

LG Chem, Ltd.
Separate Financial Statements
December 31, 2011 and 2010

LG Chem, Ltd.

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December 31, 2011 and 2010

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RESPECTED
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PROFESSIONAL**SAMIL****Report of Independent Auditors**

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

We have audited the accompanying separate statements of financial position of LG Chem, Ltd. (the "Company") as of December 31, 2011 and 2010, and the related separate statements of income, comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of LG Chem, Ltd. as of December 31, 2011 and 2010, and its financial performance and cash flows for the years then ended in conformity with international financial reporting standards as adopted by the Republic of Korea ("Korean IFRS").

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

Samil PriceWaterhouseCoopers

Seoul, Korea
March 8, 2012

This report is effective as of March 8, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LG Chem, Ltd.
Statements of Financial Position
December 31, 2011 and 2010

(In millions of Korean won)	Notes	2011	2010
Assets			
Current assets			
Cash and cash equivalents	3, 5, 6	1,105,301	1,130,818
Trade receivables	3, 5, 7, 33	2,683,917	2,173,032
Other receivables	3, 5, 7, 33	184,321	105,311
Other financial assets	3, 5, 8, 10	-	2,194
Other current assets	15	76,981	69,077
Inventories	11	2,021,267	1,731,344
Total current assets		<u>6,071,787</u>	<u>5,211,776</u>
Non-current assets			
Other receivables	3, 5, 7	29,761	14,189
Other financial assets	3, 5, 8, 9	5,846	4,044
Investments in subsidiaries	12	733,486	780,667
Investments in associates and joint ventures	12	250,309	154,593
Property, plant and equipment	13	6,110,849	4,672,081
Intangible assets	14	193,675	167,696
Other non-current assets	15	23,304	9,563
Total non-current assets		<u>7,347,230</u>	<u>5,802,833</u>
Total assets		<u>13,419,017</u>	<u>11,014,609</u>
Liabilities and equity			
Liabilities			
Current liabilities			
Trade payables	3, 5, 33	1,226,955	973,413
Other payables	3, 5, 33	1,050,326	840,920
Borrowings	3, 5, 16	1,158,793	1,061,723
Other financial liabilities	3, 5, 8, 10	536	20,535
Provisions	17	7,223	4,906
Current income tax liabilities	30	274,490	363,775
Other current liabilities	19	115,160	71,037
Total current liabilities		<u>3,833,483</u>	<u>3,336,309</u>
Non-current liabilities			
Other payables	3, 5	40,652	47,181
Borrowings	3, 5, 16	324,316	215,712
Other financial liabilities	3, 5, 8, 10	146	-
Provisions	17	2,314	-
Defined benefit liability	18	59,431	6,056
Deferred income tax liabilities	30	57,062	12,847
Total non-current liabilities		<u>483,921</u>	<u>281,796</u>
Total liabilities		<u>4,317,404</u>	<u>3,618,105</u>

LG Chem, Ltd.
Statements of Financial Position
December 31, 2011 and 2010

<i>(in millions of Korean won)</i>	Notes	2011	2010
Equity			
Share capital	1, 21	369,500	369,500
Capital surplus	35	1,166,764	1,157,572
Other components of equity	23	(15,484)	(15,484)
Accumulated other comprehensive income		(516)	(3,216)
Retained earnings	22	<u>7,581,349</u>	<u>5,888,132</u>
Total equity		<u>9,101,613</u>	<u>7,396,504</u>
Total liabilities and equity		<u>13,419,017</u>	<u>11,014,609</u>

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

LG Chem, Ltd.
Statements of Income
Years Ended December 31, 2011 and 2010

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2011	2010
Revenue	33	19,809,874	16,850,454
Cost of sales	25, 33	<u>(16,192,361)</u>	<u>(13,353,672)</u>
Gross profit		3,617,513	3,496,782
Selling, general and administrative expenses	24, 25, 33	(1,097,126)	(981,230)
Other operating income	5, 27	419,568	404,376
Other operating expenses	5, 25, 28	<u>(403,083)</u>	<u>(423,684)</u>
Operating profit		<u>2,536,872</u>	<u>2,496,244</u>
Non-operating income(expenses)			
Financial income	5, 29	247,738	185,429
Financial expenses	5, 29	(165,159)	(151,592)
Other non-operating expenses		<u>(30,880)</u>	<u>(12,285)</u>
		51,699	21,552
Profit before income tax	30	2,588,571	2,517,796
Income tax expense	30	<u>(560,250)</u>	<u>(546,803)</u>
Profit for the year		<u>2,028,321</u>	<u>1,970,993</u>
Earnings per share for profit for the year			
(in won)	31		
Basic and diluted earnings per ordinary share for profit for the year		27,578	26,798
Basic and diluted earnings per preferred share for profit for the year		27,628	26,848

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

LG Chem, Ltd.
Statements of Comprehensive Income
Years Ended December 31, 2011 and 2010

<i>(in millions of Korean won)</i>	Notes	2011	2010
Profit for the year		<u>2,028,321</u>	<u>1,970,993</u>
Other comprehensive income			
Actuarial loss on defined benefit liability	18	(53,541)	(17,771)
Cash flow hedges		4,767	5,411
Income tax effect relating to components of other comprehensive income	30	<u>11,830</u>	<u>387</u>
Other comprehensive income for the year, net of tax		<u>(36,944)</u>	<u>(11,973)</u>
Total comprehensive income for the year		<u>1,991,377</u>	<u>1,959,020</u>

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

LG Chem, Ltd.
Separate Statements of Changes in Equity
Years Ended December 31, 2011 and 2010

(In millions of Korean won)	Notes	Share capital	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings	Total equity
Balance at January 1, 2010		369,500	1,157,572	(479,756)	(7,318)	4,655,238	5,695,236
Comprehensive Income:							
Profit for the year		-	-	-	-	1,970,993	1,970,993
Actuarial loss on defined benefit liability	18	-	-	-	-	(16,075)	(16,075)
Cash flow hedges		-	-	-	4,102	-	4,102
Total comprehensive income		-	-	-	4,102	1,954,918	1,959,020
Transactions with owners:							
Loss on capital reduction		-	-	464,272	-	(464,272)	-
Dividends	32	-	-	-	-	(257,752)	(257,752)
Total transactions with owners		-	-	464,272	-	(722,024)	(257,752)
Balance at December 31, 2010		369,500	1,157,572	(15,484)	(3,216)	5,888,132	7,396,504
Balance at January 1, 2011		369,500	1,157,572	(15,484)	(3,216)	5,888,132	7,396,504
Comprehensive Income:							
Profit for the year		-	-	-	-	2,028,321	2,028,321
Actuarial loss on defined benefit liability	18	-	-	-	-	(40,584)	(40,584)
Cash flow hedges		-	-	-	3,640	-	3,640
Total comprehensive income		-	-	-	3,640	1,987,737	1,991,377
Transactions with owners:							
Capital increase from the merger of subsidiary	35	-	9,192	-	(940)	-	8,252
Dividends	32	-	-	-	-	(294,520)	(294,520)
Total transactions with owners		-	9,192	-	(940)	(294,520)	(286,268)
Balance at December 31, 2011		369,500	1,166,764	(15,484)	(516)	7,581,349	9,101,613

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

LG Chem, Ltd.
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

<i>(in millions of Korean won)</i>	Notes	2011	2010
Cash flows from operating activities			
	34	2,711,081	2,757,457
Cash generated from operations		26,203	23,277
Interest received		(42,862)	(50,287)
Interest paid		92,359	73,818
Dividends		(583,579)	(359,364)
Income taxes paid		<u>2,203,202</u>	<u>2,444,901</u>
Net cash generated from operating activities			
Cash flows from investing activities			
		40,005	200,000
Decrease in other receivables		15,939	5,851
Decrease in non-current other receivables		13	7
Decrease in non-current other financial assets		3,328	329
Proceeds from disposal of property, plant and equipment		-	182
Proceeds from disposal of intangible assets		10,087	-
Net increase in cash from the merger of subsidiary	35	(47,000)	(105,000)
Increase in other receivables		(28,917)	(9,960)
Increase in non-current other receivables		(1,817)	(7)
Increase in non-current other financial assets		(89,767)	(142,328)
Acquisition of investments in subsidiaries		(41,381)	(14,210)
Acquisition of investments in associates and joint ventures		(1,877,500)	(1,321,915)
Purchases of property, plant and equipment		(26,624)	(23,890)
Purchases of intangible assets		<u>(2,043,634)</u>	<u>(1,410,941)</u>
Net cash used in investing activities			
Cash flows from financing activities			
		343,160	-
Proceeds from borrowings		(225,690)	(506,735)
Repayments of borrowings		(294,527)	(257,771)
Dividends		(7,378)	-
Payment of settlement of derivatives		<u>(184,435)</u>	<u>(764,506)</u>
Net cash used in financing activities			
Net increase(decrease) in cash and cash equivalents		(24,867)	269,454
Cash and cash equivalents at beginning of year		1,130,818	862,585
Exchange losses on cash and cash equivalents		(650)	(1,221)
Cash and cash equivalents at the end of year		<u>1,105,301</u>	<u>1,130,818</u>

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

LG Chem, Ltd.
Notes to the Separate Financial Statements
December 31, 2011 and 2010

1. General Information

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

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

As of December 31, 2011, the Company has its manufacturing facilities in Yeosu, Cheongju, Ulsan, Naju, Iksan, Daesan, Ochang and Gimcheon.

