|
| | 10% Increase | 10% Decrease | 10% Increase | 10% Decrease |
| USD | 25,478 | (25,478) | 77,627 | (77,627) |

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

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2) Price risk

The Group is exposed to equity securities price risk arises from investments held by the Group and classified in the consolidated interim statement of financial position as non-current financial assets. The Group's equity investments are publicly traded and are related to the KOSPI index.

The table below summarizes the impact of increases/decreases of the listed stock price index on the Group's equity before tax effects as at March 31, 2018 and December 31, 2017. The analysis is based on the assumption that the equity index has increased/decreased by 10% with all other variables held constant, and that all the Group's equity instruments moved in line with the index.

| <i>(in millions of Korean won)</i> | March 31, 2018 | | December 31, 2017 | |
|------------------------------------|-----------------------|---------------------|--------------------------|---------------------|
| | 10% Increase | 10% Decrease | 10% Increase | 10% Decrease |
| KOSPI | 209 | (209) | 553 | (553) |

3) Interest rate risk

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

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

The table below summarizes the impact of increases/decreases of interest rate on the Group's equity and post-tax profit for the three-month periods ended March 31, 2018 and 2017. The analysis is based on the assumption that the interest rate has increased/decreased by 1% (100 basis points) with all other variables held constant.

| <i>(in millions of Korean won)</i> | Impact on post-tax profit | | Impact on equity | |
|------------------------------------|----------------------------------|-------------|-------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Increase | (14,501) | (18,452) | (14,501) | (18,452) |
| Decrease | 14,501 | 18,452 | 14,501 | 18,452 |

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(2) Credit risk

Credit risk is managed on the Group basis. Credit risk arises from debt instruments at amortized cost or fair value through other comprehensive income. The maximum exposure to credit risk as at March 31, 2018 and December 31, 2017, is as follows:

(in millions of Korean won)

| | March 31, 2018 | | |
|-----------------------------------------------|--------------------------------|-----------------------------|-------------------------------------------|
| | Amount before allowance | Impairment allowance | Carrying amount (maximum exposure) |
| Amortized cost | 7,926,682 | (9,237) | 7,917,445 |
| Fair value through other comprehensive income | 213,335 | - | 213,335 |
| | <u>8,140,017</u> | <u>(9,237)</u> | <u>8,130,780</u> |

(in millions of Korean won)

| | December 31, 2017 | | |
|-----------------------------------------------|--------------------------------|-----------------------------|-------------------------------------------|
| | Amount before allowance | Impairment allowance | Carrying amount (maximum exposure) |
| Amortized cost | 7,373,206 | (8,511) | 7,364,695 |
| Fair value through other comprehensive income | 230,473 | - | 230,473 |
| Total | <u>7,603,679</u> | <u>(8,511)</u> | <u>7,595,168</u> |

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

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

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

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

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(3) Liquidity risk

Finance team of the Group monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

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

(in millions of Korean won)

| | March 31, 2018 | | | |
|----------------------------------------------------|-----------------------------|------------------------------|------------------------------|---------------------|
| | Less than 1 year | Between 1-2 years | Between 2-5 years | Over 5 years |
| Borrowings (excluding financial lease liabilities) | 1,651,346 | 391,847 | 1,591,408 | 958,335 |
| Finance lease liabilities | 5,217 | 5,177 | 15,532 | 10,488 |
| Trade and other payables | 3,426,847 | 7,221 | 2,818 | 142 |
| Total | 5,083,410 | 404,245 | 1,609,758 | 968,965 |

(in millions of Korean won)

| | December 31, 2017 | | | |
|----------------------------------------------------|-----------------------------|------------------------------|------------------------------|---------------------|
| | Less than 1 year | Between 1-2 years | Between 2-5 years | Over 5 years |
| Borrowings (excluding financial lease liabilities) | 1,472,881 | 333,734 | 1,076,000 | 327,225 |
| Finance lease liabilities | 5,253 | 5,177 | 15,532 | 10,532 |
| Trade and other payables | 3,862,001 | 6,927 | 1,576 | 142 |
| Total | 5,340,135 | 345,838 | 1,093,108 | 337,899 |

The Group has no derivatives contracts as at March 31, 2018 and December 31, 2017.

3.2 Capital Risk Management

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

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

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The gearing ratio and debt-to-equity ratio as at March 31, 2018 and December 31, 2017, were as follows:

| <i>(in millions of Korean won, except for ratios)</i> | March 31, 2018 | December 31, 2017 |
|-------------------------------------------------------|-----------------------|--------------------------|
| Total borrowings (Note 14) (A) | 4,236,281 | 3,044,949 |
| Less: cash and cash equivalents (B) | (2,916,612) | (2,249,341) |
| Net debt (C=A+B) | 1,319,669 | 795,608 |
| Total liabilities (D) | 9,905,259 | 8,702,644 |
| Total equity (E) | 16,510,240 | 16,338,577 |
| Total capital (F=C+E) | 17,829,909 | 17,134,185 |
| Gearing ratio (C/F) | 7.4% | 4.6% |
| Debt-to-equity ratio (D/E) | 60.0% | 53.3% |

3.3 Fair Value

(1) Carrying amount and fair value of financial instruments by category as at March 31, 2018 and December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | | December 31, 2017 | |
|-----------------------------------------------------------------------|------------------------|-------------------|--------------------------|-------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets (current) | | | | |
| Cash and cash equivalents | 2,916,612 | 1 | 2,249,341 | 1 |
| Deposits held by financial institutions | 215,157 | 1 | 529,701 | 1 |
| Trade receivables | 4,708,745 | 1 | 4,448,669 | 1 |
| Other receivables (excluding deposits held by financial institutions) | 166,486 | 1 | 241,075 | 1 |
| Financial assets (non-current) | | | | |
| Deposits held by financial institutions | 63,946 | 1 | 64,308 | 1 |
| Other receivables (excluding deposits held by financial institutions) | 59,877 | 1 | 62,121 | 1 |
| Other non-current financial assets (carried at cost) | - | - | 17,718 | 2 |
| Other non-current financial assets (carried at fair value) | | | | |
| Marketable financial assets | 2,536 | 2,536 | 6,064 | 6,064 |
| Non-marketable financial assets | 21,955 | 1 | - | - |
| Financial liabilities (current) | | | | |
| Trade and other payables | 3,426,847 | 1 | 3,862,001 | 1 |
| Current borrowings (excluding finance lease liabilities) | 1,588,105 | 1 | 1,446,187 | 1 |
| Current finance lease liabilities | 5,140 | 1 | 5,137 | 1 |
| Dividends payable | 462,100 | 1 | - | 1 |
| Financial liabilities (non-current) | | | | |
| Non-current borrowings (excluding finance lease liabilities) | 2,615,499 | 2,617,216 | 1,566,258 | 1,560,147 |
| Non-current finance lease liabilities | 27,537 | 28,856 | 27,367 | 28,776 |
| Other non-current payables | 10,181 | 1 | 8,646 | 1 |

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

² As at December 31, 2017, all other non-current financial assets of the Group consist of available-for-sale equity securities. These 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.

(2) Fair value for measurement and disclosure are determined based on the following method:

Fair values of financial liabilities(non-current) are based on cash outflows discounted by using Korean won currency note yield in the same credit grade with the Parent Company (AA+), and the applied discount rates as at March 31, 2018 and December 31, 2017, are as follows:

| <i>(in percentage)</i> | March 31, 2018 | December 31, 2017 |
|------------------------|-----------------------|--------------------------|
| Discount rate | 1.90%~3.21% | 1.95%~2.90% |

(3) Fair value hierarchy

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

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

Fair value hierarchy classifications of the financial instruments that are measured at fair value or their fair value are disclosed as at March 31, 2018 and December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | | | |
|----------------------------------------------------------------|-----------------------|----------------|----------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets/liabilities measured at fair value | | | | |
| Other non-current financial assets (carried at fair value) | 2,536 | - | - | 2,536 |
| Financial assets/liabilities not measured at fair value | | | | |
| Non-current borrowings (excluding finance lease liabilities) | - | 2,617,216 | - | 2,617,216 |
| Non-current finance lease liabilities | - | 28,856 | - | 28,856 |

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| <i>(in millions of Korean won)</i> | December 31, 2017 | | | |
|----------------------------------------------------------------|--------------------------|----------------|----------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets/liabilities measured at fair value | | | | |
| Other non-current financial assets (carried at fair value) | 6,064 | - | - | 6,064 |
| Financial assets/liabilities not measured at fair value | | | | |
| Non-current borrowings (excluding finance lease liabilities) | - | 1,560,147 | - | 1,560,147 |
| Non-current finance lease liabilities | - | 28,776 | - | 28,776 |

4. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make 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 accounting estimates will, by definition, seldom equal the related actual results.

Significant accounting estimates and assumptions applied in the preparation of these consolidated interim financial statements are the same as those applied to the consolidated financial statements for the year ended December 31, 2017, except for the estimates used to determine income tax expense and the accounting estimates and assumptions for implementation of Korean IFRS 1109 explained as below.

(1) Impairment of financial assets

The allowance for impairment for financial assets under Korean IFRS 1109 is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

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5. Financial Instruments by Category

Categorizations of financial instruments as at March 31, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

| Financial assets | March 31, 2018 | | | Total |
|------------------------------------|------------------------------------|-------------------------------------------------------|-------------------------------------------------------------------|------------------|
| | Financial assets at amortized cost | Financial assets at fair value through profit or loss | Financial assets at fair value through other comprehensive income | |
| Cash and cash equivalents | 2,916,612 | - | - | 2,916,612 |
| Trade receivables | 4,495,410 | - | 213,335 | 4,708,745 |
| Other receivables | 381,643 | - | - | 381,643 |
| Other non-current receivables | 123,823 | - | - | 123,823 |
| Other non-current financial assets | - | 9,604 | 14,887 | 24,491 |
| Total | 7,917,488 | 9,604 | 228,222 | 8,155,314 |

(in millions of Korean won)

| Financial liabilities | March 31, 2018 | | | Total |
|------------------------------------------------|------------------------------------------------------------|-----------------------------------------|------------------------------------------|------------------|
| | Financial liabilities at fair value through profit or loss | Financial liabilities at amortized cost | Other financial liabilities ¹ | |
| Trade payables | - | 1,998,797 | - | 1,998,797 |
| Other payables | - | 1,428,050 | - | 1,428,050 |
| Borrowings (current) | - | 1,582,044 | 11,201 | 1,593,245 |
| Other non-current payables (dividends payable) | - | 462,100 | - | 462,100 |
| Other non-current payables | - | 10,181 | - | 10,181 |
| Borrowings (non-current) | - | 2,615,499 | 27,537 | 2,643,036 |
| Total | - | 8,096,671 | 38,738 | 8,135,409 |

(in millions of Korean won)

| Financial assets | December 31, 2017 | | | Total |
|------------------------------------|-----------------------|-------------------------------------------------------|-------------------------------------|------------------|
| | Loans and receivables | Financial assets at fair value through profit or loss | Available-for-sale financial assets | |
| Cash and cash equivalents | 2,249,341 | - | - | 2,249,341 |
| Trade receivables | 4,448,669 | - | - | 4,448,669 |
| Other receivables | 770,776 | - | - | 770,776 |
| Other non-current receivables | 126,429 | - | - | 126,429 |
| Other non-current financial assets | - | - | 23,782 | 23,782 |
| Total | 7,595,215 | - | 23,782 | 7,618,997 |

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| <i>(in millions of Korean won)</i> | December 31, 2017 | | | |
|------------------------------------|------------------------------------------------------------|-----------------------------------------|------------------------------------------|------------------|
| | Financial liabilities at fair value through profit or loss | Financial liabilities at amortized cost | Other financial liabilities ¹ | Total |
| Trade payables | - | 2,014,779 | - | 2,014,779 |
| Other payables | - | 1,847,222 | - | 1,847,222 |
| Borrowings (current) | - | 1,443,683 | 7,641 | 1,451,324 |
| Other non-current payables | - | 8,646 | - | 8,646 |
| Borrowings (non-current) | - | 1,566,258 | 27,367 | 1,593,625 |
| Total | - | 6,880,588 | 35,008 | 6,915,596 |

¹ Other financial liabilities include financial lease liabilities that are not subject to the categorizations and financial liabilities that are related to transfer transactions not qualified for derecognition.

