

LG Energy Solution, Ltd.
Separate Statement of Financial Position
December 31, 2020

<i>(in millions of Korean won)</i>	Notes	2020
Assets		
Current assets		
Cash and cash equivalents	3, 5, 6	536,731
Trade receivables	3, 5, 7, 30	1,547,136
Other receivables	3, 5, 7, 30	1,072,733
Prepaid income taxes		22
Other current financial assets	3, 5, 8	23,821
Other current assets	13	58,243
Inventories	9	949,749
Total current assets		4,188,435
Non-current assets		
Trade receivables	3, 5, 7	26,291
Other receivables	3, 5, 7	454,026
Investments in subsidiaries	10	4,444,021
Investments in associates and joint ventures	10	43,084
Deferred tax assets	27	1,088,093
Property, plant and equipment	11	1,528,296
Intangible assets	12	273,133
Investment properties	33	255,086
Other non-current assets	13	42,252
Total non-current assets		8,154,282
Total assets		12,342,717
Liabilities		
Current liabilities		
Trade payables	3, 5, 30	1,272,958
Other payables	3, 5, 30	378,665
Borrowings	3, 5, 14	2,273
Other financial liabilities	3, 5, 8	62,544
Provisions	15	984,235
Other current liabilities	17	206,176
Total current liabilities		2,906,851
Non-current liabilities		
Other payables	3, 5	1,563
Borrowings	3, 5, 14	1,947,264
Other financial liabilities	3, 5, 8	41,768
Provisions	15	110,325
Net defined benefit liabilities	16	42,786
Other non-current liabilities	17	40,062
Total non-current liabilities		2,183,768
Total liabilities		5,090,619
Equity		

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<i>(in millions of Korean won)</i>	Notes	2020
Share capital	1, 19	100,000
Capital surplus		7,510,351
Accumulated other comprehensive income		17,270
Retained earnings	20	<u>(375,523)</u>
Total equity		<u>7,252,098</u>
Total liabilities and equity		<u><u>12,342,717</u></u>

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

LG Energy Solution, Ltd.
Separate Statement of Profit or Loss
One-Month Period Ended December 31, 2020

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2020
Revenue	30	632,954
Cost of sales	22, 30	<u>(482,826)</u>
Gross profit		150,128
Selling and administrative expenses	21, 22, 30	<u>(659,258)</u>
Operating profit		(509,130)
Finance income	24	24,978
Finance costs	24	(37,549)
Other non-operating income	25	24,462
Other non-operating expenses	26	<u>(32,919)</u>
Loss before income tax	31	(530,158)
Income tax expense	27	<u>152,178</u>
Loss for the year		<u><u>(377,980)</u></u>
Loss per share for profit for the year (in won)	28	
Basic loss per ordinary share		(1,890)

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

LG Energy Solution, Ltd.
Separate Statement of Comprehensive Income
One-Month Period Ended December 31, 2020

<i>(in millions of Korean won)</i>	Notes	2020
Loss for the year		<u>(377,980)</u>
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss</i>		2,457
Remeasurements of net defined benefit liability	16	3,389
Income tax relating to these items		(932)
<i>Items that may be subsequently reclassified to profit or loss</i>		1,365
Cash flow hedges	3	1,883
Income tax relating to these items		(518)
Other comprehensive income for the year, net of tax		<u>3,822</u>
Total comprehensive income (loss) for the year		<u><u>(374,158)</u></u>

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

LG Energy Solution, Ltd.
Separate Statement of Changes in Equity
One-Month Period Ended December 31, 2020

<i>(in millions of Korean won)</i>	Notes	Share capital	Capital surplus	Accumulated other comprehensive income	Retained earnings	Total equity
Balance at December 1, 2020		100,000	7,510,831	15,905	-	7,626,736
Comprehensive income						
Loss for the year		-	-	-	(377,980)	(377,980)
Remeasurements of net defined benefit liability	16	-	-	-	2,457	2,457
Cash flow hedges	3	-	-	1,365	-	1,365
Total comprehensive loss for the year		-	-	1,365	(375,523)	(374,158)
Others						
Others		-	(480)	-	-	(480)
Balance at December 31, 2020		100,000	7,510,351	17,270	(375,523)	7,252,098