The Company is authorized to issue 292 million shares of ordinary shares with par value of ₩5,000 per share. As of December 31, 2011, the Company has issued 66,271,100 ordinary shares (₩331,356 million) and 7,628,921 preferred shares (₩38,144 million). The largest shareholder of the Company is LG Corp., which owns 33.53% of the Company's ordinary shares. Preferred shareholders have no voting rights but are entitled to receive dividends at a rate 1% more than those paid to ordinary shareholders.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The Company has adopted International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") from the annual period beginning on January 1, 2010. Korean IFRS are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea. The Company's transition date to Korean IFRS in accordance with Korean IFRS 1101 is January 1, 2009, and its Korean IFRS adoption date is January 1, 2010.

The accompanying financial statements have been prepared in accordance with the Korean IFRS standards and interpretations issued and effective at the reporting date, December 31, 2011. The preparation of financial statements in conformity with Korean IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 4.

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2.2 Investments in subsidiaries, associates and joint ventures

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

2.3 Changes in accounting policy and disclosures

(1) New and amended standards adopted by the Company

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2011.

Korean IFRS 1024 (amendment), 'Related party disclosures', issued in November 2009. Korean IFRS 1024 (amendment) is mandatory for periods beginning on or after January 1, 2011. Earlier application, in whole or in part, is permitted. The amended standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

Korean IFRS 1034 (annual improvement), 'Interim financial reporting'. Changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments, changes in the classification of financial assets as a result of a change in the purpose or use of those assets and changes in contingent liabilities or contingent assets are added to the disclosure items for interim financial reporting. An entity shall apply those amendments for annual periods beginning on or after January 1, 2011.

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- (2) New and amended standards, and interpretations mandatory for the first time for the financial year beginning January 1, 2011, but not currently relevant to the Company (although they may affect the accounting for future transactions and events).

Korean IFRS 1032 (amendment), 'Classification of rights issues', issued in October 2009. The amendment applies to annual periods beginning on or after February 1, 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with Korean IFRS 1008, 'Accounting policies, changes in accounting estimates and errors'.

Korean IFRS 1001 (amendment), 'Presentation of financial statements' issued in December 2010. The amendment applies to annual periods beginning on or after January 1, 2011. If the operating profit is not separately presented in the consolidated statement of income, the operating profit shall be disclosed in the notes with major operating type items and their respective amounts. Additionally, in the year of Korean IFRS adoption, if the operating profit is measured differently from the previous accounting standard, the major items and amounts causing the difference shall be disclosed.

Korean IFRS 1034 (amendment), 'Interim financial reporting', issued in December 2010. Entities exempted from preparing consolidated financial statements until year 2012 whose total assets are less than ₩2 trillion shall disclose, in the notes to the interim financial statements, the condensed statements of financial position and comprehensive income of the parent company prepared applying the equity method accounting for subsidiaries and other applicable equity investments. The amendment applies to annual periods beginning on or after January 1, 2011.

Korean IFRS 2119, 'Extinguishing financial liabilities with equity instruments', effective on or after July 1, 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are negotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished.

Korean IFRS 2114 'Prepayments of a minimum funding requirement' (amendment). The amendment applies to annual periods beginning on January 1, 2011. The amendment corrects an unintended consequence of Korean IFRS 2114, 'Korean IFRS 1019 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendment, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when Korean IFRS 2114 was issued, and the amendment corrects this. The amendment should be applied retrospectively to the earliest comparative period presented.

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Korean IFRS 1103 (annual improvement) 'Business combinations'. The amendment applies to annual periods beginning on or after July 1, 2010, and the choice of measuring non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the acquiree's identifiable net assets applies only to the non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. All other non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by applicable Korean IFRS. The application guidance in Korean IFRS 1103 shall also apply to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the acquirer.

- (3) New standards amendments and interpretations issued but not effective for the financial years beginning on or after January 1, 2011, and not early adopted by the Company.

Korean IFRS 1012, 'Income taxes'(amendment). The amendment introduces a rebuttable presumption that the carrying amount of the investment property measured using the fair value model will be recovered through sale. Accordingly, unless the presumption is rebutted, the measurement of deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale. The amendment applies to annual periods beginning on or after January 1, 2012.

Korean IFRS 1107, 'Financial instruments: Disclosures'(amendment). The amendment requires an entity to disclose, for each class of transferred financial assets that are not derecognized in their entirety, the nature and carrying amounts of the transferred assets, the nature of the risks and rewards of ownership to which the entity is exposed. Also, the amendment requires an entity to disclose additional information on the risk and impact associated with the transferred assets when an entity derecognizes transferred financial assets in their entirety but has continuing involvement in them. An entity shall apply those amendments for annual periods beginning on or after July 1, 2011.

Korean IFRS 1113, 'Fair value measurement'(new standard), aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRSs. Korean IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within Korean IFRSs. This new standard applies to annual periods beginning on or after January 1, 2013.

Korean IFRS 1101, 'Hyperinflation and removal of fixed dates for first-time adopters' (amendment). As an exception to retrospective application requirements, this amendment to Korean IFRS 1101 allows a prospective application of derecognition of financial assets for transactions occurring on or after the date of transition to Korean IFRS, instead of fixed date (January 1, 2004). Accordingly, entities are not required to restate and recognize those assets or liabilities that were derecognized as a result of a transaction that occurred before the dated of transition to Korean IFRS. This amendment applies to annual periods beginning on or after July 1, 2011.

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Korean IFRS 1019, 'Employee benefits' (amendment). According to the amendment to Korean IFRS 1019, Employee Benefits, use of a 'corridor' approach is no longer permitted, and therefore all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are now changed to calculating net interest expense(income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities(assets). This amendment applies to annual periods beginning on or after January 1, 2013.

2.4 Foreign currency translation

(1) Functional and presentation currency

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

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

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

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

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

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(3) Translation to presentation currency

Financial statements prepared in functional currency are translated to presentation currency as follows.

- i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- ii) Income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- iii) All resulting exchange differences are recognized in other comprehensive income.

Exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are recognized in other comprehensive income. When foreign operations are wholly or partially sold, exchange differences recognized in equity are transferred to profit or loss in the statement of income. When the Company ceases to control the subsidiary, exchange differences that were recorded in equity are recognized in the statement of income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Cash and cash equivalents

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

2.6 Financial Instruments

2.6.1 Classification

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

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

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

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(2) Loans and receivables

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

(3) Held-to-maturity financial assets

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

(4) Available-for-sale financial assets

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

(5) Financial liabilities measured at amortized cost

The Company classifies non-derivative financial liabilities as financial liabilities measured at amortized cost except for financial liabilities at fair value through profit or loss or financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition. In this case the transferred asset continues to be recognized and a financial liability is measured as the consideration received. Financial liabilities measured at amortized cost are included in non-current liabilities, except for maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

2.6.2 Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade date, the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognized at fair value, and transaction costs are expensed in the statement of income. Financial assets are derecognized when the rights to receive cash flows from the investments have been expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

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

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

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

2.6.3 Offsetting financial instruments

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

2.6.4 Derecognition

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

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

2.6.5 Impairment of financial assets

(1) Assets carried at amortized cost

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

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

- Significant financial difficulty of the issuer or obligor;
 - A breach of contract, such as a default or delinquency in interest or principal payments;
 - For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
 - It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
 - The disappearance of an active market for that financial asset because of financial difficulties;
- or

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- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - 1) Adverse changes in the payment status of borrowers in the portfolio; and
 - 2) National or local economic conditions that correlate with defaults on the assets in the portfolio.

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

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

(2) Assets classified as available for sale

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

2.7 Derivative financial instruments

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

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

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

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

2.8 Trade receivables

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

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

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted average cost method except goods in transit which is determined using the specific identification method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads based on normal operating capacity. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Property, plant and equipment

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

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

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

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

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The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.15). Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other operating income or expenses' in the statement of income.

2.11 Borrowing costs

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

2.12 Government grants

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

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

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

2.13 Intangible assets

(1) Goodwill

Goodwill arising on the acquisition of subsidiaries and business is included in intangible assets and goodwill arising on the acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

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

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(2) Industrial property rights

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

(3) Other intangible assets

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

2.14 Research and development

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

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

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

2.15 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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2.16 Trade payables

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

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

2.17 Borrowings

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

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

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. It represents future tax consequences that will arise when recovering or settling the carrying amount of its assets and liabilities. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

2.19 Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

2.20 Employee benefits

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

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

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

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

2.21 Share capital

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

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

2.22 Revenue recognition

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

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

(a) Sales of goods

Sales of goods are recognized upon delivery of products to customers. Delivery does not occur until the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied. The Company recognizes provisions for product warranties and sales returns based on reasonable expectation reflecting warranty obligation and sales return rates incurred historically.