Net gains or losses on each category of financial instruments for the three-month periods ended March 31, 2018 and 2017, are as follows:

| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|-------------------------------------------------------------------|----------|----------|
| Dividend income | | |
| Financial assets at fair value through other comprehensive income | - | - |
| Available-for-sale financial assets | - | 196 |
| Interest income | | |
| Financial assets at fair value through other comprehensive income | - | 5 |
| Financial assets at amortized cost | 11,264 | 7,461 |
| Interest expense | | |
| Hedging derivatives | - | - |
| Financial liabilities at amortized cost | (28,010) | (24,723) |
| Other financial liabilities | (260) | (3,476) |
| Gain (loss) on valuation | | |
| Financial assets at fair value through profit or loss | - | - |
| Hedging derivatives | - | - |
| Financial assets at fair value through other comprehensive income | 3,657 | - |
| Gain (loss) on disposal | | |
| Financial assets at fair value through profit or loss | - | - |
| Hedging derivatives | - | 170 |
| Financial assets at fair value through other comprehensive income | (1,337) | - |

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| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|----------------------------------------------------|-------------|-------------|
| Gain (loss) on foreign currency translation | | |
| Financial assets at amortized cost | (15,282) | (71,981) |
| Financial liabilities at amortized cost | 42,154 | 32,765 |
| Other financial liabilities | - | 24,537 |
| Gain (loss) on foreign currency transaction | | |
| Financial assets at amortized cost | 1,396 | (123,808) |
| Financial liabilities at amortized cost | 9,417 | 42,005 |
| Other financial liabilities | (93) | 52,684 |

6. Cash and Cash Equivalents

Details of cash and cash equivalents as at March 31, 2018 and December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | December 31, 2017 |
|----------------------------------------------------|-----------------------|--------------------------|
| Bank deposits and cash on hand | 451,646 | 598,712 |
| Deposits held by financial institutions and others | 2,464,966 | 1,650,629 |
| Total | <u>2,916,612</u> | <u>2,249,341</u> |

As at March 31, 2018, cash and cash equivalents include ₩6,253 million which is subject to a restriction on the use in association with the national R&D projects.

7. Trade and Other Receivables

Trade and other receivables and its provisions for impairment, as at March 31, 2018 and December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | | |
|--------------------------------------------|--------------------------|-----------------------------|------------------------|
| | Gross amount | Impairment allowance | Carrying amount |
| Trade receivables ¹ | 4,717,023 | (8,278) | 4,708,745 |
| Other current receivables | 382,602 | (959) | 381,643 |
| Other non-current receivables ² | 123,823 | - | 123,823 |
| Total | <u>5,223,448</u> | <u>(9,237)</u> | <u>5,214,211</u> |
| <i>(in millions of Korean won)</i> | December 31, 2017 | | |
| | Gross amount | Impairment allowance | Carrying amount |
| Trade receivables ¹ | 4,456,221 | (7,552) | 4,448,669 |
| Other current receivables | 771,735 | (959) | 770,776 |
| Other non-current receivables ² | 126,429 | - | 126,429 |
| Total | <u>5,354,385</u> | <u>(8,511)</u> | <u>5,345,874</u> |

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¹ As at March 31, 2018 and December 31, 2017, trade receivables transferred to financial institutions have been collateralized for borrowings (current) and the amount of trade receivables not fully derecognized are as follows (Note 14):

| <i>(in millions of Korean won)</i> | Loans and receivables (trade receivables collateralized for borrowings) | |
|----------------------------------------|------------------------------------------------------------------------------------------|--------------------------|
| | March 31, 2018 | December 31, 2017 |
| Carrying amount of transferred assets | 6,106 | 2,504 |
| Carrying amount of related liabilities | (6,106) | (2,504) |

² As at March 31, 2018, ₩548 million of other non-current receivables represents deposits which are restricted from withdrawal in connection with maintaining checking accounts (2017: ₩550 million).

Details of other receivables as at March 31, 2018 and December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | December 31, 2017 |
|------------------------------------------------------|-----------------------|--------------------------|
| Current | | |
| Non-trade receivables | 119,043 | 187,314 |
| Deposits held by financial institutions ¹ | 215,157 | 529,701 |
| Accrued income | 5,653 | 5,126 |
| Guarantee deposits provided | 41,790 | 48,635 |
| | <u>381,643</u> | <u>770,776</u> |
| Non-current | | |
| Non-trade receivables | 5,352 | 4,246 |
| Deposits held by financial institutions ² | 63,946 | 64,308 |
| Loans | 329 | 291 |
| Guarantee deposits provided | 54,196 | 57,584 |
| | <u>123,823</u> | <u>126,429</u> |
| Total | <u>505,466</u> | <u>897,205</u> |

¹ As at March 31, 2018, ₩1,338 million (2017: ₩1,338 million is pledged as a collateral for borrowings and others.

² As at March 31, 2018, ₩63,400 million (2017: ₩63,400 million) is restricted from being withdrawn in relation to large, small and medium-sized companies cooperation agreement and others.

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The aging analysis of trade and other receivables as at March 31, 2018 and December 31, 2017, is as follows:

(in millions of Korean won)

| | March 31, 2018 | | December 31, 2017 | |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Trade receivables | Other receivables | Trade receivables | Other receivables |
| Receivables not past due | 4,617,638 | 475,436 | 4,302,204 | 834,882 |
| Past due but not impaired | | | | |
| Up to 3 months | 89,415 | 25,980 | 148,043 | 59,070 |
| Between 3-6 months | 2,985 | 2,208 | 311 | 2,078 |
| Over 6 months | 506 | 1,842 | 554 | 1,175 |
| | 92,906 | 30,030 | 148,908 | 62,323 |
| Impaired receivables | 6,479 | 959 | 5,109 | 959 |
| | 4,717,023 | 506,425 | 4,456,221 | 898,164 |

Movements on the provision for impairment of trade and other receivables for the three-month period ended March 31, 2018 and for the year ended December 31, 2017, are as follows:

(in millions of Korean won)

| | March 31, 2018 | | | |
|--------------------------------|-------------------|-------------|-------------------|-------------|
| | Trade receivables | | Other receivables | |
| | Current | Non-current | Current | Non-current |
| Beginning balance | 7,552 | - | 959 | - |
| Business combination (Note 34) | - | - | - | - |
| Additions | 730 | - | - | - |
| Write-off | - | - | - | - |
| Reversals | - | - | - | - |
| Exchange differences | (4) | - | - | - |
| Ending balance | 8,278 | - | 959 | - |

(in millions of Korean won)

| | December 31, 2017 | | | |
|--------------------------------|-------------------|-------------|-------------------|-------------|
| | Trade receivables | | Other receivables | |
| | Current | Non-current | Current | Non-current |
| Beginning balance | 12,219 | - | 385 | 990 |
| Business combination (Note 34) | 2,018 | - | - | - |
| Additions | - | - | 796 | - |
| Write-off | (644) | - | (221) | (990) |
| Reversals | (4,464) | - | (1) | - |
| Exchange differences | (1,577) | - | - | - |
| Ending balance | 7,552 | - | 959 | - |

As at March 31, 2018 and December 31, 2017, the carrying amounts of trade and other receivables are approximation of their fair values.

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8. Other Financial Assets

Details of other financial assets as at March 31, 2018 and December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | December 31, 2017 |
|-------------------------------------------------------------------|-----------------------|--------------------------|
| Other financial assets | | |
| Financial assets at fair value through profit or loss | 9,604 | - |
| Financial assets at fair value through other comprehensive income | 14,887 | - |
| Available-for-sale financial assets | - | 23,782 |
| | <u>24,491</u> | <u>23,782</u> |

Changes in available-for-sale financial assets for the three-month periods ended March 31, 2018 and for the year ended December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | December 31, 2017 |
|------------------------------------------------------|-----------------------|--------------------------|
| Beginning balance | 23,782 | 23,448 |
| Business combination (Note 34) | - | 2,652 |
| Acquisitions / Transfer | 2,806 | 3,001 |
| Disposals | (5,996) | (195) |
| Impairment | - | (209) |
| Gain (loss) on valuation (before income tax effects) | 3,657 | (5,550) |
| Exchange differences | 242 | 635 |
| Ending balance | <u>24,491</u> | <u>23,782</u> |

During the three-month period ended March 31, 2018, the Group acquired convertible promissory notes of Kryptos Biotechnologies, Inc. for ₩1,604 million and classified it as financial assets at fair value through profit or loss.

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9. Inventories

Details of inventories as at March 31, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

| | March 31, 2018 | | |
|-----------------------------------|-------------------------|--------------------------------|----------------------------|
| | Gross Amount | Valuation allowance | Carrying amount |
| Merchandise | 138,929 | (1,712) | 137,217 |
| Finished / Semi-finished products | 2,207,474 | (93,064) | 2,114,410 |
| Work-in-process | 13,190 | (1,161) | 12,029 |
| Raw materials | 984,377 | (14,621) | 969,756 |
| Supplies | 142,066 | - | 142,066 |
| Materials-in-transit | 408,308 | - | 408,308 |
| Total | 3,894,344 | (110,558) | 3,783,786 |

(in millions of Korean won)

| | December 31, 2017 | | |
|-----------------------------------|--------------------------|--------------------------------|----------------------------|
| | Gross Amount | Valuation allowance | Carrying amount |
| Merchandise | 141,567 | (3,320) | 138,247 |
| Finished / Semi-finished products | 1,956,436 | (95,369) | 1,861,067 |
| Work-in-process | 9,852 | - | 9,852 |
| Raw materials | 897,227 | (14,459) | 882,768 |
| Supplies | 136,251 | - | 136,251 |
| Materials-in-transit | 324,269 | - | 324,269 |
| Total | 3,465,602 | (113,148) | 3,352,454 |

During the three-month period ended March 31, 2018, the cost of inventories recognized as 'cost of sales' is amounted to ₩3,958,339 million (2017: ₩4,051,200 million).

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10. Investments in Associates and Joint Ventures

Changes in investments in associates and joint ventures for the three-month period ended March 31, 2018 and for the year ended December 31, 2017, are as follows:

(in millions of Korean won)

| | March 31, 2018 | | | | | | |
|-----------------------------------------------------------------|-------------------|-------------------------|-----------------|---------------------------------------------------------|----------------------------------------------------------------------|------------|----------------|
| | Beginning balance | Acquisitions / transfer | Dividends | Share of profit (loss) of associates and joint ventures | Share of other comprehensive income of associates and joint ventures | Others | Ending balance |
| LG VINA Chemical Co., Ltd. | 3,327 | - | - | 197 | (259) | - | 3,265 |
| HL Greenpower Co., Ltd. | 20,240 | - | - | - | - | - | 20,240 |
| LG Holdings (HK) Ltd. | 51,029 | - | - | 1,116 | 1,725 | - | 53,870 |
| TECWIN Co., Ltd. | 8,008 | - | - | 1,818 | - | - | 9,826 |
| SEETEC Co., Ltd. | 146,741 | - | (10,000) | 1,626 | - | 91 | 138,458 |
| LG Chem BRASIL INTERMEDIACAO DE NEGOCIOS DO SETOR QUIMICO LTDA. | 579 | - | - | - | - | - | 579 |
| LG Chem Malaysia SDN.BHD | 150 | - | - | - | - | - | 150 |
| LG Fuel Cell Systems Inc. | 30,334 | - | - | (3,925) | 116 | 59 | 26,584 |
| FJ Composite Materials Co., Ltd. | 2,669 | - | - | (47) | 80 | - | 2,702 |
| WUXI CL New Energy Technology Ltd. | 1,002 | 559 | - | (42) | 39 | - | 1,558 |
| LG Life Sciences Poland Ltd. | 17 | - | - | - | - | - | 17 |
| Combustion Synthesis Co., Ltd. ¹ | - | 1,503 | - | - | - | - | 1,503 |
| | <u>264,096</u> | <u>2,062</u> | <u>(10,000)</u> | <u>743</u> | <u>1,701</u> | <u>150</u> | <u>258,752</u> |

(in millions of Korean won)

| | December 31, 2017 | | | | | | | | |
|-----------------------------------------------------------------|-------------------|----------------------|-------------------------|-----------------|---------------------------------------------------------|----------------------------------------------------------------------|------------------------------------|-----------------|----------------|
| | Beginning balance | Business combination | Acquisitions / transfer | Dividends | Share of profit (loss) of associates and joint ventures | Share of other comprehensive income of associates and joint ventures | Changes in ownership of associates | Others | Ending balance |
| LG VINA Chemical Co., Ltd. | 3,874 | - | - | (846) | 753 | (454) | - | - | 3,327 |
| HL Greenpower Co., Ltd. | 16,927 | - | - | - | 3,010 | - | - | 303 | 20,240 |
| LG Holdings (HK) Ltd. | 74,843 | - | - | - | 4,281 | (8,596) | - | (19,499) | 51,029 |
| TECWIN Co., Ltd. | 7,214 | - | - | - | 794 | - | - | - | 8,008 |
| SEETEC Co., Ltd. | 148,333 | - | - | (10,000) | 8,408 | - | - | - | 146,741 |
| LG Chem BRASIL INTERMEDIACAO DE NEGOCIOS DO SETOR QUIMICO LTDA. | 579 | - | - | - | - | - | - | - | 579 |
| LG Chem Malaysia SDN.BHD | 150 | - | - | - | - | - | - | - | 150 |
| LG Fuel Cell Systems Inc. | 8,908 | - | 24,527 | - | (10,191) | (587) | 7,680 | (3) | 30,334 |
| FJ Composite Materials Co., Ltd. | - | - | 3,015 | - | (259) | (87) | - | - | 2,669 |
| WUXI CL New Energy Technology Ltd. | - | - | 1,178 | - | (176) | - | - | - | 1,002 |
| LG Life Sciences Poland Ltd. | - | 17 | - | - | - | - | - | - | 17 |
| | <u>260,828</u> | <u>17</u> | <u>28,720</u> | <u>(10,846)</u> | <u>6,620</u> | <u>(9,724)</u> | <u>7,680</u> | <u>(19,199)</u> | <u>264,096</u> |

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¹ During the three-month period ended March 31, 2018, the Group newly acquired 29.54% shares of Combustion Synthesis Co., Ltd. for ₩ 1,503 million.