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

LG Energy Solution, Ltd.
Separate Statement of Cash Flows
One-Month Period Ended December 31, 2020

<i>(in millions of Korean won)</i>	Notes	2020
Cash flows from operating activities		
Cash used in operations	31	(60,756)
Interest received		143
Interest paid		(1,114)
Income taxes paid		(76)
Net cash outflow from operating activities		<u>(61,803)</u>
Cash flows from investing activities		
Decrease in other non-current receivables		728
Proceeds from disposal of property, plant and equipment		6,032
Increase in other receivables		(600,000)
Increase in other non-current receivables		(463)
Acquisition of investments in subsidiaries		(34,729)
Acquisition of property, plant and equipment		(14,694)
Acquisition of intangible assets		(4,120)
Net cash outflow from investing activities		<u>(647,246)</u>
Cash flows from financing activities		
Repayments of borrowings		(197)
Share issuance costs		(480)
Net cash outflow from financing activities		<u>(677)</u>
Net decrease in cash and cash equivalents		
Cash and cash equivalents at the beginning of the year		(709,726)
Effects of exchange rate changes on cash and cash equivalents		1,251,298
		<u>(4,841)</u>
Cash and cash equivalents at the end of the year in the separate statement of financial position		<u>536,731</u>

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

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Notes to the Separate Financial Statements

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1. General Information

LG Energy Solution, Ltd. (the Company) was established on December 1, 2020, through split-off of battery business from LG Chem, Ltd.

As at December 31, 2020, the Company has its manufacturing facilities in Ochang and mainly manufactures and supplies batteries ranging from IT & New application batteries for mobile phones and laptop computers, to automotive batteries for electric vehicles and ESS batteries.

The Company is authorized to issue 800 million shares of ordinary shares with par value of ₩ 500 per share. As at December 31, 2020, the Company has issued 200 million ordinary shares (₩ 100,000 million). The largest shareholder of the Company is LG Chem, Ltd., which owns 100% of the Company's ordinary shares.

2. Summary of Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

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

The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments), and
- defined benefit pension plans – plan assets measured at fair value

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

2.2 Changes in Accounting Policy and Disclosures

(a) New standards and interpretations not yet adopted by the Company

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2020 reporting periods and have not been early adopted by the Company.

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- Amendments to Korean IFRS 1116 Lease – Practical expedient for COVID-19 - Related Rent Exemption, Concessions, Suspension

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification. The amendments should be applied for annual periods beginning on or after June 1, 2020, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

- Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement, Korean IFRS 1107 Financial Instruments: Disclosure, Korean IFRS 1104 Insurance Contracts and Korean IFRS 1116 Lease – Interest Rate Benchmark Reform

In relation to interest rate benchmark reform, the amendments provide exceptions including adjust effective interest rate instead of book amounts when interest rate benchmark of financial instruments at amortized costs is replaced, and apply hedge accounting without discontinuance although the interest rate benchmark is replaced in hedging relationship. The amendments should be applied for annual periods beginning on or after January 1, 2021, and earlier application is permitted.

- Amendments to Korean IFRS 1103 Business Combination – Reference to the Conceptual Framework

The amendments update a reference of definition of assets and liabilities qualify for recognition in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of Korea IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets, and Korean IFRS 2121 Levies. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

- Amendments to Korean IFRS 1016 Property, Plant and Equipment - Proceeds before intended use

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

- Amendments to Korean IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts: Cost of Fulfilling a Contract

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

- Annual improvements to Korean IFRS 2018-2020

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Annual improvements of Korean IFRS 2018-2020 Cycle should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

- Korean IFRS 1101 *First time Adoption of Korean International Financial Reporting Standards* – Subsidiaries that are first-time adopters
- Korean IFRS 1109 *Financial Instruments* – Fees related to the 10% test for derecognition of financial liabilities
- Korean IFRS 1116 *Leases* – Lease incentives
- Korean IFRS 1041 *Agriculture* – Measuring fair value

- Amendments to Korean IFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability include the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

2.3 Subsidiaries, Joint Ventures, and Associates

The financial statements of the Company are the separate financial statements prepared in accordance with Korean IFRS 1027 *Separate Financial Statements*. Investments in subsidiaries, joint ventures and associates are recognized at cost under the direct equity method. The Company recognizes dividend income from subsidiaries, joint ventures and associates in profit or loss when its right to receive the dividend is established.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are recognized in other comprehensive income if they relate to qualifying cash flow hedges and qualifying effective portion of net investment hedges, or are attributable to monetary part of the net investment in a foreign operation.