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(b) Interest income

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

(c) Dividend income

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

2.23 Leases

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

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

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

2.24 Dividend distribution

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

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3. Financial risk management

3.1 Financial risk factors

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

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

(1) Market risk

1) Foreign exchange risk

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

Management has set up a policy to require consolidated companies to manage their foreign exchange risk against their functional currency. Each consolidated entity manages its foreign exchange risk arising from future commercial transactions and recognized assets and liabilities through foreign currency denominated borrowings and derivative instruments such as forward contracts in co-operation with finance team. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency other than the Company's functional currency.

The Company manages maximum loss for currency risk exposures within acceptable range by using currency risk management model and hires employees who are exclusively responsible for currency risk management.

The Company 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 Company's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

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As of December 31, 2011 and 2010, the Company's monetary assets and liabilities denominated in currencies other than its functional currency, are as follows:

(in millions of Korean won)	December 31, 2011		December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
USD	2,128,545	1,562,544	1,478,912	1,426,677
EUR	48,440	41,366	44,241	47,197
GBP	2,429	2,055	2,454	2,076
JPY and others	20,162	144,724	68,790	279,439

As of December 31, 2011 and 2010, if the Company's functional currency had weakened / strengthened by 10% against the US dollar with all other variables held constant, profit for the year would have been affected as follows:

(in millions of Korean won)	December 31, 2011		December 31, 2010	
	10% Increase	10% Decrease	10% Increase	10% Decrease
USD	56,600	(56,600)	5,224	(5,224)

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

2) Cash flow and fair value interest rate risk

The Company's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by financial assets held at variable rates. In addition, borrowings issued at fixed rates expose the Company to fair value interest rate risk. As of December 31, 2011 and 2010, the Company's borrowings at variable rate were denominated in Korean won and foreign currencies.

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

Based on the simulations performed, the impact on profit for the year of a 0.1% shift would be a maximum increase of ₩1,025 million (2010: ₩1,117 million) or decrease of ₩1,025 million (2010: ₩1,117 million), respectively.

Based on the various scenarios, the Company manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates that are lower than those available if the Company borrowed at floating rates directly.

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(2) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. As of December 31, 2011 and 2010, the maximum degrees of credit exposures are as follows:

(in millions of Korean won)	December 31, 2011			December 31, 2010		
	Before impairment	Accumulated impairment loss	After impairment (maximum exposure)	Before impairment	Accumulated impairment loss	After impairment (maximum exposure)
Loans and receivables (excluding cash on hand)	4,007,899	(4,641)	4,003,258	3,429,452	(6,153)	3,423,299
Financial assets at fair value through profit or loss	-	-	-	2,194	-	2,194
Total	4,007,899	(4,641)	4,003,258	3,431,646	(6,153)	3,425,493

Details of financial guarantees provided by the Company are disclosed in Notes 3.1.(3) and 20.

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

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

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

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

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(3) Liquidity risk

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

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

- 1) The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

(in millions of Korean won)

December 31, 2011

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

(in millions of Korean won)

December 31, 2010

	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years
Borrowings (excluding finance lease liabilities)	1,071,934	210,922	813	823
Finance lease liabilities	2,481	2,481	5,676	-
Trade and other payables	1,814,333	47,181	-	-
Total	2,888,748	260,584	6,489	823

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

(in millions of Korean won)

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

(in millions of Korean won)

		December 31, 2010			
		Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years
Gross-settled derivative financial liabilities	Trading				
	Inflow	173,029	-	-	-
	Outflow	(170,835)	-	-	-
	Hedging				
	Inflow	144,394	-	-	-
	Outflow	(167,232)	-	-	-
Total		(20,644)	-	-	-

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

(in millions of Korean won)

		December 31, 2011			
		Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years
Financial guarantee contracts ¹		418,759	60,121	433	741

(in millions of Korean won)

		December 31, 2010			
		Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years
Financial guarantee contracts ¹		205,564	150,109	60,397	897

¹ The Company and LG Hausys Ltd. have provided the joint guarantee for obligations outstanding as of April 1, 2009, the spin-off date. Also the Company has provided financial guarantee for subsidiaries. The amounts represent the maximum amount of the guarantee allocated to the earliest period in which the guarantee could be called (Note 20).

3.2 Capital risk management

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

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

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Debt to equity ratio and the gearing ratio as of December 31, 2011 and 2010, are as follows:

*(in millions of Korean won,
except for ratios)*

	December 31, 2011	December 31, 2010
Total borrowings (Note 16) (A)	1,483,109	1,277,435
Less: cash and cash equivalents (B)	(1,105,301)	(1,130,818)
Net debt (C=A+B)	377,808	146,617
Total liabilities (D)	4,317,404	3,618,105
Total equity (E)	9,101,613	7,396,504
Total capital (F=C+E)	9,479,421	7,543,121
Gearing ratio (C/F)	4.0%	1.9%
Debt to equity ratio (D/E)	47.4%	48.9%

3.3 Fair value estimation

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

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

(1) The following tables present the Company's financial assets and liabilities that are measured at fair value as of December 31, 2011 and 2010:

(in millions of Korean won)

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Financial assets				
Other current financial assets	-	-	-	-
Total financial assets	-	-	-	-
Financial liabilities				
Other current financial liabilities	-	536	-	536
Other non-current financial liabilities	-	146	-	146
Total financial liabilities	-	682	-	682

(in millions of Korean won)

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Financial assets				
Other current financial assets	-	2,194	-	2,194
Total financial assets	-	2,194	-	2,194
Financial liabilities				
Other current financial liabilities	-	20,535	-	20,535
Total financial liabilities	-	20,535	-	20,535

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All other non-current financial assets of the Company consist of available-for-sale equity securities and are measured at cost (December 31, 2011: ₩ 5,846 million; December 31, 2010: ₩ 4,044 million) as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. These are not included in the analysis above (Note 9). The Company does not have any plans to dispose these available-for-sale equity securities in the near future.

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

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

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

Specific valuation techniques used to value financial instruments include:

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

4. Critical accounting estimates and assumptions

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

(1) Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(2) Income taxes

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

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(3) Fair value of financial instruments

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

(4) Provisions

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

(5) Defined benefit liability

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

5. Financial instruments by category

(1) Categorizations of financial instruments are as follows:

(in millions of Korean won)

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

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(in millions of Korean won)

Financial liabilities	December 31, 2011		
	Hedging derivatives	Liabilities at amortized cost	Total
Trade payables	-	1,226,955	1,226,955
Other payables	-	1,050,326	1,050,326
Borrowings (current)	-	1,158,793	1,158,793
Other financial liabilities	536	-	536
Other non-current payables	-	40,652	40,652
Borrowings (non-current)	-	324,316	324,316
Other non-current financial liabilities	146	-	146
Total	682	3,801,042	3,801,724

(in millions of Korean won)

Financial assets	December 31, 2010			
	Loans and receivables	Assets at fair value through profit or loss	Assets classified as available-for-sale	Total
Cash and cash equivalents	1,130,818	-	-	1,130,818
Trade receivables	2,173,032	-	-	2,173,032
Other receivables	105,311	-	-	105,311
Other financial assets	-	2,194	-	2,194
Other non-current receivables	14,189	-	-	14,189
Other non-current financial assets	-	-	4,044	4,044
Total	3,423,350	2,194	4,044	3,429,588

(in millions of Korean won)

Financial liabilities	December 31, 2010		
	Hedging derivatives	Liabilities at amortized cost	Total
Trade payables	-	973,413	973,413
Other payables	-	840,920	840,920
Borrowings (current)	-	1,061,723	1,061,723
Other financial liabilities	20,535	-	20,535
Other non-current payables	-	47,181	47,181
Borrowings (non-current)	-	215,712	215,712
Total	20,535	3,138,949	3,159,484

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

<i>(in millions of Korean won)</i>	2011	2010
Assets at fair value through profit or loss		
Loss on valuation/ disposal	(29,431)	(17,010)
Hedging derivatives		
Gain on valuation/ disposal	8,914	14,723
Gain on valuation recognized in other comprehensive expenses	4,767	5,411
Interest expense	(11,903)	(13,062)
Assets classified as available-for-sale		
Loss on valuation/ disposal	(2)	(1)
Interest income	-	1
Dividend income	159	279
Loans and receivables		
Interest income	24,115	24,415
Gain(loss) on foreign currency translation	10,737	(2,987)
Gain(loss) on foreign exchange	29,218	(28,308)
Liabilities at amortized cost		
Interest expense	(31,691)	(37,778)
Loss on foreign currency translation	(14,031)	(10,416)
Gain(loss) on foreign exchange	(33,825)	6,540

6. Cash and cash equivalents

Details of cash and cash equivalents are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Bank deposits and cash on hand	58,406	49,536
Financial deposits, others	1,046,895	1,081,282
Total	1,105,301	1,130,818

As of December 31, 2011, non-current other receivables amounted to ₩40 million are restricted from withdrawal in connection with maintaining checking accounts (December 31, 2010: ₩40 million).