11. Property, Plant and Equipment

Changes in property, plant and equipment for the three-month period ended March 31, 2018 and for the year ended December 31, 2017, are as follows:

(in millions of Korean won)

| | March 31, 2018 | | | | | | | | | | |
|--------------------------|------------------|------------------|----------------|------------------|---------------|----------------|----------------|---------------|------------------------------|--------------------------|-------------------|
| | Land | Buildings | Structures | Machinery | Vehicles | Tools | Equipment | Others | Construction -in-progress | Machinery -in-transit | Total |
| Beginning balance | 1,568,295 | 2,762,588 | 654,629 | 4,169,473 | 13,654 | 403,522 | 105,759 | 73,399 | 1,317,877 | 142,286 | 11,211,482 |
| Cost | 1,605,247 | 3,438,000 | 1,190,383 | 13,157,481 | 39,945 | 1,085,752 | 352,106 | 211,585 | 1,361,431 | 142,286 | 22,584,216 |
| Accumulated depreciation | - | (637,025) | (521,806) | (8,840,809) | (26,143) | (669,189) | (243,973) | (136,034) | - | - | (11,074,979) |
| Accumulated impairment | (36,952) | (38,387) | (13,948) | (147,199) | (148) | (13,041) | (2,374) | (2,152) | (43,554) | - | (297,755) |
| Acquisitions/ Transfer | 641 | 51,379 | 8,138 | 277,540 | 965 | 47,793 | 26,831 | 1,722 | 555,245 | 43,594 | 1,013,848 |
| Disposals/ Transfer | - | (14) | (21) | (9,905) | (27) | (4,150) | (287) | (1,052) | (409,132) | (23,959) | (448,547) |
| Exchange differences | - | 17,136 | 3,254 | 35,222 | 18 | 2,746 | 825 | - | 13,379 | - | 72,580 |
| Depreciation | - | (21,374) | (11,296) | (235,674) | (763) | (33,487) | (9,610) | (17,769) | - | - | (329,973) |
| Impairment | - | (1,248) | - | (26) | - | - | - | - | - | - | (1,274) |
| Ending balance | 1,568,936 | 2,808,467 | 654,704 | 4,236,630 | 13,847 | 416,424 | 123,518 | 56,300 | 1,477,369 | 161,921 | 11,518,116 |
| Cost | 1,605,888 | 3,512,706 | 1,204,297 | 13,488,450 | 40,853 | 1,126,427 | 379,954 | 212,255 | 1,520,997 | 161,921 | 23,253,748 |
| Accumulated depreciation | - | (664,038) | (535,339) | (9,108,091) | (26,857) | (698,116) | (254,052) | (153,803) | - | - | (11,440,296) |
| Accumulated impairment | (36,952) | (40,201) | (14,254) | (143,729) | (149) | (11,887) | (2,384) | (2,152) | (43,628) | - | (295,336) |

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(in millions of
Korean won)

| | December 31, 2017 | | | | | | | | | | |
|--------------------------------------------|-------------------|------------------|----------------|------------------|---------------|----------------|----------------|---------------|------------------------------|--------------------------|-------------------|
| | Land | Buildings | Structures | Machinery | Vehicles | Tools | Equipment | Others | Construction -in-progress | Machinery -in-transit | Total |
| Beginning balance | 1,470,226 | 2,181,396 | 651,061 | 4,288,509 | 8,594 | 384,777 | 95,905 | 100,360 | 473,111 | 26,194 | 9,680,133 |
| Cost | 1,507,154 | 2,796,650 | 1,145,962 | 12,656,297 | 41,183 | 1,005,567 | 323,646 | 238,906 | 484,950 | 26,194 | 20,226,509 |
| Accumulated depreciation | - | (575,932) | (479,210) | (8,305,213) | (32,439) | (611,202) | (225,767) | (138,098) | - | - | (10,367,861) |
| Accumulated impairment | (36,928) | (39,322) | (15,691) | (62,575) | (150) | (9,588) | (1,974) | (448) | (11,839) | - | (178,515) |
| Business combination (Note 34) | 62,738 | 81,497 | 6,590 | 109,011 | 197 | 8,256 | 2,918 | - | 164,722 | 57,392 | 493,321 |
| Acquisitions/ Transfer | 38,594 | 607,656 | 51,272 | 955,563 | 9,761 | 180,809 | 45,578 | 41,658 | 2,535,725 | 133,175 | 4,599,791 |
| Disposals/ Transfer | (2,972) | (9,888) | (787) | (53,527) | (49) | (31,254) | (1,242) | - | (1,820,436) | (74,475) | (1,994,630) |
| Exchange differences | (291) | (28,426) | (5,133) | (77,319) | (121) | (6,971) | (1,821) | - | (2,854) | - | (122,936) |
| Depreciation | - | (75,093) | (46,529) | (955,324) | (4,691) | (125,354) | (35,001) | (66,915) | - | - | (1,308,907) |
| Impairment | - | (1,390) | (3,039) | (98,125) | (39) | (6,142) | (652) | (1,704) | (32,391) | - | (143,482) |
| Reversal of impairment | - | 6,836 | 1,194 | 3,721 | 2 | 797 | 91 | - | - | - | 12,641 |
| Transfer to assets held for sale (Note 35) | - | - | - | (3,036) | - | (1,396) | (17) | - | - | - | (4,449) |
| Ending balance | 1,568,295 | 2,762,588 | 654,629 | 4,169,473 | 13,654 | 403,522 | 105,759 | 73,399 | 1,317,877 | 142,286 | 11,211,482 |
| Cost | 1,605,247 | 3,438,000 | 1,190,383 | 13,157,481 | 39,945 | 1,085,752 | 352,106 | 211,585 | 1,361,431 | 142,286 | 22,584,216 |
| Accumulated depreciation | - | (637,025) | (521,806) | (8,840,809) | (26,143) | (669,189) | (243,973) | (136,034) | - | - | (11,074,979) |
| Accumulated impairment | (36,952) | (38,387) | (13,948) | (147,199) | (148) | (13,041) | (2,374) | (2,152) | (43,554) | - | (297,755) |

During the three-month period ended March 31, 2018, the Group capitalized ₩2,691 million of borrowing costs (2017: ₩1,111 million), which recognized from borrowings in relation to acquisition of property, plant and equipment. The capitalization rate of borrowings used to determine the amount of borrowing costs eligible for capitalization is 2.74% (2017: 2.23%).

Line items including depreciation in the consolidated statements of profit or loss for the three-month periods ended March 31, 2018 and 2017, are as follows:

| (in millions of Korean won) | 2018 | 2017 |
|-------------------------------------|----------------|----------------|
| Cost of sales | 301,927 | 305,575 |
| Selling and administrative expenses | 27,211 | 23,806 |
| Others | 835 | 915 |
| Total | 329,973 | 330,296 |

Details of machinery classified as a finance lease as at March 31, 2018 and December 31, 2017, are as follows:

| (in millions of Korean won) | December 31, | | |
|----------------------------------|----------------|---------------|--------------------------|
| | March 31, 2018 | 2017 | |
| | Machinery | Machinery | Construction-in-progress |
| Cost- capitalized finance leases | 44,990 | 43,274 | 1,275 |
| Accumulated depreciation | (14,128) | (12,952) | - |
| Net book amount | 30,862 | 30,322 | 1,275 |

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The Group leases machinery under non-cancellable finance lease agreements. The lease terms are 3~10 years and the contracts include an agreement that the ownership of the assets is transferred by the end of the lease term.

The Group reviews annually whether there is any indication that an asset may be impaired. During 2017, Glass Substrate business, a CGU in IT & Electronic materials and Advanced materials segment, was tested for impairment as its economic performance was lower than expected.

During 2017, certain equipment in LED Encap business, a CGU in IT & Electronic materials and Advanced materials segment, were tested for reversal of impairment as the future economic performance of OLED material division was estimated to exceed the previous expectation due to a transfer of LED Encap business to OLED material compound process.

The amount of impairment loss (reversal) recognized as other non-operating (income) expense and key assumptions used for calculation of value in use for the year ended December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | 2017 | |
|-------------------------------------------------------|------------------------------------|------------------|
| | Glass Substrate¹ | LED Encap |
| (Reversal of) Impaired amount | | |
| Property, plant and equipment | 124,138 | (11,320) |
| Intangible assets | 2,345 | (6) |
| Key assumptions | | |
| Pre-tax discount rate | N/A | 12.3% |
| Growth rate for subsequent years exceeding five years | N/A | - |

¹ The recoverable amount is calculated based on fair value less costs to sell and it is a non-recurring fair value measured by an observable transaction price. It is categorized as level 2 of the fair value hierarchy.

12. Intangible Assets

Changes in intangible assets for the three-month period ended March 31, 2018 and for the year ended December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | | | | | |
|-------------------------------------|--------------------------|-----------------------------------|-----------------|--------------------|----------------|------------------|
| | Development costs | Industrial property rights | Goodwill | Memberships | Others | Total |
| Beginning balance | 192,046 | 371,381 | 925,593 | 50,806 | 283,329 | 1,823,155 |
| Separate acquisitions/ Transfer | 27,700 | 12,850 | - | 64 | 9,126 | 49,740 |
| Additions – internal development | 3,116 | - | - | - | - | 3,116 |
| Disposals/ Transfer | (2,327) | (20) | - | - | - | (2,347) |
| Exchange differences | 225 | 324 | (461) | 21 | 161 | 270 |
| Amortization | (10,289) | (7,266) | - | - | (8,542) | (26,097) |
| Ending balance | 210,471 | 377,269 | 925,132 | 50,891 | 284,074 | 1,847,837 |

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| | December 31, 2017 | | | | | |
|--------------------------------------------|-------------------|----------------------------|----------------|---------------|----------------|------------------|
| | Development costs | Industrial property rights | Goodwill | Memberships | Others | Total |
| Beginning balance | 102,853 | 344,882 | 252,253 | 52,793 | 79,363 | 832,144 |
| Business combination (Note 34) | 53,913 | 12,770 | 686,229 | 3,723 | 203,144 | 959,779 |
| Separate acquisitions/ Transfer | 66,432 | 47,005 | - | 1,538 | 34,921 | 149,896 |
| Additions – internal development | 20,843 | - | - | - | - | 20,843 |
| Disposals/ Transfer | (8,066) | (55) | - | (6,080) | (308) | (14,509) |
| Exchange differences | (1,107) | (1,985) | (12,889) | (35) | (349) | (16,365) |
| Amortization | (33,764) | (30,010) | - | - | (32,944) | (96,718) |
| Impairment | (9,064) | (868) | - | (1,133) | (498) | (11,563) |
| Reversal of impairment | 6 | - | - | - | - | 6 |
| Transfer to assets held for sale (Note 35) | - | (358) | - | - | - | (358) |
| Ending balance | <u>192,046</u> | <u>371,381</u> | <u>925,593</u> | <u>50,806</u> | <u>283,329</u> | <u>1,823,155</u> |

Line items including amortization of intangible assets for the three-month periods ended March 31, 2018 and 2017, as follows:

| (in millions of Korean won) | 2018 | 2017 |
|-------------------------------------|---------------|---------------|
| Cost of sales | 5,847 | 4,402 |
| Selling and administrative expenses | 20,250 | 16,810 |
| Total | <u>26,097</u> | <u>21,212</u> |

The Group recognized total research and development costs of ₩ 228,648 million (2017: ₩ 213,116 million) as expenses.