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

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Foreign exchange gains and losses on non-monetary items are recognized as part of gains and losses resulting from the changes in fair value. Foreign exchange gains and losses on equity investments measured at fair value through other comprehensive income are recognized in other comprehensive income.

2.5 Cash and Cash Equivalents

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

2.6 Financial Assets

(a) Classification

The Company classifies its financial assets in the following measurement categories:

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

Financial assets are classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

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

Subsequent changes in the fair value of investments in equity instruments that are not held for trading are recognized in other comprehensive income.

(b) Measurement

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

A. Debt instruments

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

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows

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represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'finance income/costs' or 'other non-operating income/expenses' and impairment loss is presented in 'other non-operating expenses'.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'finance income/costs' or 'other non-operating income/expenses' in the period in which it arises.

B. Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments, which held for long-term investment or strategic purpose, in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as 'finance income' when the right to receive payments is established. Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'Finance income or costs' in the statement of profit or loss as applicable. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(c) Impairment

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

(d) Recognition and Derecognition

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Company classified the financial liability as "borrowings" in the statement of financial position.

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2.7 Derivative Financial Instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company has hedge relationships and designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges)

At inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. A non-derivative financial asset and a non-derivative financial liability is classified as a current or non-current based on its expected maturity and its settlement, respectively.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity, limited to the cumulative change in fair value (present value) of the hedged item (the present value of the cumulative change in the future expected cash flows of the hedged item) from the inception of the hedge. The ineffective portion is recognized in 'other non-operating income (expenses)'.

When option contracts are used to hedge forecast transactions, the Company designates only the intrinsic value of the option contract as the hedging instrument. Gains or losses relating to the effective portion of the change in intrinsic value of the option contracts are recognized in the cash flow hedge reserve within equity. The changes in the time value of the option contracts that relate to the hedged item ('aligned time value') are recognized within the costs of hedging in other comprehensive income within equity.

When forward contracts are used to hedge forecast transactions, the Company generally designates only the change in fair value of the forward contract related to the spot element as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot element of the forward contracts are recognized in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item is recognized within other comprehensive income within equity. In some cases, the Company may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognized in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the

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asset. The deferred amounts are ultimately recognized in profit or loss as the hedged item affects profit or loss (for example through cost of sales).

- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognized in profit or loss within 'finance cost' at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any accumulated cash flow hedge reserve at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cash flow hedge reserve and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss within 'other non-operating income (expenses)' or 'finance income (costs)' based on the nature of transactions.

2.8 Trade Receivables

At initial recognition, trade receivables are measured at the amount of unconditional consideration, unless the trade receivables contain a significant financing component. Trade receivables are subsequently measured at amortized cost using the effective interest method, less loss allowance.

2.9 Inventories

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

2.10 Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation of all property, plant and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

	Useful lives
Buildings	25 - 50 years
Structures	15 - 50 years
Machinery	4 - 15 years
Others	1 - 15 years

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.11 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost. An investment property is measured after initial measurement at depreciated cost (less any accumulated impairment losses). The

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Company depreciates investment properties, except for land, using the straight-line method over their useful lives of 25 ~ 50 years.

2.12 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its 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. Other borrowing costs are expensed in the period in which they are incurred.

2.13 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

2.14 Intangible Assets

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

Development costs that are directly attributable to internally generated by the Company are recognized when the criteria; such as, technically feasible, generate probable future economic benefits and other, are met. Membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Company amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

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

2.15 Research and Development

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

- It is technically feasible to complete the development project so that it will be available for use;
- Management intends to complete the development project for its own use or selling;
- 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 resources 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.

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Generally, internally generated development projects have the following stages; formulation and selection of a project, verification of idea and technology, development and testing, decision of commercialization, test of final application. Expenditures can be capitalized as intangible assets only after the decision of commercialization. Expenditures incurred in other stages are recognized as expenses on the research phase.

Expenditures incurred from technology license agreement with the third parties are recognized as intangible assets.