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7. Trade and other receivables

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

(in millions of Korean won)	December 31, 2011			December 31, 2010		
	Original amount	Less : allowance for doubtful accounts	Carrying amount	Original amount	Less : allowance for doubtful accounts	Carrying amount
Current						
Trade receivables ¹	2,688,558	(4,641)	2,683,917	2,179,185	(6,153)	2,173,032
Other receivables	184,321	-	184,321	105,311	-	105,311
Non-current						
Other receivables	29,761	-	29,761	14,189	-	14,189
Total	2,902,640	(4,641)	2,897,999	2,298,685	(6,153)	2,292,532

¹ As of December 31, 2011, trade receivables transferred to financial institutions but not derecognized amounted to ₩924,133 million (Note 16).

Details of other receivables are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010
Current		
Non-trade receivables	163,210	89,106
Financial deposits	12,000	5,000
Accrued income	1,850	3,943
Deposits	7,261	7,262
	184,321	105,311
Non-current		
Financial deposits	40	40
Loans	581	36
Deposits	29,140	14,113
	29,761	14,189
Total	214,082	119,500

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

(in millions of Korean won)	December 31, 2011	December 31, 2010
Up to 3 months	2,655,328	2,149,727
3 to 6 months	28,652	24,801
Over 6 months	4,578	4,657
Total	2,688,558	2,179,185

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The movements in bad debt allowance for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	December 31, 2011				December 31, 2010			
	Trade receivables		Other receivables		Trade receivables		Other receivables	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Beginning balance	6,153	-	-	-	11,517	3	1,412	-
Additions	-	-	-	-	-	-	-	-
Reversals	(2,000)	-	-	-	(775)	(3)	-	-
Write-off	(202)	-	-	-	(4,589)	-	(1,412)	-
Increase from the merger	690	-	-	-	-	-	-	-
Ending balance	4,641	-	-	-	6,153	-	-	-

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

8. Other financial assets and liabilities

Details of other financial assets and liabilities are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010
Other financial assets		
Derivatives (Note 10)	-	2,194
Available-for-sale (Note 9)	5,846	4,044
Less: current portions	-	(2,194)
Total	5,846	4,044
Other financial liabilities		
Derivatives (Note 10)	682	20,535
Less: current portions	(536)	(20,535)
Total	146	-

9. Financial assets classified as available-for-sale

The movement in financial assets classified as available-for-sale for the years ended December 31, 2011 and 2010, is as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010
Beginning balance	4,044	4,044
Additions	1,817	7
Disposals	(15)	(7)
Ending balance	5,846	4,044

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

No impairment losses were recognized for financial assets classified as available-for-sale during the years ended December 31, 2011 and 2010.

10. Derivative financial instruments

Details of derivative financial assets and liabilities are as follows:

(in millions of Korean won)	December 31, 2011		December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
Current				
Cash flow hedges	-	536	-	20,535
Held-for-trading	-	-	2,194	-
	-	536	2,194	20,535
Non-current				
Cash flow hedges	-	146	-	1,545

Details of derivative financial contracts are as follows:

December 31, 2011					
Classification	Contractor	Contract date	Contract amount (in thousands)	Contract period	Contract terms
Interest rate swap	HSBC	2006.10.11	₩ 7,000,000	2006.10.11 ~ 2013.09.05	Received: 3 month CD, Paid: 4.61%
	HSBC	2007.06.15	US\$ 10,500	2007.06.15 ~ 2013.09.05	Received: 3 month Libor Paid: 5.59%
December 31, 2010					
Classification	Contractor	Contract date	Contract amount (in thousands)	Contract period	Contract terms
Forward foreign exchange contract	Korea Exchange Bank and 15 other banks	2010.12.10, various	US\$ 10,000, various	2010.12.10 ~ 2011.01.04, various	₩1145.66 / US\$, various
Currency swap, various	BTMU	2008.12.19	¥ 5,000,000	2008.12.19 ~ 2011.12.19	₩15.53/¥
	BTMU	2008.12.19	¥ 5,000,000	2008.12.19 ~ 2011.12.19	₩15.67/¥

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

There was no ineffectiveness to be recorded from cash flow hedges.

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11. Inventories

Details of inventories are as follows:

	December 31, 2011			December 31, 2010		
	Original amount	Valuation allowance	Carrying amount	Original amount	Valuation allowance	Carrying amount
<i>(in millions of Korean won)</i>						
Merchandise	77,294	-	77,294	51,190	(17)	51,173
Finished products	996,882	(9,324)	987,558	834,503	(5,867)	828,636
Semi-finished products	283,073	-	283,073	237,091	-	237,091
Work-in-process	3,508	-	3,508	1,032	-	1,032
Raw materials	479,817	(133)	479,684	418,037	(754)	417,283
Supplies	50,446	-	50,446	40,906	-	40,906
Materials-in-transit	139,704	-	139,704	155,223	-	155,223
Total	2,030,724	(9,457)	2,021,267	1,737,982	(6,638)	1,731,344

The cost of inventories recognized as expense and included in 'Cost of Sales' amounted to ₩14,246,442 million (2010: ₩11,414,463 million).

12. Investments in subsidiaries, associates and joint ventures

Changes in the carrying amount of investments in subsidiaries, associates and joint venture for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Beginning balance	935,260	778,722
Additions	185,483	156,538
Merger	(136,948)	-
Ending balance	<u>983,795</u>	<u>935,260</u>

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Details of investments in subsidiaries and associates as of December 31, 2011 and 2010, are as follows:

Subsidiaries	Country	Ownership (%)		Carrying amount	
		2011.12.31	2010.12.31	2011.12.31	2010.12.31
Tianjin LG Dagu Chemical Co.,Ltd.	China	75	75	24,265	24,265
Ningbo LG Yongxing Chemical Co.,Ltd. ¹	China	75	75	135,908	135,908
LG Chemical Hong Kong Ltd.	Hong Kong	100	100	11,159	11,159
LG Chem America, Inc.	USA	100	100	3,620	3,620
LG Chemical India Pvt. Ltd. ²	India	100	100	54,929	54,929
LG Polymer India Pvt. Ltd. ²	India	-	-	-	-
LG Chemical (Guangzhou) Engineering Plastics Co.,Ltd.	China	100	100	21,911	21,911
LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd. ³	China	81	81	175,277	151,975
LG Chem (Taiwan), Ltd.	Taiwan	100	100	18	18
LG Chem Display Materials (Beijing) Co.,Ltd.	China	90	90	12,450	12,450
Tianjin LG Bohai Chemical Co.,Ltd. ⁴	China	65	65	105,847	105,847
LG Chem (China) Investment Co.,Ltd. ⁵	China	100	100	62,357	50,092
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	China	90	90	14,733	14,733
LG Chem Europe GmbH	Germany	100	100	3,085	3,085
LG Chem Poland Sp. z o.o. ⁶	Poland	100	100	15,402	8,196
LG Chem Michigan Inc. ⁷	USA	100	100	63,422	29,269
LG Chem Power Inc. ⁸	USA	100	100	19,553	6,712
Tianjin LG Botian Chemical Co.,Ltd. ⁴	China	41	41	9,550	9,550
Ningbo Zhenhai LG Yongxing Trade Co., Ltd. ¹	China	-	-	-	-
LG Polycarbonate Ltd. ¹²	Korea	-	100	-	136,948
Total				733,486	780,667

Associates and joint ventures	Country	Ownership (%)		Carrying amount	
		2011.12.31	2010.12.31	2011.12.31	2010.12.31
LG Vina chemical Co.,Ltd.	Vietnam	40	40	1,313	1,313
HL Greenpower Co.,Ltd.	Korea	49	49	14,210	14,210
LG Holdings (HK) Ltd.	Hong Kong	26	26	77,535	77,535
TECWIN Co.,Ltd.	Korea	20	20	2,861	2,861
SEETEC Co.,Ltd.	Korea	50	50	58,416	58,416
LG Chem Brasil INTERMEDICAO DE NEGOCIOS DO SETOR QUIMICO LTDA. ⁹	Brazil	100	100	258	258
LG Yongxing International Trading Co.,Ltd. ^{1,9}	China	-	-	-	-
CNOOC & LG Petrochemicals Co.,Ltd. ¹⁰	China	50	-	40,230	-
"Ammonia Production and Distribution" Limited Liability Partnership ¹¹	Kazakhstan	50	-	55,486	-
Total				250,309	154,593

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- ¹ As of December 31, 2011, Ningbo LG Yongxing Chemical Co.,Ltd. owns 100% of Ningbo Zhenhai LG Yongxing Trade Co.,Ltd. shares and 90% of LG Yongxing International Trading Co.,Ltd. shares.
- ² LG Chemical India Pvt. Ltd. owns 100% of LG Polymer India Pvt. Ltd. shares.
- ³ In 2011, the Company acquired additional shares of LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd. for ₩23,302 million.
- ⁴ As of December 31, 2011, Tianjin LG Bohai Chemical Co., Ltd. owns 20.30% of Tianjin LG Botian Chemical Co.,Ltd. shares.
- ⁵ In 2011, the Company acquired additional shares of LG Chem (China) Investment Co.,Ltd. for ₩12,265 million.
- ⁶ In 2011, the Company acquired additional shares of LG Chem Poland Sp. z o.o. Co.,Ltd. for ₩7,206 million.
- ⁷ In 2011, the Company acquired additional shares of LG Chem Michigan Inc. for ₩34,153 million.
- ⁸ In 2011, the Company acquired additional shares of LG Chem Power Inc. for ₩12,841 million.
- ⁹ Classified as investment in associates and joint ventures due to its small scale.
- ¹⁰ In 2011, the Company newly acquired 50% shares of CNOOC & LG Petrochemicals Co.,Ltd. for ₩40,230 million.
- ¹¹ In 2011, the Company newly acquired 50% shares of "Ammonia Production and Distribution" Limited Liability Partnership for ₩55,486 million.
- ¹² LG Polycarbonate Ltd. merged with the Company on April 1, 2011 (Note 35).