Changes in greenhouse gas emission permits for the three-month period ended March 31, 2018 and for the year ended December 31, 2017, are as follows:

| (in thousands of tons and millions of Korean won) | March 31, 2018 | | | | | |
|---------------------------------------------------|----------------|---------------|--------------|----------|---------------|---------------|
| | 2017 | | 2018 | | Total | |
| | Quantity | Amount | Quantity | Amount | Quantity | Amount |
| Beginning balance | 6,476 | - | 6,648 | - | 13,124 | - |
| Allocation with nil consideration | 799 | - | 11 | - | 810 | - |
| Purchase | 943 | 20,175 | - | - | 943 | 20,175 |
| Business combination | 58 | - | - | - | 58 | - |
| Borrowings/ Carry forwards between years | (685) | - | - | - | (685) | - |
| Surrendered to the government | - | - | - | - | - | - |
| Ending balance | <u>7,591</u> | <u>20,175</u> | <u>6,659</u> | <u>-</u> | <u>14,250</u> | <u>20,175</u> |

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| <i>(in thousands of tons and millions of Korean won)</i> | December 31, 2017 | | | | | |
|------------------------------------------------------------------|-------------------|---------|----------|--------|----------|---------|
| | 2016 | | 2017 | | Total | |
| | Quantity | Amount | Quantity | Amount | Quantity | Amount |
| Beginning balance | 6,191 | - | 6,475 | - | 12,666 | - |
| Allocation with nil consideration | 350 | - | 799 | - | 1,149 | - |
| Purchase | 250 | 5,133 | 873 | 18,635 | 1,123 | 23,768 |
| Business combination/ disposal | 62 | - | 58 | - | 120 | - |
| Borrowings/ Carry forwards between years | 685 | - | (685) | - | - | - |
| Surrendered to the government | (7,538) | (5,133) | - | - | (7,538) | (5,133) |
| Ending balance | - | - | 7,520 | 18,635 | 7,520 | 18,635 |

13. Other Current and Non-Current Assets

Details of other current and non-current assets as at March 31, 2018 and December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | December 31, 2017 |
|---------------------------------------------------------|----------------|-------------------|
| Current | | |
| Prepayments and prepaid expenses | 169,326 | 129,387 |
| Prepaid value added tax | 266,231 | 225,790 |
| Others | 20,461 | 21,637 |
| Total | <u>456,018</u> | <u>376,814</u> |
| Non-current | | |
| Long-term prepayments and long-term prepaid expenses | 103,718 | 104,072 |
| Others | 92 | 91 |
| Total | <u>103,810</u> | <u>104,163</u> |

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14. Borrowings

Borrowings as at March 31, 2018 and December 31, 2017, consist of:

| <i>(in millions of Korean won)</i> | March 31, 2018 | December 31, 2017 |
|-----------------------------------------|-------------------------|--------------------------|
| Current | | |
| Short-term borrowings | 1,121,463 | 957,868 |
| Current-portion of long-term borrowings | 286,746 | 318,441 |
| Current-portion of debentures | 179,896 | 169,878 |
| Finance lease liabilities | 5,140 | 5,137 |
| | <u>1,593,245</u> | <u>1,451,324</u> |
| Non-current | | |
| Long-term borrowings | 531,199 | 518,955 |
| Debentures | 2,084,300 | 1,047,303 |
| Finance lease liabilities | 27,537 | 27,367 |
| | <u>2,643,036</u> | <u>1,593,625</u> |
| Total | <u>4,236,281</u> | <u>3,044,949</u> |

Details of short-term borrowings as at March 31, 2018 and December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | Bank | Latest maturity date | Interest rate(%) as at March 31, 2018 | March 31, 2018 | December 31, 2017 |
|-----------------------------------------------------|--------------------------|-----------------------------|----------------------------------------------|-----------------------|--------------------------|
| Notes discounted ¹ (Negotiable notes) | Woori Bank, others | Nov. 29, 2018 | Libor + 0.52 and others | 6,106 | 2,504 |
| Bank loans | Nonghyup Bank, others | June. 27, 2018 | 2.17 and others | 1,115,357 | 955,364 |
| Total | | | | <u>1,121,463</u> | <u>957,868</u> |

¹ As at March 31, 2018, trade receivables transferred to financial institutions have been collateralized for borrowings (current) (Note 7).

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Details of long-term borrowings as at March 31, 2018 and December 31, 2017, are as follows:

| (in millions of Korean won) | March 31, 2018 | | | | |
|-------------------------------------------------|----------------------------------------|--------------------------------------|-------------------------|----------------|----------------|
| | Bank | Annual interest rate (%) | Amount in Korean won | Current | Non-current |
| Borrowings in Korean won | KEB Hana Bank ¹ | 1.75 | 617 | 353 | 264 |
| Borrowings in foreign currencies | HSBC | 3LIBOR+1.05 | 235,798 | 198,455 | 37,343 |
| | Agricultural Bank of China | USD: Libor + 0.80 CNY: PBOC ×0.90 | 51,774 | 9,539 | 42,235 |
| | Construction Bank of China | PBOC ×90% | 26,860 | 3,909 | 22,951 |
| | Communications Bank of China | PBOC | 12,421 | 2,384 | 10,037 |
| | CITI | EURIBOR + 0.90 | 39,365 | - | 39,365 |
| | Bank of America | 3LIBOR + 0.90 | 42,674 | 32,009 | 10,665 |
| | ING BANK | 3LIBOR + 0.83 | 65,608 | - | 65,608 |
| | UOB | 6LIBOR + 1.55 | 24,253 | 485 | 23,768 |
| | Standard Chartered Bank | 3LIBOR + 1.60 | 25,040 | 8,347 | 16,693 |
| | Sumitomo Mitsui Banking Corporation | 3LIBOR + 1.05 | 58,874 | 5,334 | 53,540 |
| | Mizuho Banking Corporation | 3LIBOR + 0.98 | 74,649 | - | 74,649 |
| | BNP PARIBAS | EURIBOR + 0.80 | 19,684 | - | 19,684 |
| | CNOOC Finance | PBOC × 90 | 74,150 | 16,968 | 57,182 |
| | Hangseng | Libor + 1.0 | 32,008 | 3,201 | 28,807 |
| | Bank of China | 3LIBOR + 0.95 | 34,170 | 5,762 | 28,408 |
| Total | | | <u>817,945</u> | <u>286,746</u> | <u>531,199</u> |

¹ Other receivables are pledged as collateral for the above long-term borrowings (Note 18).

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| (in millions of Korean won) | December 31, 2017 | | | | |
|-------------------------------------------------|----------------------------------------|-----------------------------------------|-------------------------|----------------|----------------|
| | Bank | Annual interest rate (%) | Amount in Korean won | Current | Non-current |
| Borrowings in Korean won | KEB Hana Bank ¹ | 1.75 | 706 | 353 | 353 |
| Borrowings in foreign currencies | Sumitomo Mitsui Banking Corporation | Libor + 1.05 | 53,463 | 5,346 | 48,117 |
| | Standard Chartered Bank | Libor + 1.60 | 25,095 | - | 25,095 |
| | Construction Bank of China | PBOC ×0.90 | 27,791 | 3,770 | 24,021 |
| | Communications Bank of China | PBOC | 12,896 | 1,841 | 11,055 |
| | Agricultural Bank of China | USD: Libor + 0.80 CNY: PBOC ×0.90 | 51,637 | 9,496 | 42,141 |
| | Bank of America | Libor + 0.90~1.50 | 69,579 | 32,080 | 37,499 |
| | Bank of China | Libor + 0.95 | 34,246 | 5,775 | 28,471 |
| | BNP PARIBAS | EUR:EURIBOR + 0.99 PLN: WIBOR + 0.55 | 19,151 | - | 19,151 |
| | CNOOC Finance | PBOC ×0.90 | 71,515 | 16,365 | 55,150 |
| | HSBC | Libor + 1.00~1.05 | 236,320 | 198,894 | 37,426 |
| | JP Morgan | Libor + 0.85~1.05 | 42,765 | 42,765 | - |
| | Mizuho Banking Corporation | Libor + 1.02 | 42,773 | - | 42,773 |
| | CITI | EURIBOR + 0.90 | 38,298 | - | 38,298 |
| | United Overseas Bank | Libor + 1.55 | 15,255 | 152 | 15,103 |
| | Hangseng | Libor + 1.00 | 32,077 | 1,604 | 30,473 |
| | ING | EURIBOR + 0.83 | 63,829 | - | 63,829 |
| Total | | | 837,396 | 318,441 | 518,955 |

¹ Other receivables are pledged as collateral for the above long-term borrowings (Note 18).

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Details of debentures as at March 31, 2018 and December 31, 2017, are as follows:

| | | March 31, 2018 | | | | |
|------------------------------------------------------------|-------------------------------------------------|--------------------------|----------------------|----------------------|----------------|------------------|
| | | Annual interest rate (%) | Latest maturity date | Amount in Korean won | Current | Non-current |
| 47th Debenture (non-guaranteed/private) | Government Employees Pension Service and others | 3.20 | 2018.04.30 | 30,000 | 30,000 | - |
| 48th Debenture (non-guaranteed/public) | NH Investment & Securities Co., Ltd. and others | 3.77 | 2019.02.21 | 50,000 | 50,000 | - |
| 49th Debenture (non-guaranteed/private) | KB Asset Management Co., Ltd and others | 2.82 | 2018.12.12 | 100,000 | 100,000 | - |
| 50-1st Debenture (non-guaranteed/public) | NH Investment & Securities Co., Ltd. and others | 1.95 | 2020.05.19 | 120,000 | - | 120,000 |
| 50-2nd Debenture (non-guaranteed/public) | NH Investment & Securities Co., Ltd. and others | 2.28 | 2022.05.19 | 400,000 | - | 400,000 |
| 50-3rd Debenture (non-guaranteed/public) | NH Investment & Securities Co., Ltd. and others | 2.53 | 2024.05.19 | 280,000 | - | 280,000 |
| 51-1st Debenture (non-guaranteed/public) | NH Investment & Securities Co., Ltd. and others | 2.56 | 2021.02.20 | 190,000 | - | 190,000 |
| 51-2nd Debenture (non-guaranteed/public) | NH Investment & Securities Co., Ltd. and others | 2.88 | 2023.02.20 | 240,000 | - | 240,000 |
| 51-3rd Debenture (non-guaranteed/public) | NH Investment & Securities Co., Ltd. and others | 3.07 | 2025.02.20 | 270,000 | - | 270,000 |
| 51-4th Debenture (non-guaranteed/public) | NH Investment & Securities Co., Ltd. and others | 3.29 | 2028.02.20 | 300,000 | - | 300,000 |
| Debentures in Korean won (non-guaranteed) | NH Investment & Securities Co., Ltd. and others | 1.93 | 2020.02.16 | 100,000 | - | 100,000 |
| | NH Investment & Securities Co., Ltd. and others | 2.26 | 2022.02.16 | 100,000 | - | 100,000 |
| | NH Investment & Securities Co., Ltd. and others | 2.71 | 2021.03.02 | 50,000 | - | 50,000 |
| | NH Investment & Securities Co., Ltd. and others | 3.00 | 2023.03.02 | 40,000 | - | 40,000 |
| Less: discount on debentures | | | | (5,804) | (104) | (5,700) |
| Total | | | | <u>2,264,196</u> | <u>179,896</u> | <u>2,084,300</u> |

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(in millions of Korean won)

| | | December 31, 2017 | | | | |
|------------------------------------------------------------------|----------------------------------------|--------------------------------|----------------------------|----------------------------|----------------|------------------|
| | Financial institution | Annual interest rate (%) | Latest maturity date | Amount in Korean won | Current | Non- current |
| 47th Debenture | Government Employees | 3.20 | 2018.04.30 | 30,000 | 30,000 | - |
| (non-guaranteed/private) | Pension Service and others | | | | | |
| 48th Debenture | NH Investment & Securities | 3.77 | 2019.02.21 | 50,000 | - | 50,000 |
| (non-guaranteed/public) | Co., Ltd. and others | | | | | |
| 49th Debenture | KB Asset Management Co., | 2.82 | 2018.12.12 | 100,000 | 100,000 | - |
| (non-guaranteed/private) | Ltd and others | | | | | |
| 50-1st Debenture | NH Investment & Securities | 1.95 | 2020.05.19 | 120,000 | - | 120,000 |
| (non-guaranteed/public) | Co., Ltd. and others | | | | | |
| 50-2nd Debenture | NH Investment & Securities | 2.28 | 2022.05.19 | 400,000 | - | 400,000 |
| (non-guaranteed/public) | Co., Ltd. and others | | | | | |
| 50-3rd Debenture | NH Investment & Securities | 2.53 | 2024.05.19 | 280,000 | - | 280,000 |
| (non-guaranteed/public) | Co., Ltd. and others | | | | | |
| Debentures in Korean won (collateralized)¹ | IBK Securities Co., Ltd. and others | 4.70 | 2018.03.05 | 40,000 | 40,000 | |
| Debentures in Korean won (non-guaranteed) | NH Investment & Securities | 1.93 | 2020.02.16 | 100,000 | - | 100,000 |
| | NH Investment & Securities | 2.26 | 2022.02.16 | 100,000 | - | 100,000 |
| | Co., Ltd. and others | | | | | |
| Less: discount on debentures | | | | (2,819) | (122) | (2,697) |
| Total | | | | <u>1,217,181</u> | <u>169,878</u> | <u>1,047,303</u> |

¹ Certain property, plant and equipment are pledged as collateral for the above debentures (Note 18).