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 when the assets are available for use and are tested for impairment.

2.16 Impairment of Non-financial Assets

Intangible assets with indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.17 Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of reporting period. Trade and other payables are presented as current liabilities, unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.18 Financial Liabilities

(a) Classification and measurement

The Company's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is held for trading if it is incurred principally for the purpose of repurchasing in the near term. A derivative that is not a designated as hedging instruments and an embedded derivative that is separated are also classified as held for trading.

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and present as 'trade payables', 'borrowings', and 'other payables' in the statement of financial position.

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished; for example, when the obligation specified in the contract is discharged or cancelled or expired or when the terms of an existing financial liability are substantially modified. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

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2.19 Financial Guarantee Contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value, subsequently at the higher of following and recognized in the statement of financial position within 'other financial liabilities'.

- the amount determined in accordance with the expected credit loss model under Korean IFRS 1109 *Financial Instruments* and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with Korean IFRS 1115 *Revenue from Contracts with Customers*

2.20 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, 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 expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. However, 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 tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset when the Company has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the assets and settle the liability simultaneously.

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2.21 Provisions

Provisions for warranties, site restorations, and legal claims 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 can be reliably estimated.

2.22 Greenhouse Gas Emissions Permits and Obligations

With enforcement of *The Act on the Allocation and Trading of Greenhouse Gas Emission Permits*, the permits that are received free of charge from the government are measured at zero while permits purchased are measured at acquisition cost and stated net of accumulated impairment loss. Emissions obligations are measured as the sum of the carrying amount of the allocated permits that will be submitted to the government and the best estimate of expenditure required to settle the obligation at the end of reporting period for any excess emission. The permits and emissions obligations are classified as intangible assets and provisions, respectively, in the statement of financial position.

2.23 Employee Benefits

(a) *Post-employment benefits*

The Company operates both defined contribution and defined benefit pension plans. For defined contribution plans, the Company pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Company has no further payment obligation once the contribution has been paid. The contribution is recognized as employee benefit expense when they are due. A defined benefit plan is a pension plan that is not a defined contribution plan.

Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

(b) *Other long-term employee benefits*

Certain entities within the Company provide long-term employee benefits that are entitled to employees with service period for ten years and above. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Company recognizes service cost, net interest on other long-term employee benefits and remeasurements as profit or loss for the years. These liabilities are valued annually by an independent qualified actuary.

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2.24 Revenue Recognition

(a) Identify performance obligation

With regard to the contract of selling products to the customer, the Company identifies the services provided separately to the customer as a different performance obligation. When the Company makes a sales contract with the customer, the standard warranty period for each product and customer is set up considering the legal warranty period. Even though the standard warranty period has been expired, the warranties are recognized as a revenue and is identified as a separate performance obligation when the Company provides additional warranties for the quality of product or when the customer has an option to purchase additional warranties separately.

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

The revenue from the sale of goods is recognized at the time they are delivered to the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

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

(c) Significant financing component

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

2.25 Lease

Lease activities and accounting policies of the Company

Lease income from operating leases where the Company is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature.

The Company leases various machinery, real estate and cars. Lease contracts are typically made for fixed periods, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

At the commencement date, the Company recognizes a right-of-use asset and a lease liability. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated

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over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Company (the lessee) under residual value guarantees
- The exercise price of a purchase option if the Company (the lessee) is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Company (the lessee) exercising that option

If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the useful life of the underlying asset.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Payments associated with short-term leases or leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

(a) Variable lease payments

Some property leases contain variable payment terms that are linked to sales generated from a warehouse. Variable lease payments that depend on usage are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

(b) Extension and termination options

Extension and termination options are included in a number of leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

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The Company determines the lease term as the non-cancellable period of a lease within the period for which the contract is enforceable, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. When both lessee and lessor have the right to terminate the lease without permission from the other party, the Company considers the contractual termination payments in determining the period for which the contract is enforceable.

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 financial performance of the Company. The Company uses derivative financial instruments to hedge certain risk exposures.