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13. Property, plant and equipment

Changes in the carrying amount of property, plant and equipment for the years ended December 31, 2011 and 2010, are as follows:

	December 31, 2011										
(in millions of Korean won)	Land	Buildings	Structures	Machinery	Vehicles	Tools	Equipment	Others	Construction -in-progress	Machinery- in-transit	Total
Beginning balance	426,397	945,614	267,321	1,794,238	6,820	129,576	46,145	61,650	825,367	168,953	4,672,081
Cost	426,397	1,150,391	512,179	5,337,402	28,562	343,216	151,482	94,667	860,163	168,953	9,073,412
Accumulated depreciation	-	(200,543)	(244,851)	(3,525,450)	(21,742)	(209,662)	(105,320)	(33,017)	-	-	(4,340,585)
Accumulated impairment	-	(4,234)	(7)	(17,714)	-	(3,978)	(17)	-	(34,796)	-	(60,746)
Increase from the merger	11,380	27,364	10,953	74,758	-	5	84	-	805	-	125,349
Acquisitions/ Transfer	162,174	274,556	31,275	646,774	8,218	95,753	20,585	93,889	1,576,704	282,656	3,192,584
Disposals/ Transfer	-	(975)	(81)	(3,898)	(8)	(2,136)	(142)	-	(1,164,066)	(145,853)	(1,317,159)
Depreciation	-	(27,574)	(22,337)	(408,772)	(3,213)	(45,171)	(14,691)	(40,248)	-	-	(562,006)
Ending balance	599,951	1,218,985	287,131	2,103,100	11,817	178,027	51,981	115,291	1,238,810	305,756	6,110,849
Cost	599,951	1,446,876	554,608	6,026,114	35,946	427,530	164,857	186,155	1,273,606	305,756	11,021,399
Accumulated depreciation	-	(227,896)	(267,470)	(3,922,430)	(24,129)	(245,525)	(112,859)	(70,864)	-	-	(4,871,163)
Accumulated impairment	-	(5)	(7)	(584)	-	(3,978)	(17)	-	(34,796)	-	(39,387)

	December 31, 2010										
(in millions of Korean won)	Land	Buildings	Structures	Machinery	Vehicles	Tools	Equipment	Others	Construction -in-progress	Machinery- in-transit	Total
Beginning balance	426,305	842,384	272,005	1,645,500	7,627	105,569	36,129	10,666	449,713	84,382	3,860,280
Cost	426,305	1,029,994	495,541	4,846,537	27,373	290,372	134,170	17,978	484,509	64,382	7,817,161
Accumulated depreciation	-	(180,767)	(223,529)	(3,198,859)	(19,746)	(180,825)	(98,024)	(7,312)	-	-	(3,909,062)
Accumulated impairment	-	(6,843)	(7)	(2,178)	-	(3,978)	(17)	-	(34,796)	-	(47,819)
Acquisitions/ Transfer	169	133,144	17,285	538,531	1,617	62,247	23,368	77,386	1,035,907	284,814	2,174,448
Disposals/ Transfer	(77)	(2,455)	(290)	(6,889)	(37)	(566)	(244)	(232)	(680,253)	(180,243)	(851,286)
Depreciation	-	(23,231)	(21,659)	(367,367)	(2,387)	(37,674)	(13,108)	(26,170)	-	-	(491,596)
Impairment	-	(4,228)	-	(15,537)	-	-	-	-	-	-	(19,785)
Ending balance	426,397	945,614	267,321	1,794,238	6,820	129,576	46,145	61,650	825,367	168,953	4,872,081
Cost	426,397	1,150,391	512,179	5,337,402	28,562	343,216	151,482	94,667	860,163	168,953	9,073,412
Accumulated depreciation	-	(200,543)	(244,851)	(3,525,450)	(21,742)	(209,662)	(105,320)	(33,017)	-	-	(4,340,585)
Accumulated impairment	-	(4,234)	(7)	(17,714)	-	(3,978)	(17)	-	(34,796)	-	(60,746)

For the year ended December 31, 2011, the Company capitalized ₩22,160 million of borrowing costs (2010: ₩18,622 million) to property, plant and equipment.

As of December 31, 2011, certain property, plant and equipment have been pledged as collaterals for certain bank loans for up to a maximum of ₩8,787 million (December 31, 2010: ₩8,787 million).

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As of December 31, 2011, the Company has a finance lease agreement on certain property, plant and equipment at the MTBE factory. The carrying amount of leased assets and depreciation are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Carrying amount	41	2,223
Depreciation	<u>2,182</u>	<u>2,182</u>

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

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

<i>(in millions of Korean won)</i>	2011	2010
Cost of sales	518,393	453,442
Selling, general and administrative expenses	43,142	37,445
Others ¹	<u>471</u>	<u>709</u>
Total	<u>562,006</u>	<u>491,596</u>

¹ Amounts capitalized as development costs are included.

14. Intangible assets

Changes in the carrying amount of intangible assets for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011					
	Development costs	Industrial property rights	Goodwill	Memberships	Others	Total
Beginning balance	24,642	47,836	33,415	48,422	13,381	167,696
Increase from the merger	-	1	-	401	299	701
Acquisitions/ Transfer	15,276	16,558	-	1,665	5,079	38,578
Disposals/ Transfer	-	(8)	-	-	-	(8)
Amortization	<u>(7,092)</u>	<u>(2,531)</u>	<u>-</u>	<u>-</u>	<u>(3,669)</u>	<u>(13,292)</u>
Ending balance	<u>32,826</u>	<u>61,856</u>	<u>33,415</u>	<u>50,488</u>	<u>15,090</u>	<u>193,675</u>

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(In millions of Korean won)		December 31, 2010				
		Development costs	Industrial property rights	Goodwill	Memberships	Others
Beginning balance		23,413	38,033	33,415	46,747	8,832
Acquisitions/ Transfer		8,871	12,746	-	1,911	7,434
Disposals/ Transfer		(2)	(642)	-	(236)	(29)
Amortization		(7,640)	(2,301)	-	-	(2,856)
Ending balance		24,642	47,836	33,415	48,422	13,381

Amortization of intangible assets was classified as follows:

(In millions of Korean won)	2011	2010
Cost of sales	4,567	5,401
Selling, general and administrative expenses	8,725	7,396
Total	13,292	12,797

Impairment tests for goodwill

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

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

The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a four-year period. Cash flows beyond the four-year period are estimated using 0% of expected growth rate.

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Management determined budgeted EBIT margin based on past performance and its expectations of market development. The discount rate used is pre-tax and reflect specific risks relating to the relevant operating segments. Discount rate used for value-in-use calculations for the current year is 12.82%. The recoverable amounts based on value-in-use calculations exceed carrying amounts and accordingly, no impairment was recognized for the year ended December 31, 2011.

15. Other current and non-current assets

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

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Current		
Prepaid expenses	18,477	15,513
Prepaid value added tax	44,683	46,747
Others	13,821	6,817
Total	<u>76,981</u>	<u>69,077</u>
Non-current		
Long-term prepaid expenses	23,304	9,563
Total	<u>23,304</u>	<u>9,563</u>

16. Borrowings

The carrying amount of borrowings are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Current		
Short-term borrowings	924,133	862,290
Current maturities of bank loans	82,760	58,078
Current maturities of debentures	149,922	139,543
Current maturities of finance lease liabilities	1,978	1,812
	<u>1,158,793</u>	<u>1,061,723</u>
Non-current		
Bank loans	20,357	58,808
Debentures	298,725	149,692
Finance lease liabilities	5,234	7,212
	<u>324,316</u>	<u>215,712</u>
Total	<u>1,483,109</u>	<u>1,277,435</u>

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Details of borrowings are as follows:

Current borrowings

(in millions of Korean won)	Bank	Latest maturity date	Annual interest rate (%) at December 31, 2011	Carrying Amount	
				December 31, 2011	December 31, 2010
Notes discounted ¹	Woori Bank, others	2012.10.16	Libor+1.00,	924,133	862,290

¹ As of December 31, 2011, trade receivables transferred to financial institutions but not derecognized are accounted for as collateralized borrowing transaction (Note 7).