Details of finance lease liabilities as at March 31, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

| | | March 31, 2018 | | | |
|------------------|-----------------------------|-------------------------|---------------|--------------|---------------|
| Leaser | Annual interest rate (%) | Latest maturity date | Total amount | Current | Non-current |
| Hyundai Oil Bank | 3.12 | 2024.12.31 | 31,466 | 4,923 | 26,543 |
| Others | 3.7 ~ 4.13 | 2023.12.31 | 1,211 | 217 | 994 |
| Total | | | <u>32,677</u> | <u>5,140</u> | <u>27,537</u> |

(in millions of Korean won)

| | | December 31, 2017 | | | |
|------------------|-----------------------------|-------------------------|---------------|--------------|---------------|
| Leaser | Annual interest rate (%) | Latest maturity date | Total amount | Current | Non-current |
| Hyundai Oil Bank | 3.12 | 2024.12.31 | 31,226 | 4,886 | 26,340 |
| Others | 3.7 ~ 4.13 | 2023.12.31 | 1,278 | 251 | 1,027 |
| Total | | | <u>32,504</u> | <u>5,137</u> | <u>27,367</u> |

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The present value of finance lease liabilities as at March 31, 2018 and December 31, 2017, is as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | | | December 31, 2017 | | |
|------------------------------------|-------------------------------|-----------------------------|----------------------|-------------------------------|-----------------------------|----------------------|
| | Minimum lease payments | Future finance costs | Present value | Minimum lease payments | Future finance costs | Present value |
| Within 1 year | 5,217 | 77 | 5,140 | 5,253 | 116 | 5,137 |
| Between 1-5 years | 20,710 | 1,866 | 18,844 | 20,710 | 2,006 | 18,704 |
| Over 5 years | 10,487 | 1,794 | 8,693 | 10,532 | 1,869 | 8,663 |

15. Provisions

Changes in provisions for other liabilities and charges for the three-month period ended March 31, 2018 and for the year ended December 31, 2017, as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | | | | |
|------------------------------------|-----------------------------|--------------------------------------------|---------------------------------|--------------------------------|--------------|
| | Warranty¹ | Greenhouse gas emission² | Legal Claims³ | Restoration⁴ | Total |
| Beginning balance | 92,662 | 23,069 | 20,629 | 90,056 | 226,416 |
| Additions | 41,586 | 6,690 | 6,647 | 876 | 55,799 |
| Used | (26,591) | - | (9,756) | (3,029) | (39,376) |
| Ending balance | 107,657 | 29,759 | 17,520 | 87,903 | 242,839 |
| Less : current portion | (39,148) | (29,759) | - | (20,595) | (89,502) |
| Total | 68,509 | - | 17,520 | 67,308 | 153,337 |

| <i>(in millions of Korean won)</i> | December 31, 2017 | | | | |
|------------------------------------|-----------------------------|--------------------------------------------|---------------------------------|--------------------------------|--------------|
| | Warranty¹ | Greenhouse gas emission² | Legal Claims³ | Restoration⁴ | Total |
| Beginning balance | 51,838 | 27,801 | 10,102 | 95,774 | 185,515 |
| Business combination | 5,994 | 59 | - | - | 6,053 |
| Additions | 94,603 | 342 | 72,787 | 1,641 | 169,373 |
| Used | (59,773) | (5,133) | (62,260) | (7,359) | (134,525) |
| Ending balance | 92,662 | 23,069 | 20,629 | 90,056 | 226,416 |
| Less : current portion | (19,521) | (23,069) | - | (20,350) | (62,940) |
| Total | 73,141 | - | 20,629 | 69,706 | 163,476 |

¹ Warranty provisions have been accrued for the estimated warranty costs to be incurred due to quality control, exchange, refunds with the regard to products based on historical experience.

² Greenhouse gas emission provisions have been accrued for estimated expenditures to be obligated for any excess emission. The estimated emission for the three-month period ended March 31, 2018 amounts to 1,963 thousand tons (2017: 1,943 thousand tons).

³ Lawsuit provisions have been accrued for certain pending cases.

⁴ As at March 31, 2018, restoration provisions have been accrued for the estimated expenses to restore land pollutions and others.

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16. Net Defined Benefit Liabilities

Details of net defined benefit liabilities recognized in the consolidated interim statements of financial position as at March 31, 2018 and December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | December 31, 2017 |
|--------------------------------------------------------------------------------|-----------------------|--------------------------|
| Present value of defined benefit obligations ¹ | 1,066,126 | 1,049,511 |
| Fair value of plan assets | (848,011) | (868,830) |
| Liabilities in the consolidated interim statement of financial position | 218,115 | 180,681 |

¹ The present value of retirement benefit obligations is net of existing contributions to the National Pension Plan of ₩845 million as at March 31, 2018 (2017: ₩862 million).

The amounts recognized in the consolidated interim statements of profit or loss for the three-month periods ended March 31, 2018 and 2017, are as follows:

| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|-----------------------------------------------------|---------------|---------------|
| Current service cost ¹ | 35,908 | 34,909 |
| Interest cost | 1,437 | 726 |
| Total, included in employee benefit expenses | 37,345 | 35,635 |

¹ The above amounts excluded ₩258 million (2017: ₩171 million) of expenses capitalized to construction in progress and development costs.

Post-employment benefits recognized for defined contribution plan for the three-month period ended March 31, 2018, amounted to ₩1,630 million (2017: ₩142 million).

Post-employment benefits recognized in the consolidated interim statements of profit or loss for the three-month periods ended March 31, 2018 and 2017, are as follows:

| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|-------------------------------------|---------------|---------------|
| Cost of sales | 26,174 | 23,992 |
| Selling and administrative expenses | 12,801 | 11,785 |
| Total | 38,975 | 35,777 |

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Movements in the present value of defined benefit obligations for the three-month period ended March 31, 2018 and for the year ended December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | December 31, 2017 |
|-------------------------------------------------------|-----------------------|--------------------------|
| Beginning balance | 1,049,511 | 885,259 |
| Business combination (Note 34) | - | 69,693 |
| Transfer in | 2,110 | 7,452 |
| Transfer out | (1,963) | (2,278) |
| Current service cost | 36,166 | 137,355 |
| Past service cost | - | 656 |
| Interest expense | 8,117 | 26,572 |
| Remeasurements: | | |
| Actuarial loss from change in demographic assumptions | - | 4,100 |
| Actuarial gain from change in financial assumptions | - | (41,917) |
| Actuarial loss from experience adjustments | - | 30,059 |
| Others | - | 1,060 |
| Exchange differences | (74) | (437) |
| Payments from plans | (27,741) | (68,018) |
| Changes in consolidation scope | - | (45) |
| Ending balance | <u>1,066,126</u> | <u>1,049,511</u> |

Movements in the fair value of plan assets for the three-month period ended March 31, 2018 and for the year ended December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | December 31, 2017 |
|-----------------------------------------------------------------------|-----------------------|--------------------------|
| Beginning balance | 868,830 | 793,087 |
| Business combination (Note 34) | - | 57,771 |
| Transfer in | - | - |
| Transfer out | (538) | (504) |
| Interest income | 6,680 | 23,604 |
| Remeasurements: | | |
| Return on plan assets (excluding amounts included in interest income) | (2,663) | (7,398) |
| Contributions: | | |
| Employers | 4 | 59,288 |
| Payments from plans | (23,965) | (56,106) |
| Administrative costs | (337) | (912) |
| Ending balance | <u>848,011</u> | <u>868,830</u> |

The actual return on plan assets for the three-month period ended March 31, 2018, was ₩4,017 million (December 31, 2017: ₩16,206 million).

The significant actuarial assumptions as at March 31, 2018 and December 31, 2017, are as follows:

| | March 31, 2018 | December 31, 2017 |
|--------------------|-----------------------|--------------------------|
| Discount rate | 3.1% ~ 3.5% | 3.1% ~ 3.5% |
| Salary growth rate | 2.2% ~ 5.0% | 2.2% ~ 5.0% |

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The sensitivity analysis for changes in key actuarial assumptions as at March 31, 2018, is as follows:

| <i>(in millions of Korean won)</i> | Increase by 1% | Decrease by 1% |
|----------------------------------------------------|-----------------------|-----------------------|
| Discount rate: | | |
| Increase (decrease) in defined benefit obligations | (107,494) | 128,722 |
| Salary growth rate: | | |
| Increase (decrease) in defined benefit obligations | 125,264 | (106,936) |

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

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

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

Plan assets as at March 31, 2018 and December 31, 2017, consist of:

| <i>(in millions of Korean won)</i> | March 31, 2018 | | | |
|-------------------------------------------|-----------------------|-----------------------|----------------|------------------------|
| | Quoted price | Unquoted price | Total | Composition (%) |
| Insurance contracts with guaranteed yield | 833,563 | - | 833,563 | 98 |
| Equity linked bonds | 11,307 | - | 11,307 | 1 |
| Time deposits | 3,141 | - | 3,141 | 1 |
| | <u>848,011</u> | <u>-</u> | <u>848,011</u> | <u>100</u> |

| <i>(in millions of Korean won)</i> | December 31, 2017 | | | |
|-------------------------------------------|--------------------------|-----------------------|----------------|------------------------|
| | Quoted price | Unquoted price | Total | Composition (%) |
| Insurance contracts with guaranteed yield | 854,368 | - | 854,368 | 98 |
| Equity linked bonds | 11,286 | - | 11,286 | 1 |
| Time deposits | 3,176 | - | 3,176 | 1 |
| | <u>868,830</u> | <u>-</u> | <u>868,830</u> | <u>100</u> |

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17. Other Current and Non-Current Liabilities

Details of other current and non-current liabilities as at March 31, 2018 and December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | December 31, 2017 |
|------------------------------------|-----------------------|--------------------------|
| Current | | |
| Advances from customers | 494,997 | 493,595 |
| Dividends payable | 462,100 | - |
| Withholdings | 77,566 | 91,589 |
| Unearned revenues | 15,483 | 9,842 |
| Accrued expenses | 133,660 | 259,257 |
| Total | <u>1,183,806</u> | <u>854,283</u> |
| Non-current | | |
| Long-term accrued expenses | 45,673 | 44,663 |
| Long-term unearned revenues | 22,405 | 24,237 |
| | <u>68,078</u> | <u>68,900</u> |

18. Commitments and Contingencies

(1) As at March 31, 2018, the Parent Company and certain subsidiaries have been guaranteed from the Seoul Guarantee Insurance Company for the execution of contracts and others.

(2) As at March 31, 2018, the Parent Company has provided one blank promissory note to the Korea National Oil Corporation as a collateral in relation to petroleum import surcharges.

(3) As at March 31, 2018, the Parent Company and certain subsidiaries have various specific line of credit agreements with several financial institutions, as follows:

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

| Classification | The Parent Company | | Certain Subsidiaries | | | | | |
|-------------------------------------------------------|--------------------|-------|----------------------|-------|-------|-----|-------|-----|
| | KRW | USD | KRW | USD | CNY | EUR | INR | THB |
| Limit of bank overdraft | 59,100 | 50 | - | 100 | 930 | 30 | - | 9 |
| Limit of the letter of credit | 32,000 | 378 | - | 290 | 200 | 2 | - | - |
| Limit of discount of notes from export | - | 1,461 | - | - | - | - | - | - |
| Limit of payment guarantees in other foreign currency | - | 60 | - | - | - | - | - | - |
| Limit of loan arrangements | - | - | 76,317 | 1,780 | 7,683 | 115 | 3,200 | - |

The Group also entered into credit line agreements with other financial institutions relating to trade finance and import/export amounting to ₩20,000 million and USD 55 million.

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- (4) As at March 31, 2018, the Parent Company and certain subsidiaries have B2B purchase arrangements with several financial institutions with limit of ₩310,000 million and ₩101,000 million, respectively.
- (5) As at March 31, 2018, in relation to price fixing of mobile batteries, the consumers in U.S., Canada and Israel have filed three class actions and the customers have filed four separate actions against the Parent Company and certain overseas subsidiaries. However, the ultimate outcome of these cases cannot be determined at the reporting date.
- (6) In addition, as at March 31, 2018, the Parent Company and certain subsidiaries have been named as a plaintiff in 15 and 20 legal actions, respectively, involving ₩27,051 million and ₩2,743 million in claims, respectively. They have been named as a defendant in 41 and 11 legal actions, respectively, with ₩57,279 million and ₩13,779 million in claims, respectively. The ultimate outcome of these cases cannot be determined at the reporting date.
- (7) As at March 31, 2018, the Parent Company has technology license agreements with STYRON EUROPE GmbH and other companies for the production of Polycarbonate products. Further, the Parent Company has entered into manufacture and production technical contracts with Exxon Mobile and others.
- (8) The Parent Company has entered into a license agreement with LG Corp. to use trademarks on the products that the Group manufactures and sells, and on the services the Group provides in relation to its business.
- (9) As at March 31, 2018, the Parent Company has entered into payment guarantee contract of US\$ 1 million and EUR 5 million with financial institutions to guarantee the warrant of certain installed products. Also, certain subsidiaries have entered into payment guarantee contract of CNY 435 million with financial institutions in relation to custom of imported raw materials.
- (10) As at March 31, 2018 and December 31, 2017, assets pledged as collateral for the borrowings are as follows:

(in millions of Korean won)

| | March 31, 2018 | | | |
|-------------------|-----------------------|------------------------------------------|--------------|----------------------|
| | Secured amount | Borrowings / Loan | Limit | Secured party |
| Other receivables | 300 | Non-current borrowings (Won currency) | 617 | KEB Hana Bank |
| | <u>300</u> | | <u>617</u> | |

(in millions of Korean won)

| | December 31, 2017 | | | |
|-----------------------------------------------------|--------------------------|---------------------------------------------|---------------|----------------------|
| | Secured amount | Borrowings / Loan | Limit | Secured party |
| Other receivables | 300 | Non-current borrowings (Won currency) | 705 | KEB Hana Bank |
| Gumi facility, Anseong facility, Genetics institute | 52,000 | Collateralized debentures (Won currency) | 40,000 | Creditors |
| | <u>52,300</u> | | <u>40,706</u> | |

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(11) Capital expenditure arrangement that has not incur at the end of the reporting period is as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | December 31, 2017 |
|------------------------------------|-----------------------|--------------------------|
| Property, plant and equipment | 2,250,223 | 1,734,663 |

(12) The Group has entered into operating lease agreements for offices, equipment, ports and others. Most of the agreements will be terminated within a year.