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

(a) Market risk

1) Foreign exchange risk

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

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

As at December 31, 2020, the Company's monetary assets and liabilities denominated in currencies other than its functional currency, are as follows:

<i>(in millions of Korean won)</i>	2020	
	Assets	Liabilities
USD	2,221,196	2,364,916
EUR	174,206	739,136
JPY	15,110	32,693
CNY and others	401,943	974

As at December 31, 2020, if the Company's functional currency had weakened / strengthened by 10% against the US dollar with all other variables held constant, profit before income tax would have been affected as follows:

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<i>(in millions of Korean won)</i>	2020	
	10% Increase	10% Decrease
USD	(14,372)	14,372

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) As at December 31, 2020, the Company entered into foreign currency forwards to manage the risk arising from exchange rate changes and the details are as follows:

<i>(in millions of Korean won and in millions of US dollars)</i>						Book amount	
	Contractor	Contract amount	Contract exchange rate	Contract inception date	Contract maturity	Assets	Liabilities
Currency forward ¹	Shinhan Bank	USD 500	1,135.60	2020.10.14	2024.10.15	-	23,115
	KB Kookmin Bank	USD 500	1,102.83	2020.11.24	2029.04.16	-	18,653

¹ A derivative instrument which is not subject to hedging

3) Interest rate risk

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

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

The Company has no floating rate deposits and borrowings outstanding at the end of the reporting period.

(b) Credit risk

Credit risk arises from trade receivables that the Company holds, as well as debt instruments at amortized cost or fair value through other comprehensive income.

A. Trade receivables

The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at December 31, 2020, is as follows. Expected credit losses include forward-looking information.

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<i>(in millions of Korean won)</i>	Receivables not past due¹	Receivables past due but not impaired¹	Total
December 31, 2020			
(Trade receivables)			
Gross carrying amount	1,272,961	300,590	1,573,551
Expected loss rate	0.00%	0.00%	0.00%
Loss allowance provision	124	-	124

¹ See Note 7 for aging analysis

Movements in the loss allowance provision for trade receivables for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Beginning balance	159
Reversal of loss allowance recognized in profit or loss during the year	(35)
Ending balance	<u>124</u>

As at December 31, 2020, the carrying amount of trade receivables representing the maximum exposure to credit risk amounts to ₩ 1,573,551 million.

B. Other financial at assets amortized cost

Movements in loss allowance provision for other financial assets at amortized cost for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Beginning balance	-
Increase in loss allowance recognized as 'other expenses' in profit or loss during the year	54
Ending balance	<u>54</u>

All of the financial assets at amortized costs are considered to have low credit risk, and the loss allowance recognized during the period was, therefore, limited to 12 months expected losses.

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

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

The Company has entered into export insurance contracts with Korea Trade Insurance Corporation to mitigate credit risks relating to export trade receivables to overseas customers. The Company is also provided with collaterals by customers depending on their credit rating or

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payment guarantees from the customers' financial institutions as necessary.

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

(c) Liquidity risk

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

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

(in millions of Korean won)

	2020			
	Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years
Non-derivative instruments				
Borrowings (excluding lease liabilities)	45,174	45,174	1,324,270	814,127
Lease liabilities	2,379	1,585	2,109	-
Trade and other payables	1,651,623	1,563	-	-
	<u>1,699,176</u>	<u>48,322</u>	<u>1,326,379</u>	<u>814,127</u>
Derivative instruments				
Gross settlement currency forwards				
Inflows	-	-	(544,000)	(544,000)
Outflows	-	-	567,800	551,415
	-	-	<u>23,800</u>	<u>7,415</u>
Total	<u>1,699,176</u>	<u>48,322</u>	<u>1,350,179</u>	<u>821,542</u>

2) As at December 31, 2020, the Company has entered into swap contracts for which cash flow hedge accounting is applied, to avoid market price fluctuation of raw materials.

(in millions of Korean won)

	2020			
	Purpose of the contracts	Hedged items	Financial institution	Maturity

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Merchandise (raw materials) swap ¹	Cash flow hedges	Non-ferrous metal	Citi bank	~2021.12	23,821
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Details of derivative assets and liabilities as at December 31, 2020, are as follows.

(in millions of Korean won)

	2020	
	Assets	Liabilities
Merchandise (raw materials) swap ^{1,2}	23,821	-
Total	23,821	-

¹ Gain (loss) resulting from the contracts to avoid cash flow fluctuation risk of expected future transaction is accounted for as accumulated other comprehensive income (Note 5).