Non-current borrowings

(in millions of Korean won)

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

(in millions of Korean won)

December 31, 2010						
	Bank	Annual interest rate (%)	Latest maturity date	Total amount	Current maturities	Long-term debts
Won currency borrowings	Kookmin Bank	3.00	2018.07.14	1,006	74	932
	Kookmin Bank	3.00	2020.03.21	1,033	102	931
	Shinhan Bank	2.00	2011.09.05	957	957	-
Foreign currency borrowings	Korea Development Bank	3Libor+0.36	2012.01.10	56,945	-	56,945
	Sumitomo Mitsui Banking Corporation	6Libor+0.35	2011.07.20	56,945	56,945	-
	Total			116,886	58,078	58,808

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

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Debentures

(in millions of Korean won)

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

(in millions of Korean won)

		December 31, 2010				
	Financial Institution	Annual Interest rate (%)	Latest maturity date	Total amount	Current maturities	Long-term debts
Won currency debentures	Woori Security	4.85	2012.04.29	150,000	-	150,000
Foreign currency debentures	Woori Security	3Tibor+3.00	2011.12.19	139,708	139,708	-
Less: discount on debentures				(473)	(165)	(308)
Total				289,235	139,543	149,692

Finance lease liabilities

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

December 31, 2010					
Bank	Annual Interest rate (%)	Latest maturity date	Total amount	Current maturities	Long-term debts
Hyundai Oil Bank	9.00	2014.10.29	9,024	1,812	7,212

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

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

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

<i>(in millions of Korean won)</i>	December 31, 2011		December 31, 2010	
	Carrying amount	Fair value¹	Carrying amount	Fair value¹
Bank loans	20,357	20,242	58,808	58,621
Debentures	298,725	300,675	149,692	153,247
Finance lease liabilities	5,234	5,052	7,212	7,176
Total	324,316	325,969	215,712	219,044

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

The present value of finance lease liabilities is as follows:

<i>(in millions of Korean won)</i>	December 31, 2011			December 31, 2010		
	Minimum lease payments	Future finance costs	Present value	Minimum lease payments	Future finance costs	Present value
Within 1 year	2,481	503	1,978	2,481	669	1,812
1 to 5 years	5,676	442	5,234	8,157	945	7,212

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17. Provisions

Changes in the carrying amount of provisions for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	December 31, 2011		
	Sales returns ¹	Warranty ²	Total
Beginning balance	2,779	2,127	4,906
Additions	72	4,559	4,631
Ending balance	2,851	6,686	9,537
Less : current portion	(2,851)	(4,372)	(7,223)
Total	-	2,314	2,314

(in millions of Korean won)	December 31, 2010		
	Sales returns ¹	Warranty ²	Total
Beginning balance	3,512	1,792	5,304
Additions	-	335	335
Reversals	(733)	-	(733)
Ending balance	2,779	2,127	4,906
Less : current portion	(2,779)	(2,127)	(4,906)
Ending balance	-	-	-

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

² Warranty provisions have been accrued for the estimated warranty service costs to be incurred based on the terms of warranty and historical experience.

18. Defined benefit liability

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

(in millions of Korean won)	December 31, 2011	December 31, 2010
Present value of obligations ¹	252,050	157,782
Fair value of plan assets	(192,619)	(151,726)
Liability in the statement of financial position	59,431	6,056

¹ The present value of retirement benefit obligations is net of existing contributions to the National Pension Plan of ₩979 million as of December 31, 2011(December 31, 2010: ₩1,021 million).

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The amounts recognized in the statements of income for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Current service cost ¹	42,046	37,251
Interest cost	8,629	10,730
Expected return on plan assets	(6,764)	(7,621)
Curtailment of plan	-	7,967
Past service cost	-	(8,834)
Total, Included in employee benefit expenses	43,911	39,493

¹ The above amounts excluded ₩582 million (2010: ₩127 million) of expenses capitalized to construction in progress and development costs.

Severance costs recognized for defined contribution plan for the year ended December 31, 2011, amounted to ₩522 million (2010 : nil).

The amounts recognized in the statement of income for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Cost of sales	29,994	30,366
Selling, general and administrative expenses	14,439	9,127
Total	44,433	39,493

Actuarial gains and losses recognized as other comprehensive income for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Actuarial losses before tax	(53,541)	(17,771)
Income tax effect	12,957	1,696
Actuarial losses after tax	(40,584)	(16,075)

As of December 31, 2011, ₩64,717 million (December 31, 2010: ₩24,133 million) of accumulated actuarial losses are included in other comprehensive income.

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Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Beginning balance	157,782	218,128
Transfer in	886	452
Current service cost	42,628	37,387
Interest expense	8,629	10,730
Actuarial losses(before tax)	53,926	16,769
Benefits paid	(14,634)	(34,741)
Increase due to merger	2,833	-
Curtailment of plan	-	7,967
Settlements of plan	-	(90,067)
Past service cost	-	(8,834)
Ending balance	252,050	157,782

Changes in the fair value of plan assets for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Beginning balance	151,726	164,867
Transfer in	430	-
Expected return on plan assets	6,764	7,621
Actuarial gains/(losses) (before tax)	385	(1,002)
Employer contributions	40,000	52,500
Benefits paid	(8,638)	(20,388)
Increase due to merger	1,952	-
Settlements of plan	-	(51,872)
Ending balance	192,619	151,726

The actual return on plan assets for the year ended December 31, 2011, was ₩7,149 million (2010: ₩6,619 million).

The principal actuarial assumptions used are as follows:

	December 31, 2011	December 31, 2010
Discount rate	4.9%	5.7%
Expected return on plan assets	3.9%	4.3%
Future salary increase	4.8%	4.7%

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

<i>(in millions of Korean won)</i>	Increase by 1%	Decrease by 1%
Discount rate:		
Increase(decrease) of defined benefit obligations	(25,672)	30,596

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Plan assets consist of:

<i>(in millions of Korean won)</i>	December 31, 2011		December 31, 2010	
	Amount	Proportion	Amount	Proportion
Equity instruments	35,973	19%	29,669	20%
Time deposits	66,377	34%	54,901	36%
Insurance contracts with guaranteed yield	90,269	47%	67,156	44%
Total	192,619	100%	151,726	100%

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

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

19. Other current liabilities

Other current liabilities consist of as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Advances from customers	14,346	9,868
Dividends payable	36	43
Withholding	36,829	33,122
Unearned revenues	8,434	6,407
Others	55,515	21,597
Total	115,160	71,037

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20. Commitments and contingencies

- (1) The Company and the newly established company, LG Hausys Ltd., are jointly liable for the obligations outstanding as of April 1, 2009, the spin-off date.
- (2) As of December 31, 2011 and 2010, the Company has been provided with guarantees from the Seoul Guarantee Insurance for the execution of supply contracts.
- (3) As of December 31, 2011, the Company has provided one blank promissory note to the Korea National Oil Corporation as collateral in relation to petroleum import surcharges.
- (4) As of December 31, 2011, the Company has bank overdraft agreements with several banks for up to ₩95,000 million and US\$50 million, and has entered into contracts with several financial institutions for discounting notes from export for up to ₩3,000 and US\$ 1,482 million, and has contracts with several banks for the letter of credit for up to ₩299,200 million and US\$383 million. The Company also has comprehensive line of credit agreements with several financial institutions.
- (5) As of December 31, 2011, the Company has entered into B2B purchase contracts with several financial institutions.
- (6) As of December 31, 2011, the Company has been named as a plaintiff for 2 legal actions involving ₩1,170 million in claims and defendant for 7 legal actions with ₩2,707 million in claims. The ultimate outcome of these cases cannot be determined at this time.
- (7) As of December 31, 2011, the Company has technology license agreements with STYRON EUROPE GmbH and other companies for the production of Polycarbonate products. Further, the Company has entered into manufacture and production technical contracts with Exxon Mobile and others.
- (8) The Company has entered into license agreement with LG Corp. to use trademarks on the products that the Company manufactures and sells, and on the services the Company provides in relation to its business.
- (9) As of December 31, 2011, the Company has a long-term purchase contract for certain raw materials and was provided with a US\$ 67 million guarantee for this contract. Further, as of December 31, 2011, the Company provided of US\$ 7 million guarantee in regard to a delivery contract for certain products.