19. Share Capital

Changes in share capital and share premium for the three-month period ended March 31, 2018 and for the year ended December 31, 2017, are as follows:

| <i>(in millions of Korean won and in shares)</i> | Ordinary shares | | Preferred shares | | Share premium |
|------------------------------------------------------|-----------------------------|--------------------------|-----------------------------|--------------------------|--------------------------|
| | Number of shares | Share capital | Number of shares | Share capital | |
| January 1, 2017 | 66,271,100 | 331,356 | 7,628,921 | 38,144 | 897,424 |
| Share issuance due to business combination | 4,321,243 | 21,606 | 59,879 | 300 | 1,116,614 |
| December 31, 2017 | <u>70,592,343</u> | <u>352,962</u> | <u>7,688,800</u> | <u>38,444</u> | <u>2,014,038</u> |
| March 31, 2018 | <u>70,592,343</u> | <u>352,962</u> | <u>7,688,800</u> | <u>38,444</u> | <u>2,014,038</u> |

Changes in treasury shares for the three-month period ended March 31, 2018 and for the year ended December 31, 2017, are as follows:

| <i>(in millions of Korean won and in shares)</i> | Number of shares | | Carrying amount | Gain on disposal of treasury shares |
|--------------------------------------------------------------------|----------------------------|-----------------------------|----------------------------|----------------------------------------------------|
| | Ordinary shares | Preferred shares | | |
| January 1, 2017 | 359,795 | 5,519 | 15,484 | 13,855 |
| Purchase of treasury shares due to business combination | 1,284,891 | 10,328 | 337,211 | - |
| Acquisition of fractional shares due to business combination | 7,730 | 520 | 2,250 | - |
| December 31, 2017 | <u>1,652,416</u> | <u>16,367</u> | <u>354,945</u> | <u>13,855</u> |
| March 31, 2018 | <u>1,652,416</u> | <u>16,367</u> | <u>354,945</u> | <u>13,855</u> |

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20. Retained Earnings

Retained earnings as at March 31, 2018 and December 31, 2017, consist of:

| <i>(in millions of Korean won)</i> | March 31, 2018 | December 31, 2017 |
|----------------------------------------|-----------------------|--------------------------|
| Legal reserve ¹ | 324,135 | 312,894 |
| Discretionary reserve ² | 12,541,819 | 11,410,610 |
| Retained earnings before appropriation | 1,242,681 | 2,315,746 |
| Total | <u>14,108,635</u> | <u>14,039,250</u> |

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

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

21. Other Components of Equity

Details of other components of equity as at March 31, 2018 and December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | December 31, 2017 |
|----------------------------------------------------|-----------------------|--------------------------|
| Treasury shares (Note 19) | (354,945) | (354,945) |
| Capital transactions within the Group ¹ | (7,731) | (7,731) |
| Total | <u>(362,676)</u> | <u>(362,676)</u> |

¹ Includes gain or loss on disposal of investments and investment differences due to changes in equity, net of deferred tax.

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22. Selling and Administrative Expenses

Selling and administrative expenses for the three-month periods ended March 31, 2018 and 2017, are as follows:

| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|------------------------------------|----------------|----------------|
| Wages and salaries | 192,033 | 184,995 |
| Post-employment benefits (Note 16) | 12,801 | 11,785 |
| Employee benefits | 34,106 | 31,957 |
| Travel expense | 13,270 | 11,461 |
| Water & utilities | 13,694 | 10,396 |
| Packaging expense | 1,994 | 1,422 |
| Rental expenses | 20,313 | 19,893 |
| Commission expenses | 94,365 | 79,466 |
| Depreciation (Note 11) | 27,214 | 23,814 |
| Advertising expense | 5,507 | 5,185 |
| Freight expenses | 132,886 | 128,233 |
| Training expense | 3,976 | 3,128 |
| Amortization (Note 12) | 20,250 | 16,810 |
| Sample expense | 4,080 | 4,076 |
| Development costs | 39,365 | 27,712 |
| Others | 74,866 | 56,374 |
| Total | 690,720 | 616,707 |

23. Breakdown of Expenses by Nature

Cost of sales, and selling and administrative expenses by nature for the three-month periods ended March 31, 2018 and 2017, consist of:

| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|------------------------------------------------------------------------------------------------|------------------|------------------|
| Changes in inventories of merchandise, finished goods, semi-finished goods and work in process | (254,491) | (95,795) |
| Raw materials and consumables used | 3,917,501 | 3,825,315 |
| Purchase of merchandise | 295,329 | 321,680 |
| Employee benefit expenses (Note 24) | 560,789 | 542,881 |
| Advertising expenses | 5,710 | 5,345 |
| Freight expenses | 142,870 | 137,500 |
| Commission expenses | 156,258 | 129,404 |
| Depreciation and amortization | 355,238 | 350,601 |
| Operating lease payments | 23,448 | 21,802 |
| Other expenses | 700,097 | 451,027 |
| Total | 5,902,749 | 5,689,760 |

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24. Employee Benefit Expenses

Details of employee benefit expenses for the three-month periods ended March 31, 2018 and 2017, are as follows:

| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|----------------------------------------------------------------|----------------|----------------|
| Salaries | 471,273 | 458,452 |
| Post-employment benefits – Defined benefit plan (Note 16) | 37,345 | 35,635 |
| Post-employment benefits – Defined contribution plan (Note 16) | 1,630 | 142 |
| Others | 50,541 | 48,652 |
| Total | <u>560,789</u> | <u>542,881</u> |

25. Finance Income and Costs

Details of finance income and costs for the three-month periods ended March 31, 2018 and 2017, are as follows:

| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|-----------------------------------------|---------------|----------------|
| Finance income | | |
| Interest income ¹ | 11,264 | 7,466 |
| Dividend income | - | 196 |
| Gain on foreign exchange | 35,649 | 43,594 |
| Gain on foreign currency translation | 34,514 | 11,629 |
| Gain on disposal of hedging derivatives | - | 170 |
| Total | <u>81,427</u> | <u>63,055</u> |
| Finance costs | | |
| Interest expense ² | 25,579 | 27,088 |
| Loss on foreign exchange | 35,834 | 73,348 |
| Loss on foreign exchange translations | 6,084 | 6,861 |
| Loss on redemption of debentures | 13 | - |
| Total | <u>67,510</u> | <u>107,297</u> |

¹ Details of interest income for the three-month periods ended March 31, 2018 and 2017, are as follows:

| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|-----------------------------------------|---------------|--------------|
| Deposits held by financial institutions | 9,843 | 6,501 |
| Non-current financial assets | - | 5 |
| Other loans and receivables | 1,421 | 960 |
| Total | <u>11,264</u> | <u>7,466</u> |

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² Details of interest expense for the three-month periods ended March 31, 2018 and 2017, are as follows:

| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|--------------------------------------------|---------------|---------------|
| Interest on bank overdraft and borrowings | 9,870 | 20,916 |
| Interest on finance lease liabilities | 253 | 737 |
| Interest on debentures | 16,747 | 5,033 |
| Other interest expenses | 1,400 | 1,513 |
| Capitalized interest for qualifying assets | (2,691) | (1,111) |
| Total | <u>25,579</u> | <u>27,088</u> |

26. Other Non-Operating Income

Details of other non-operating income for the three-month periods ended March 31, 2018 and 2017, are as follows:

| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|---------------------------------------------------|---------------|----------------|
| Gain on foreign exchange | 54,308 | 121,089 |
| Gain on foreign currency translation | 18,710 | 51,291 |
| Gain on disposal of property, plant and equipment | 135 | 757 |
| Gain on disposal of intangible assets | - | 4,867 |
| Others | 6,072 | 31,560 |
| Total | <u>79,225</u> | <u>209,564</u> |

27. Other Non-Operating Expenses

Details of other non-operating expenses for the three-month periods ended March 31, 2018 and 2017, are as follows:

| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|------------------------------------------------------------|---------------|----------------|
| Loss on foreign exchange | 43,403 | 120,454 |
| Loss on foreign currency translation | 20,268 | 70,738 |
| Loss on disposal of property, plant and equipment | 13,210 | 21,134 |
| Loss on disposal of intangible assets | 49 | 788 |
| Impairment loss on property, plant and equipment (Note 11) | 1,274 | 12,762 |
| Impairment loss on intangible assets (Note 12) | - | 3,149 |
| Donations | 3,496 | 3,741 |
| Others | 9,830 | 34,394 |
| Total | <u>91,530</u> | <u>267,160</u> |

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28. Tax Expense and Deferred Tax

Income tax expense is recognized based on the best estimate of weighted average annual income tax rate expected for the full financial year. The estimated average annual income tax rate used for the year ending December 31, 2018, is 23.1% (the estimated tax rate for the year ended December 31, 2017: 21.2%).

29. Earnings per Share

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

Basic earnings per share attributable to the owners of the Parent Company for the three-month periods ended March 31, 2018 and 2017, is computed as follows:

Basic earnings per ordinary share

*(in millions of Korean won and
in number of shares)*

| | 2018 | 2017 |
|---------------------------------------------------------------------|-------------------|-------------------|
| Profit attributable to ordinary shares ¹ | 478,050 | 478,177 |
| Weighted average number of ordinary shares outstanding ² | <u>68,939,927</u> | <u>68,941,301</u> |
| Basic earnings per ordinary shares (in won) | <u>6,934</u> | <u>6,936</u> |

Basic earnings per preferred share

*(in millions of Korean won and
in number of shares)*

| | 2018 | 2017 |
|----------------------------------------------------------------------|------------------|------------------|
| Profit attributable to preferred shares ¹ | 53,299 | 53,313 |
| Weighted average number of preferred shares outstanding ² | <u>7,672,433</u> | <u>7,672,525</u> |
| Basic earnings per preferred shares (in won) | <u>6,947</u> | <u>6,949</u> |

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

| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|-------------------------------------------------------------------|-------------|-------------|
| Profit attributable to the equity holders of the Parent Company | 531,349 | 531,490 |
| Ordinary shares dividends (A) | 103,410 | 86,177 |
| Preferred shares dividends (B) | 11,605 | 9,687 |
| Undistributed earnings for the year | 416,334 | 435,626 |
| Undistributed earnings available for ordinary shares (C) | 374,640 | 392,000 |
| Undistributed earnings available for preferred shares (D) | 41,694 | 43,626 |
| Profit for the year attributable to ordinary shares (A+C) | 478,050 | 478,177 |
| Profit for the year attributable to preferred shares (B+D) | 53,299 | 53,313 |

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² Weighted average numbers of shares are calculated as follows:

| Ordinary shares outstanding | 2018 | | | |
|--------------------------------|--------------------------|---------------------|-------------------|----------------------------|
| | Period | Number of shares | Number of days | Number of shares x days |
| Beginning balance | 2018. 1. 1 - 2018. 3. 31 | 68,939,927 | 90 | 6,204,593,430 |
| Total | | | | 6,204,593,430 |

Weighted average number of ordinary shares outstanding: 6,204,593,430 / 90 = 68,939,927 shares

| Preferred shares outstanding | 2018 | | | |
|---------------------------------|--------------------------|---------------------|-------------------|----------------------------|
| | Period | Number of shares | Number of days | Number of shares x days |
| Beginning balance | 2018. 1. 1 - 2018. 3. 31 | 7,672,433 | 90 | 690,518,970 |
| Total | | | | 690,518,970 |

Weighted average number of preferred shares outstanding: 690,518,970 / 90 = 7,672,433 shares

| Ordinary shares outstanding | 2017 | | | |
|-----------------------------------------------|---------------------------|---------------------|-------------------|----------------------------|
| | Period | Number of shares | Number of days | Number of shares x days |
| Beginning balance | 2017. 1. 1 - 2017. 3. 31 | 65,911,305 | 90 | 5,932,017,450 |
| Share issuance due to business combination | 2017. 1. 1 - 2017. 3. 31 | 4,321,243 | 90 | 388,911,870 |
| Purchase of treasury shares | 2017. 1. 1 - 2017. 3. 31 | (1,284,891) | 90 | (115,640,190) |
| Purchase of treasury shares | 2017. 1. 17 - 2017. 3. 31 | (7,730) | 74 | (572,020) |
| Total | | | | 6,204,717,110 |

Weighted average number of ordinary shares outstanding: 6,204,717,110 / 90 = 68,941,301 shares

| Preferred shares outstanding | 2017 | | | |
|-----------------------------------------------|---------------------------|---------------------|-------------------|----------------------------|
| | Period | Number of shares | Number of days | Number of shares x days |
| Beginning balance | 2017. 1. 1 - 2017. 3. 31 | 7,623,402 | 90 | 686,106,180 |
| Share issuance due to business combination | 2017. 1. 1 - 2017. 3. 31 | 59,879 | 90 | 5,389,110 |
| Purchase of treasury shares | 2017. 1. 1 - 2017. 3. 31 | (10,328) | 90 | (929,520) |
| Purchase of treasury shares | 2017. 1. 17 - 2017. 3. 31 | (520) | 74 | (38,480) |
| Total | | | | 690,527,290 |

Weighted average number of preferred shares outstanding: 690,527,290 / 90 = 7,672,525 shares

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

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30. Dividends

The ₩460,058 million (2017: ₩368,055 million) of dividends for the year ended December 31, 2017, was paid to the shareholders of the Parent Company in April 2018.

31. Related Party Transactions

As at March 31, 2018 and December 31, 2017, LG Corp. is an entity exercising a significant influence over the Group, which owns 33.34% of the Parent Company's ordinary shares.

Details of associates and other related parties that have sales and other transactions with the Group or have receivables and payables balances as at March 31, 2018 and December 31, 2017, are as follows, and the details of investments in subsidiaries, associates and joint ventures are described in Note 1.3:

| Related party | Related party's subsidiary (Domestic) | Related party's subsidiary (overseas) | Details |
|----------------------------------------|------------------------------------------|--------------------------------------------------------------------|----------------------------------|
| SERVEONE | - | | Subsidiary of LG Corp. |
| LG CNS Co., Ltd. | LG N-Sys Inc. and others | LG CNS America Inc. and others | Subsidiary of LG Corp. |
| LG Siltron Incorporated | - | - | Subsidiary of LG Corp. |
| LG Management Development Institute | - | - | Subsidiary of LG Corp. |
| LG Sports Ltd. | - | - | Subsidiary of LG Corp. |
| LG Holdings Japan | - | - | Subsidiary of LG Corp. |
| LG MMA Corporation | - | - | Joint venture of LG Corp. |
| LG Display Co., Ltd. | - | LG Display (China) Co., Ltd. and others | LG Enterprise group ¹ |
| LG Electronics, Inc. | LG Innotek Co., Ltd. and others | Inspur LG Digital Mobile Communications Co., Ltd. and others | LG Enterprise group ¹ |
| LG International Corp. | Pantos Logistics Co., Ltd. and others | LG International (Japan) Ltd. and others | LG Enterprise group ¹ |
| LG Hausys, Ltd. | - | LG Hausys Tianjin Co., Ltd. and others | LG Enterprise group ¹ |
| LG Household & Health Care Ltd. | Coca-Cola Beverage Co. | - | LG Enterprise group ¹ |
| LG Uplus Corp. | - | - | LG Enterprise group ¹ |
| G II R Inc. | HS AD Inc. | - | LG Enterprise group ¹ |
| Silicon Works Co., Ltd. | - | - | LG Enterprise group ¹ |

¹ Although the entity is not the related party of the Group in accordance with Korean IFRS 1024, the entity belongs to a large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

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Sales and purchases with related parties for the three-month periods ended March 31, 2018 and 2017, are as follows:

(in millions of Korean won)

| | 2018 | | | |
|-----------------------------------------------------------|-----------------------------|--------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------|
| | Sales and others | Purchase and others | | |
| | | Purchase of raw materials /merchandises | Acquisition of property, plant and equipment and intangible assets | Others |
| Entity with a significant influence over the Group | | | | |
| LG Corp. | - | - | - | 15,723 |
| Associates and joint ventures | | | | |
| SEETEC Co., Ltd. | 5,270 | 29,259 | - | 20,185 |
| TECWIN Co., Ltd. | - | 96 | 1,021 | 4 |
| HL Greenpower Co., Ltd. | 70,346 | - | - | - |
| Others | 8 | - | - | 767 |
| Other related parties | | | | |
| LG MMA Corporation | 30,781 | 64,723 | - | 2,086 |
| SERVEONE and its subsidiaries | 3,332 | 131,112 | 101,383 | 40,250 |
| LG CNS Co., Ltd. and its subsidiaries | 31,331 | 102 | 31,055 | 24,267 |
| Others | - | - | - | 4,317 |
| Others | | | | |
| LG Display Co., Ltd. and its subsidiaries | 296,701 | - | 1,564 | - |
| LG Electronics Inc. and its subsidiaries | 241,350 | 74,629 | 112,837 | 7,113 |
| LG International Corp. and its subsidiaries | 74,767 | 137,436 | 485 | 88,626 |
| LG Hausys, Ltd. and its subsidiaries | 52,733 | 628 | - | 2,009 |
| Others | 3,944 | 7,235 | 367 | 2,298 |
| Total | 810,563 | 445,220 | 248,712 | 207,645 |

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(in millions of Korean won)

| | 2017 | | | |
|-----------------------------------------------------------|-----------------------------|--------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------|
| | Sales and others | Purchase and others | | |
| | | Purchase of raw materials /merchandises | Acquisition of property, plant and equipment and intangible assets | Others |
| Entity with a significant influence over the Group | | | | |
| LG Corp. | - | - | - | 15,219 |
| Associates and joint ventures | | | | |
| SEETEC Co., Ltd. | 5,269 | 28,666 | - | 24,313 |
| TECWIN Co., Ltd. | - | 122 | 1,003 | 5 |
| HL Greenpower Co., Ltd. | 49,160 | - | - | - |
| Others | 7 | - | - | 674 |
| Other related parties | | | | |
| LG MMA Corporation | 19,921 | 52,691 | - | 1,882 |
| SERVEONE and its subsidiaries | 3,202 | 122,737 | 84,013 | 29,793 |
| LG CNS Co., Ltd. and its subsidiaries | 2,477 | 39 | 12,888 | 14,800 |
| Others | 4 | - | - | 3,341 |
| Others | | | | |
| LG Display Co., Ltd. and its subsidiaries | 330,244 | - | - | 5 |
| LG Electronics Inc. and its subsidiaries | 240,194 | 56,489 | 23,123 | 4,284 |
| LG International Corp. and its subsidiaries | 88,504 | 127,170 | 2 | 84,495 |
| LG Hausys, Ltd. and its subsidiaries | 54,342 | 2,291 | - | 2,016 |
| Others | 9,824 | 7,441 | 333 | 1,562 |
| Total | 803,148 | 397,646 | 121,362 | 182,389 |

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Balances of receivables and payables arising from sales and purchases of goods and services as at March 31, 2018 and December 31, 2017, are as follows:

(in millions of Korean won)

| | March 31, 2018 | | | |
|-----------------------------------------------------------|---------------------------------|---------------------|----------------------|----------------|
| | Receivables | | | |
| | Trade receivables and others | Loan receivables | Other receivables | Total |
| Entity with a significant influence over the Group | | | | |
| LG Corp. | - | - | 11,279 | 11,279 |
| Associates and joint ventures | | | | |
| SEETEC Co., Ltd. | 1,134 | - | 249 | 1,383 |
| TECWIN Co., Ltd. | - | - | - | - |
| HL Greenpower Co., Ltd. | 69,912 | - | - | 69,912 |
| Others | - | - | 24 | 24 |
| Other related parties | | | | |
| LG MMA Corporation | 10,457 | - | 452 | 10,909 |
| SERVEONE and its subsidiaries | 2,330 | - | 27,948 | 30,278 |
| LG CNS Co., Ltd. and its subsidiaries | 45,925 | - | - | 45,925 |
| Others | - | - | 4,893 | 4,893 |
| Others | | | | |
| LG Display Co., Ltd. and its subsidiaries | 220,327 | - | 2,431 | 222,758 |
| LG Electronics Inc. and its subsidiaries | 209,817 | - | 23,742 | 233,559 |
| LG International Corp. and its subsidiaries | 47,168 | - | 711 | 47,879 |
| LG Hausys, Ltd. and its subsidiaries | 40,014 | - | 264 | 40,278 |
| Others | 184 | - | 1,182 | 1,366 |
| Total | 647,268 | - | 73,175 | 720,443 |

(in millions of Korean won)

| | March 31, 2018 | | | |
|-----------------------------------------------------------|----------------|------------|----------------|----------------|
| | Payables | | | |
| | Trade payables | Borrowings | Other payables | Total |
| Entity with a significant influence over the Group | | | | |
| LG Corp. | - | - | 156,149 | 156,149 |
| Associates and joint ventures | | | | |
| SEETEC Co., Ltd. | 10,074 | - | 10,286 | 20,360 |
| TECWIN Co., Ltd. | - | - | 1,231 | 1,231 |
| HL Greenpower Co., Ltd. | - | - | - | - |
| Others | - | - | 58 | 58 |
| Other related parties | | | | |
| LG MMA Corporation | 19,440 | - | - | 19,440 |
| SERVEONE and its subsidiaries | 70,840 | - | 272,022 | 342,862 |
| LG CNS Co., Ltd. and its subsidiaries | 170 | - | 97,421 | 97,591 |
| Others | - | - | 1,208 | 1,208 |
| Others | | | | |
| LG Display Co., Ltd. and its subsidiaries | - | - | 6,148 | 6,148 |
| LG Electronics Inc. and its subsidiaries | 184,188 | - | 25,269 | 209,457 |
| LG International Corp. and its subsidiaries | 39,265 | - | 48,831 | 88,096 |
| LG Hausys, Ltd. and its subsidiaries | 1,531 | - | 667 | 2,198 |
| Others | 2,836 | - | 7,256 | 10,092 |
| Total | 328,344 | - | 626,546 | 954,890 |

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(in millions of Korean won)

| | December 31, 2017 | | | |
|-----------------------------------------------------------|---------------------------------|---------------------|----------------------|----------------|
| | Receivables | | | Total |
| | Trade receivables and others | Loan receivables | Other receivables | |
| Entity with a significant influence over the Group | | | | |
| LG Corp. | - | - | 9,183 | 9,183 |
| Associates and joint ventures | | | | |
| SEETEC Co., Ltd. | 1,752 | - | 279 | 2,031 |
| TECWIN Co., Ltd. | - | - | - | - |
| HL Greenpower Co., Ltd. | 60,726 | - | - | 60,726 |
| Others | 16 | - | - | 16 |
| Other related parties | | | | |
| LG MMA Corporation | 8,663 | - | 482 | 9,145 |
| SERVEONE and its subsidiaries | 2,893 | - | 27,948 | 30,841 |
| LG CNS Co., Ltd. and its subsidiaries | 20,209 | - | - | 20,209 |
| Others | - | - | 4,873 | 4,873 |
| Others | | | | |
| LG Display Co., Ltd. and its subsidiaries | 240,427 | - | 6,057 | 246,484 |
| LG Electronics Inc. and its subsidiaries | 287,566 | - | 46,116 | 333,682 |
| LG International Corp. and its subsidiaries | 48,332 | - | 891 | 49,223 |
| LG Hausys, Ltd. and its subsidiaries | 40,089 | - | 92 | 40,181 |
| Others | 318 | - | 398 | 716 |
| Total | 710,991 | - | 96,319 | 807,310 |

(in millions of Korean won)

| | December 31, 2017 | | | |
|-----------------------------------------------------------|-------------------|------------|----------------|----------------|
| | Payables | | | Total |
| | Trade payables | Borrowings | Other payables | |
| Entity with a significant influence over the Group | | | | |
| LG Corp. | - | - | 7,897 | 7,897 |
| Associates and joint ventures | | | | |
| SEETEC Co., Ltd. | 10,698 | - | 10,759 | 21,457 |
| TECWIN Co., Ltd. | - | - | 2,195 | 2,195 |
| HL Greenpower Co., Ltd. | - | - | - | - |
| Others | - | - | - | - |
| Other related parties | | | | |
| LG MMA Corporation | 19,140 | - | - | 19,140 |
| SERVEONE and its subsidiaries | 12,630 | - | 442,860 | 455,490 |
| LG CNS Co., Ltd. and its subsidiaries | 994 | - | 116,422 | 117,416 |
| Others | - | - | 557 | 557 |
| Others | | | | |
| LG Display Co., Ltd. and its subsidiaries | - | - | 8,660 | 8,660 |
| LG Electronics Inc. and its subsidiaries | 114,892 | - | 127,946 | 242,838 |
| LG International Corp. and its subsidiaries | 35,962 | - | 40,581 | 76,543 |
| LG Hausys, Ltd. and its subsidiaries | 3,409 | - | 1,811 | 5,220 |
| Others | 2,151 | - | 5,779 | 7,930 |
| Total | 199,876 | - | 765,467 | 965,343 |

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Fund transactions with related parties for the three-month periods ended March 31, 2018 and 2017, are as follows:

(in millions of Korean won)

| | 2018 | | 2017 | |
|--------------------------------------|--------------------------------------------------|------------------|--------------------------------------------------|------------------|
| | Equity contributions in cash (capital reduction) | Loan (Repayment) | Equity contributions in cash (capital reduction) | Loan (Repayment) |
| Associates and joint ventures | | | | |
| FJ Composite Materials Co., Ltd. | - | - | 3,015 | - |
| WUXI CL New Energy Technology Ltd. | 559 | - | - | - |
| Total | 559 | - | 3,015 | - |

Dividends received from related parties for the three-month periods ended March 31, 2018 and 2017, are as follows:

(in millions of Korean won)

| | 2018 | 2017 |
|--------------------------------------|---------------|---------------|
| Associates and joint ventures | | |
| SEETEC Co., Ltd. | 10,000 | 10,000 |
| Total | 10,000 | 10,000 |

There are no dividends paid by the Group to related parties for the three-month periods ended March 31, 2018 and 2017.