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- (10) As of the reporting date, the Company has guaranteed the repayment of various obligations of its subsidiaries and associates. The outstanding balance of such guarantees as of December 31, 2011, amounts to US\$ 214 million, EUR 3 million and PLN 52 million (total equivalent to ₩268,650 million) (2010: US\$ 168 million, EUR 1 million and PLN 32 million, total equivalent to ₩205,466 million). Details of guarantees provided as of December 31, 2011 and 2010, are as follows:

(in millions of Korean won)

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

(in millions of Korean won)

		December 31, 2010		
Guarantor	Guarantee beneficiary	Financial institution	Amount of guarantee	Outstanding loan amount
The Company	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	Bank of China	66,455	66,455
	"	Woori Bank	22,778	22,778
	"	Korea Export-Import Bank	34,167	34,167
	LG Chem Poland Sp. z o.o.	Nordea Bank	13,731	8,865
	LG Chem America, Inc.	Bank of America	5,695	-
	LG Chem Michigan, Inc.	Bank of America	39,862	20,272
	LG Chem Power, Inc.	Woori Bank	11,389	3,417
	"	Comerica Bank	11,389	2,278
			<u>205,466</u>	<u>158,232</u>

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

(in millions of Korean won)	December 31, 2011	December 31, 2010
Property, plant and equipment	1,107,653	772,084

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21. Equity

Changes in share capital and share premium are as follows:

(in millions of Korean won)	Ordinary shares		Preferred shares		Share premium	Loss on capital reduction
	Number of shares	Amount	Number of shares	Amount		
January 1, 2010	66,271,100	331,356	7,628,921	38,144	897,840	(464,272)
Offset of loss on capital reduction	-	-	-	-	-	464,272
December 31, 2010	66,271,100	331,356	7,628,921	38,144	897,840	-
December 31, 2011	66,271,100	331,356	7,628,921	38,144	897,840	-

Changes in treasury shares are as follows:

(in millions of Korean won)	Number of shares		Carrying amount	Gain on sale of treasury shares
	Ordinary shares	Preferred shares		
January 1, 2010	359,778	5,518	15,484	13,855
Purchase of treasury shares	3	1	-	-
December 31, 2010	359,781	5,519	15,484	13,855
Purchase of treasury shares	3	-	-	-
December 31, 2011	359,784	5,519	15,484	13,855

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

22. Retained earnings

Details of retained earnings are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010
Legal reserve ¹	149,577	120,125
Discretionary reserve ²	5,444,030	3,492,530
Unappropriated retained earnings	1,987,742	2,275,477
Total	7,581,349	5,888,132

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

² Pursuant to the Special Tax Treatment Control Law, the Company is required to appropriate, as a reserve for business rationalization, a portion of retained earnings equal to tax reductions arising from investment and other tax credits. This reserve may be distributed as dividends after reversal.

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23. Other components of equity

Details of other components of equity are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010
Treasury shares (Note 21)	(15,484)	(15,484)

24. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Wages and salaries	211,719	184,839
Pension costs (Note 18)	14,439	9,127
Welfare expense	41,066	35,017
Travel expense	17,944	17,635
Water & utilities	17,068	14,697
Packaging expense	4,521	3,993
Rental expense	73,657	49,279
Commission expense	189,666	173,065
Depreciation (Note 13)	43,142	37,445
Advertising expense	17,964	10,813
Freight expense	280,163	289,133
Training expense	10,262	9,118
Amortization (Note 14)	8,725	7,396
Sample expense	7,542	6,844
Others	159,248	132,829
Total	1,097,126	981,230

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25. Expenses by nature

Expenses that are recorded by nature as cost of sales, selling, general and administrative expenses and other operating expenses in the statements of income for the years ended December 31, 2011 and 2010, consist of:

<i>(in millions of Korean won)</i>	2011	2010
Changes in inventories	(233,501)	(296,608)
Increase of Inventory from the merger	53,223	-
Raw materials and consumables used	13,620,701	11,132,449
Purchase of merchandise	806,019	578,622
Employee benefit expense (Note 26)	772,959	682,129
Advertising expense	18,964	11,680
Transportation expense	304,262	312,122
Service fees	267,492	235,940
Depreciation, amortization and impairment	574,827	523,449
Operating lease payments	30,734	23,384
Other expenses	1,476,890	1,555,419
Total	17,692,570	14,758,586

26. Employee benefit expense

<i>(in millions of Korean won)</i>	2011	2010
Wages and salaries	676,567	599,552
Pension costs – Defined benefit plan (Note 18)	43,911	39,493
Pension costs – Defined contribution plan (Note 18)	522	-
Others	51,959	43,084
Total	772,959	682,129

27. Other operating income

Details of other operating income for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Foreign exchange gains	359,407	365,307
Gain on foreign currency translation	19,021	11,540
Gain on disposal of property, plant and equipment	1,990	4,569
Others	39,150	22,960
Total	419,568	404,376

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28. Other operating expenses

Details of other operating expenses for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Foreign exchange loss	374,491	369,557
Loss on foreign currency translation	19,896	13,165
Loss on disposal of property, plant and equipment	5,903	10,665
Loss on disposal of intangible assets	8	727
Impairment loss on property, plant and equipment	-	19,765
Others	2,785	9,805
Total	403,083	423,684

29. Financial income and expense

Details of financial income and expense for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Financial income		
Interest income ¹	24,115	24,416
Dividend income	92,359	73,763
Foreign exchange gain	85,562	56,235
Gain on foreign exchange translation	288	2,985
Gain on settlement of trading derivatives	36,500	9,995
Gain on settlement of hedging derivatives	8,914	2,415
Gain on valuation of trading derivatives	-	2,194
Gain on valuation of hedging derivatives	-	13,426
Total	247,738	185,429
Financial expense		
Interest expense ²	21,434	32,758
Foreign exchange loss	75,085	73,753
Loss on foreign exchange translations	2,707	14,763
Loss on settlement of trading derivatives	65,931	29,199
Loss on settlement of hedging derivatives	-	1,118
Others	2	1
Total	165,159	151,592

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¹ Details of interest income are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Bank deposits	24,102	24,402
Financial assets classified as available-for-sale	-	1
Other receivables	13	13
Total	24,115	24,416

² Details of interest expense are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Interest on bank overdraft and borrowings	22,566	28,914
Interest on finance lease liabilities	669	822
Interest on debentures	8,512	8,994
Other interest expenses	11,847	12,650
Capitalized interest for qualifying assets	(22,160)	(18,622)
Total	21,434	32,758

30. Income taxes

Details of income tax expense are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Current tax on profit for the year	500,392	517,445
Adjustments in respect of prior years	(6,293)	19,718
Deferred tax	53,194	5,730
	547,293	542,893
Current tax charged directly to equity	12,957	3,910
Income tax expense	560,250	546,803

The income taxes charged directly to components of other comprehensive income for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Current tax		
Actuarial loss on defined benefit liability	12,957	3,910
Deferred tax		
Actuarial loss on defined benefit liability	-	(2,214)
Cash flow hedges	(1,127)	(1,309)
Total	(1,127)	(3,523)

LG Chem, Ltd.
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The movement in deferred tax assets (liabilities) for the years ended December 31, 2011 and 2010, is as follows:

(in millions of Korean won)

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

(in millions of Korean won)

	2010			
	Increase(Decrease)			Ending balance
	Beginning balance	Profit for the year	Other comprehensive income	
Defined benefit liability	30,292	(4,333)	-	25,959
Plan assets	(35,701)	4,347	-	(31,354)
Reserve for technology development	(41,083)	(18,479)	-	(59,562)
Allowance for doubtful accounts	5,382	(312)	-	5,070
Property, plant and equipment	1,855	3,564	-	5,419
Investments in subsidiaries, associates and joint ventures	(3,519)	2,473	-	(1,046)
Accrued interest income	(681)	(273)	-	(954)
Others	35,310	7,283	-	42,593
	(8,145)	(5,730)	-	(13,875)
Deferred tax charged directly to equity	4,551	-	(3,523)	1,028
Deferred income tax assets(liabilities)	(3,594)	(5,730)	(3,523)	(12,847)

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

<i>(in millions of Korean won)</i>	2011	2010
Profit before income tax	<u>2,588,571</u>	<u>2,517,796</u>
Income tax expense based on applicable tax rate	626,408	609,280
Tax adjustments		
Income not subject to tax	(1,294)	(4,342)
Expenses not deductible for tax purposes	19,864	7,056
Tax credit	(110,751)	(75,708)
Effect from change of tax rate	<u>5,180</u>	<u>(3,494)</u>
Others	<u>20,843</u>	<u>14,009</u>
Income tax expense ¹	<u>560,250</u>	<u>546,803</u>
Effective tax rate (income tax expense/ profit before income tax)	<u>21.64%</u>	<u>21.72%</u>

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

According to the amendment to tax law, effective on or after January 1, 2012, the applicable tax rate for taxable income over KRW 20 billion will be 22% for companies located in the Republic of Korea. As of December 31, 2011, the tax effect of cumulative temporary difference was calculated based on the future tax rate of the fiscal year when temporary differences are expected to reverse.