Compensation for key management of the Group for the three-month periods ended March 31, 2018 and 2017, consists of:

(in millions of Korean won)

| | 2018 | 2017 |
|------------------------------|---------------|---------------|
| Short-term employee benefits | 16,902 | 21,354 |
| Post-employment benefits | 1,412 | 884 |
| Total | 18,314 | 22,238 |

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

There are no provisions recognized against receivables from related parties as at March 31, 2018.

As at March 31, 2018, there is no payment guarantees provided by the Group for related parties.

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32. Cash Generated from Operations

Reconciliation between profit before income tax and cash generated from operations for the three-month periods ended March 31, 2018 and 2017, is as follows:

| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|---------------------------------------------------|---------------|----------------|
| Profit before income tax | 653,196 | 698,301 |
| Adjustments for: | | |
| Depreciation | 329,141 | 329,389 |
| Amortization | 26,097 | 21,212 |
| Post-employment benefits | 37,345 | 35,635 |
| Finance income | (64,489) | (67,338) |
| Finance costs | 51,932 | 106,035 |
| Foreign exchange differences | (136) | (57,671) |
| Loss on valuation of inventories | (6,027) | (3,569) |
| Gain on disposal of property, plant and equipment | (135) | (757) |
| Gain on disposal of intangible assets | - | (4,867) |
| Loss on disposal of property, plant and equipment | 13,210 | 21,134 |
| Loss on disposal of intangible assets | 49 | 788 |
| Impairment loss on property, plant and equipment | 1,274 | 12,762 |
| Impairment loss on intangible assets | - | 3,149 |
| Additions to provisions | 55,799 | 42,953 |
| Other expense (income) | 2,945 | (16,337) |
| Increase in inventories | (394,396) | (220,199) |
| Increase in trade receivables | (225,552) | (468,546) |
| Decrease (increase) in other receivables | 38,963 | (11,263) |
| Increase in other current assets | (25,832) | (36,952) |
| Increase in settlement of derivatives | - | (2,114) |
| Increase (decrease) in trade payables | (42,277) | 116,876 |
| Decrease in other payables | (184,555) | (56,203) |
| Decrease in other current liabilities | (144,401) | (106,488) |
| Decrease in provisions | (2,758) | (14,443) |
| Decrease in net defined benefit liabilities | (39,376) | (3,176) |
| Other cash flows from operations | (5,171) | 8,319 |
| Cash generated from operations | <u>74,846</u> | <u>326,630</u> |

Changes in liabilities arising from financial activities for the three-month period ended March 31, 2018, are as follows:

| | 2018 | | | | | | |
|-----------------------|-----------------------------------|---------------------------------------------------------|---------------------------------|------------------------------------|----------------------------------------------------|------------------------------------------------------|----------------------------------|
| | At January 1, 2018 | Cash flows from financing activities | Exchange differences | Amortization (transfer) | Reclassification of current portion | Effect of change in exchange rate | At March 31, 2018 |
| Short-term borrowings | 1,451,324 | 83,765 | (10,809) | - | 50,191 | 18,774 | 1,593,245 |
| Long-term borrowings | 546,322 | 43,557 | (18,135) | - | (47,188) | 34,180 | 558,736 |
| Debentures | 1,047,303 | 1,042,985 | - | (2,985) | (3,003) | - | 2,084,300 |
| Total | <u>3,044,949</u> | <u>1,170,307</u> | <u>(28,944)</u> | <u>(2,985)</u> | <u>-</u> | <u>52,954</u> | <u>4,236,281</u> |

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The significant non-cash transactions for the three-month periods ended March 31, 2018 and 2017, are as follows:

| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|-------------------------------------------------------------------------|-------------|-------------|
| Transfer of construction-in-progress | 409,132 | 305,744 |
| Transfer of machinery-in-transit | 23,959 | 32,257 |
| Reclassification of long-term borrowings into current portion | 50,044 | 86,329 |
| Reclassification of asset held for sale | - | 2,404 |
| Acquisition of an entity by means of the issuance of equity instruments | - | 1,138,593 |

33. Segment Information

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

| Segment | Products or services | Major customers |
|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|
| Basic materials & Chemicals | ABS, PC, EP, PE, PP, Acrylic, Alcohol, SAP, PVC, Synthetic rubber, Special resin, BPA, Ethylene, Propylene and others | LG Electronics Inc., OCI Company Co. Ltd., Mitsubishi Corp. and others |
| Energy solutions | Mobile batteries, Automotive batteries, Electricity storage batteries and others | Hewlett-Packard Co., General Motors Corp., and others |
| IT & Electronic materials and Advanced materials ¹ | Polarizers, 3D FPR, LCD Photoresist, OLED materials, Battery materials and others | LG Display Co., Ltd., Samsung Display Co., Ltd., BOE, AUO and others |
| Life sciences ² | Growth hormone, Vaccine, Antidiabetic, agricultural chemicals and others | HUADONG NINGBO, UNICEF, Intervet and others |
| Common and others | Crop protection products, Seeds, Fertilizers, General management, sales and R&D and others | National Agriculture Cooperative Federation and others |

¹ The Group presents IT & Electronic materials and Advanced materials as Advanced materials business has been included in IT & Electronic materials since 2017. The comparative information was restated to reflect such changes.

² Life Sciences segment was disclosed separately as LG Life Sciences, Ltd. was merged into the Parent Company on January 1, 2017.

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The segment information on revenue, profit and loss for the three-month periods ended March 31, 2018 and 2017, is as follows:

| <i>(in millions of Korean won)</i> | 2018 | | | | | |
|----------------------------------------------|------------------------------------------------|-----------------------------|-------------------------------------------------------------------------|--------------------------|------------------------------------------|--------------|
| | Basic materials & Chemicals | Energy solutions | IT & Electronic materials and Advanced materials | Life sciences | Common and others³ | Total |
| Total segment revenue | 4,359,078 | 1,244,497 | 759,230 | 131,149 | 239,729 | 6,733,683 |
| Inter-segment revenue | 66,731 | - | 112,362 | 743 | 257 | 180,093 |
| Revenue from external customers ¹ | 4,292,347 | 1,244,497 | 646,868 | 130,406 | 239,472 | 6,553,590 |
| Operating profit (loss) ² | 636,944 | 2,060 | (9,682) | 7,034 | 14,485 | 650,841 |

| <i>(in millions of Korean won)</i> | 2017 | | | | | |
|----------------------------------------------|------------------------------------------------|-----------------------------|-------------------------------------------------------------------------|--------------------------|------------------------------------------|--------------|
| | Basic materials & Chemicals | Energy solutions | IT & Electronic materials and Advanced materials | Life sciences | Common and others³ | Total |
| Total segment revenue | 4,495,295 | 999,369 | 727,043 | 129,441 | 256,060 | 6,607,208 |
| Inter-segment revenue | 46,127 | - | 70,300 | 91 | 4,022 | 120,540 |
| Revenue from external customers ¹ | 4,449,168 | 999,369 | 656,743 | 129,350 | 252,038 | 6,486,668 |
| Operating profit (loss) ² | 733,705 | (10,352) | 29,336 | 20,580 | 23,639 | 796,908 |

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

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

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

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The segment information on assets and liabilities as at March 31, 2018 and December 31, 2017, is as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | | | | | |
|----------------------------------------------|----------------------------------------|-------------------------|-------------------------------------------------------------|----------------------|--------------------------|--------------|
| | Basic materials & Chemicals | Energy solutions | IT & Electronic materials and Advanced materials | Life sciences | Common and others | Total |
| Reportable segment asset ¹ | 9,579,758 | 5,845,500 | 3,480,557 | 1,811,460 | 5,698,224 | 26,415,499 |
| Investments in associates and joint ventures | 3,995 | 21,796 | - | 17 | 232,944 | 258,752 |
| Reportable segment liability ¹ | 3,507,466 | 2,352,961 | 743,858 | 375,318 | 2,925,656 | 9,905,259 |

| <i>(in millions of Korean won)</i> | December 31, 2017 | | | | | |
|----------------------------------------------|----------------------------------------|-------------------------|-------------------------------------------------------------|----------------------|--------------------------|--------------|
| | Basic materials & Chemicals | Energy solutions | IT & Electronic materials and Advanced materials | Life sciences | Common and others | Total |
| Reportable segment asset ¹ | 9,307,132 | 5,460,448 | 3,503,330 | 1,809,248 | 4,961,063 | 25,041,221 |
| Investments in associates and joint ventures | 4,057 | 21,242 | - | 17 | 238,780 | 264,096 |
| Reportable segment liability ¹ | 3,317,393 | 2,176,990 | 731,585 | 427,667 | 2,049,009 | 8,702,644 |

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

The external sales and non-current assets by geographical segments from continuing operations for the three-month periods ended March 31, 2018 and 2017, and as at March 31, 2018 and December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | Sales | | Non-current assets¹ | |
|------------------------------------|------------------|------------------|---------------------------------------|--------------------------|
| | 2018 | 2017 | March 31, 2018 | December 31, 2017 |
| Korea ² | 2,162,313 | 2,183,606 | 10,768,690 | 10,618,989 |
| China | 2,130,518 | 2,172,330 | 2,006,764 | 1,887,324 |
| Asia | 1,149,692 | 1,223,266 | 33,202 | 31,671 |
| America | 371,138 | 341,528 | 274,079 | 235,481 |
| Europe | 658,053 | 484,963 | 284,242 | 262,199 |
| Others | 81,876 | 80,975 | - | - |
| Total | 6,553,590 | 6,486,668 | 13,366,977 | 13,035,664 |

¹ Represents aggregate amount of property, plant and equipment, intangible assets and investment properties.

² Domestic sales include the exports made through local letters of credit.

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There is no single external customer contributes over 10% of the Group's revenue for the three-month periods ended March 31, 2018 and 2017.

34. Business Combination

In order to enhance future-oriented business portfolio and leap into a global player of red bio industry by enlarging investment in long-term and stable new drugs development, the Parent Company merged LG Life Sciences, Ltd. on January 1, 2017.

(in millions of Korean won)

| | Amount |
|----------------------------------------------------------------------------------------|------------------|
| Consideration | |
| Equity securities (Ordinary 4,321,243 shares, Preferred 59,879 shares) ¹ | 1,138,593 |
| Total consideration | <u>1,138,593</u> |
| Recognized amounts of identifiable assets acquired and liabilities assumed | |
| Cash and cash equivalents | 43,832 |
| Trade and other (non-current) receivables | 112,703 |
| Inventories | 123,083 |
| Property, plant and equipment | 493,321 |
| Intangible assets | 273,550 |
| Other assets | 8,315 |
| Trade payables | (38,736) |
| Borrowings | (729,745) |
| Provisions | (6,053) |
| Net defined benefit liabilities | (11,922) |
| Other liabilities | (153,195) |
| Treasury shares (Ordinary 1,284,891 shares, Preferred 10,328 shares) ¹ | 337,211 |
| Fair value of identifiable net assets | <u>452,364</u> |
| Goodwill | 686,229 |
| Total | <u>1,138,593</u> |

¹ The fair value of ordinary shares, preferred shares and treasury shares acquired were based on the market price at the acquisition date.

With regard to the above business combination, share issuance cost of ₩73 million was deducted from equity.

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35. Assets Held for sale

The Group decided to dispose of Electrolyte business, 2CCL business and others with the approval of management in February 2016 and January 2017, respectively. The related assets were reclassified as assets held for sale, and the disposal is expected to be completed in 2018. Assets and liabilities of Research Institute and FarmHwaong Co., Ltd., which was acquired during the course of the business combination of FarmHannong Co., Ltd., are also included. The disposal is expected to be completed in 2018.

Details of assets and liabilities of disposal group classified as held for sale as at March 31, 2018 and December 31, 2017, are as follows:

| <i>(in millions of Korean won)</i> | March 31, 2018 | December 31, 2017 |
|--------------------------------------|-----------------------|--------------------------|
| Assets of disposal group | | |
| Property, plant and equipment | 5,486 | 5,486 |
| Intangible assets | 358 | 358 |
| Other receivables and others | 741 | 751 |
| Total | <u>6,585</u> | <u>6,595</u> |
| Liabilities of disposal group | | |
| Other payables and others | 35 | 31 |
| Total | <u>35</u> | <u>31</u> |

Assets of the disposal group were measured at fair value immediately before the initial classification of the assets as held for sale and the related other non-operating expenses (income) for the three-month periods ended March 31, 2018 and 2017, is as follows:

| <i>(in millions of Korean won)</i> | 2018 | 2017 |
|--------------------------------------------------|-------------|---------------|
| Impairment loss on property, plant and equipment | - | 10,382 |
| Impairment loss on intangible assets | - | 4 |
| Total | <u>-</u> | <u>10,386</u> |

36. Event after the Reporting Period

With the approval of the Board of Directors on April 10, 2018, the Group decided the issuance of the 1-1st and 1-2nd registered non-guaranteed overseas exchangeable bonds and issued the 1-1st of ₩234,850 million and 1-2nd of ₩ 414,655 million, respectively and ₩ 649,505 million in total. The exchange period is from May 27, 2018 to April 6, 2021 and the maturity date is April 16, 2021.