LG Chem, Ltd.
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31. Earnings per share

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

Basic earnings per share attributable to the owners of the Company for the years ended December 31, 2011 and 2010, is computed as follows:

<i>(in millions of Korean won)</i>	2011	2010
Profit attributable to ordinary shares ¹	1,817,702	1,766,317
Weighted average number of ordinary shares outstanding ²	65,911,319	65,911,322
Basic earnings per ordinary share (in won)	27,578	26,798
<i>(in millions of Korean won)</i>	2011	2010
Profit attributable to preferred shares ¹	210,619	204,676
Weighted average number of preferred shares outstanding ²	7,623,402	7,623,403
Basic earnings per preferred share (in won)	27,628	26,848

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

<i>(in millions of Korean won)</i>	2011	2010
Profit for the year	2,028,321	1,970,993
Ordinary shares dividends (A)	263,645	263,645
Preferred shares dividends (B)	30,875	30,875
Undistributed earnings for the year	1,733,801	1,676,473
Undistributed earnings available for ordinary shares (C)	1,554,057	1,502,672
Undistributed earnings available for preferred shares (D)	179,744	173,801
Profit for the year attributable to ordinary shares (A+C)	1,817,702	1,766,317
Profit for the year attributable to preferred shares (B+D)	210,619	204,676

² Weighted average numbers of shares are calculated as follows:

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

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

LG Chem, Ltd.
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2011				
Preferred shares	Period	Number of shares	Number of days	Number of shares x days
Beginning	2011. 1. 1 ~ 2011.12.31	7,623,402	365	2,782,541,730
Total				2,782,541,730

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

2010				
Ordinary shares	Period	Number of shares	Number of days	Number of shares x days
Beginning	2010. 1. 1 ~ 2010.12.31	65,911,322	365	24,057,632,530
Purchase of treasury shares	2010.12.31 ~ 2010.12.31	(3)	1	(3)
Total				24,057,632,527

Weighted average number of ordinary shares outstanding: $24,057,632,527 / 365 = 65,911,322$ shares

2010				
Preferred shares	Period	Number of shares	Number of days	Number of shares x days
Beginning	2010. 1. 1 ~ 2010.12.31	7,623,403	365	2,782,542,095
Purchase of treasury shares	2010.12.31 ~ 2010.12.31	(1)	1	(1)
Total				2,782,542,094

Weighted average number of preferred shares outstanding: $2,782,542,094 / 365 = 7,623,403$ shares

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

32. Dividends

Details of dividends are as follows:

	2011	2010
Number of shares entitled to dividends: shares issued and outstanding (par value per share: ₩5,000)		
Ordinary shares	65,911,316	65,911,319
Preferred shares	7,623,402	7,623,402
Dividend per share (in won)		
Ordinary shares: cash	4,000 (80%)	4,000 (80%)
Preferred shares: cash	4,050 (81%)	4,050 (81%)
Cash dividends to distribute (in millions of Korean won)		
Ordinary shares	263,645	263,645
Preferred shares	30,875	30,875
	294,520	294,520

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Dividend payout ratios for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Dividends (A)	294,520	294,520
Profit for the year attributable to owners of the parent company (B)	2,028,321	1,970,993
Dividend payout ratio (A/B)	14.52%	14.94%

Dividend yield ratios for the years ended December 31, 2011 and 2010, are as follows:

<i>(in Korean won)</i>	2011		2010	
	Ordinary shares	Preferred Shares	Ordinary shares	Preferred Shares
Dividend per share (A)	4,000	4,050	4,000	4,050
Market value at the end of year (B)	317,500	107,500	391,000	159,000
Dividend yield ratio (A/B)	1.26%	3.77%	1.02%	2.55%

33. Related party transactions

Significant transactions, which occurred in the ordinary course of business with related parties for the years ended December 31, 2011 and 2010, and the related account balances as of December 31, 2011 and 2010, are summarized as follows:

<i>(in millions of Korean won)</i>	2011		2010	
	Sales	Purchases	Sales	Purchases
Entities with significant influence over the Company ¹	11	46,427	2	42,705
Subsidiaries	1,671,640	1,120,834	1,582,312	698,429
Associates and joint ventures	94,337	193,163	128,534	217,036
Key management	-	45,225	-	48,014
Others ²	22,208	762,626	17,691	588,844
Total	1,788,196	2,168,275	1,728,539	1,595,028

<i>(in millions of Korean won)</i>	December 31, 2011		December 31, 2010	
	Receivables	Payables	Receivables	Payables
Entities with significant influence over the Company ¹	6,432	5,284	5,541	6,923
Subsidiaries	371,694	213,322	383,391	131,644
Associates and joint ventures	23,604	28,345	1,325	18,961
Key management	-	60,681	-	48,615
Others ²	32,607	144,303	31,100	140,967
Total	434,337	451,935	421,357	347,110

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

² Includes LG Corp.'s subsidiaries.

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Compensation for key management of the Company for the years ended December 31, 2011 and 2010, consists of:

<i>(in millions of Korean won)</i>	2011	2010
Wages and salaries	31,424	33,768
Pension costs	2,426	2,621
Other long-term employee benefits	11,375	11,625
Total	45,225	48,014

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

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

Details of the guarantees provided by the Company for related parties at the reporting date are disclosed in Note 20.

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34. Cash generated from operations

Reconciliation between operating profit and net cash inflow (outflow) from operating activities for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Profit before Income tax	2,588,571	2,517,796
Adjustments for:		
Depreciation	561,535	490,887
Amortization	13,292	12,797
Pension costs	43,911	39,493
Financial income	(181,196)	(129,534)
Financial expense	109,968	82,072
Foreign exchange differences	14,903	(12,430)
Gain on disposal of property, plant and equipment	(1,990)	(4,569)
Loss on disposal of property, plant and equipment	5,903	10,665
Loss on disposal of intangible assets	8	727
Other expenses	5,060	20,112
Inventories	(233,207)	(385,453)
Trade receivables	(416,051)	2,906
Other receivables	(64,343)	(40,139)
Settlement of derivatives	(27,237)	(18,866)
Trade payables	166,835	103,953
Other payables	172,931	173,792
Defined benefit liability	(45,540)	(104,592)
Other cash flows from operations	(2,272)	(2,160)
Cash generated from operations	2,711,081	2,757,457

The principal non-cash transactions for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	2011	2010
Transfer of construction-in-progress	1,164,066	660,253
Transfer of machinery-in-transit	145,853	180,243
Reclassification of current maturities of borrowings	233,202	199,432
Gain on valuation of derivatives recognized as other comprehensive income	4,767	5,411

LG Chem, Ltd.
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35. Merger

In order to enhance market dominance and business competitive by maximizing synergy and completing vertical intergration, based on the resolution of the board of directors on December 27, 2010, on April 1, 2011, the Company merged with the LG Polycarbonate Ltd. which the Company had previously wholly owned.

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

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

¹ Book value of stockholding have LG Polycarbonate Ltd.

² Assets and liabilities were recognized on book value from consolidated financial statements. It includes cash and cash equivalents of ₩10,087 million.

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36. Appropriation of retained earnings

The appropriation of retained earnings for the years ended December 31, 2011 and 2010, follows:

(Dates of appropriation: March 16, 2012 and March 18, 2011 for the years ended December 31, 2011 and 2010, respectively)

<i>(in millions of Korean won)</i>	2011	2010
Retained earnings before appropriation		
Unappropriated retained earnings carried over from prior year	5	320,559
Profit for the year	2,028,321	1,970,993
Actuarial losses	(40,584)	(16,075)
	<u>1,987,742</u>	<u>2,275,477</u>
Transfer from other reserves		
Reserve for technology development	<u>27,739</u>	<u>60,000</u>
Appropriation of retained earnings		
Legal reserve	29,452	29,452
Dividends	294,520	294,520
Reserve for technology development	<u>1,691,509</u>	<u>2,011,500</u>
	<u>2,015,481</u>	<u>2,335,472</u>
Unappropriated retained earnings carried forward to subsequent year	<u>-</u>	<u>5</u>

37. Approval of financial statements

The financial statements for the year ended December 31, 2011, were approved by the Board of Directors on February 21, 2012.

Report of Independent Accountants'
Review of Internal Accounting Control System

To the President of
LG Chem, Ltd.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of LG Chem, Ltd. (the "Company") as of December 31, 2011. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2011, the Company's IACS has been designed and is operating effectively as of December 31, 2011, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

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

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

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

Our review is based on the Company's IACS as of December 31, 2011, and we did not review management's assessment of its IACS subsequent to December 31, 2011. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

March 8, 2012

Report on the Operations of the Internal Accounting Control System

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

I, as the Internal Accounting Control Officer ("IACO") of LG Chem, Ltd. ("the Company"),
assessed the status of the design and operations of the Company's internal accounting control
system ("IACS") for the year ended December 31, 2011.

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

Based on the assessment on the operations of the IACS, the Company's IACS has been
effectively designed and is operating as of December 31, 2011, in all material respects, in
accordance with the IACS standards

January 31, 2012

Suk-Jeh Cho, Internal Accounting Control System Officer

Peter Bahnsuk Kim, Chief Executive Officer