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

(in millions of Korean won)

	2020			
	Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years
Financial guarantee contracts ¹	3,335,344	-	-	-

¹ The Company has provided financial guarantee for subsidiaries. The amount represented the maximum amount of the guarantee as at December 1, 2020, in which the guarantee could be called (Note 18).

3.2 Capital Risk Management

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

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

The gearing ratios and debt-to-equity ratios as at December 31, 2020, were as follows:

(in millions of Korean won, except for ratios)

	2020
Total borrowings (Note 14) (A)	1,949,537
Less: cash and cash equivalents (B)	(536,731)
Net debt (C=A+B)	1,412,806
Total liabilities (D)	5,090,619
Total equity (E)	7,252,098
Total capital (F=C+E)	8,664,904
Gearing ratio (C/F)	16.3%
Debt-to-equity ratio (D/E)	70.2%

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- Quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value is disclosed as at December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020			
	Level 1	Level 2	Level 3	Total
Financial assets/liabilities measured at fair value				
Current derivative financial assets	-	23,821	-	23,821
Non-current derivative financial liabilities (currency forward)	-	41,768	-	41,768
Financial assets/liabilities not measured at fair value				
Non-current borrowings (excluding lease liabilities)	-	2,020,530	-	2,020,530

4. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Company's accounting policies. 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 may differ from the related actual results.

The spread of COVID-19 during 2020 has a significant impact on the domestic and international economies. This may affect the company's financial position and business performance.

Significant accounting estimates and assumptions used in the preparation of financial statements may be adjusted according to fluctuations in uncertainty arising from COVID-19, and the ultimate impact of COVID-19 on the Company's business, financial position, and management performance is currently unpredictable.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the *Tax System for Recirculation of Corporate Income*, the Company is liable to pay additional income tax calculated based on the tax laws. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Company's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

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(b) Provisions

The Company recognizes provisions for product warranties and estimated returns as explained in Note 15. These provisions are estimated based on experience. Provisions related to voluntary recalls by the Group's customer are estimated based on the number of vehicles subject to recall, estimated total repair cost, and cost sharing ratio.

(c) 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 December 31, 2020 (Note 3.3).

(d) Impairment of financial assets

The provision for impairment for financial assets is based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's history, existing market conditions as well as forward looking estimates at the end of each reporting period (Note 3.1 (b)).

(e) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 16).

(f) Lease

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

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5. Financial Instruments by Category

Categorizations of financial instruments As at December 31, 2020, are as follows:

(in millions of Korean won)

Financial assets	2020		
	Financial assets at amortized cost	Other Financial asset¹	Total
Cash and cash equivalents	536,731	-	536,731
Trade receivables	1,547,136	-	1,547,136
Non-current trade receivables	26,291	-	26,291
Other receivables	1,072,733	-	1,072,733
Other non-current receivables	454,026	-	454,026
Other current financial assets	-	23,821	23,821
Total	3,636,917	23,821	3,660,738

(in millions of Korean won)

Financial liabilities	2020		
	Financial liabilities at amortized cost	Other financial liabilities²	Total
Trade payables	1,272,958	-	1,272,958
Other payables	378,665	-	378,665
Borrowings (current)	-	2,273	2,273
Other current financial liabilities	-	62,544	62,544
Other non-current financial liabilities	-	41,768	41,768
Other non-current payables	1,563	-	1,563
Borrowings (non-current)	1,943,701	3,563	1,947,264
Total	3,596,887	110,148	3,707,035

¹ Other financial assets include derivative assets.

² Other financial liabilities include lease liabilities and derivatives.

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Net gains or losses on each category of financial instruments for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Interest income	
Financial assets at amortized cost	1,611
Interest expense	
Financial liabilities at amortized cost	(3,997)
Other financial liabilities	(7)
Loss on valuation	
Derivative instruments	(13,545)
Exchange differences	
Financial assets at amortized cost	(28,807)
Financial liabilities at amortized cost	25,101

6. Cash and Cash Equivalents

Details of cash and cash equivalents as at December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Bank deposits and cash on hand	23,670
Deposits held by financial institutions and others	513,061
Total	<u>536,731</u>

7. Trade and Other Receivables

Trade and other receivables and its provisions for impairment as at December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020		
	Gross amount	Provision for impairment	Carrying amount
Trade receivables	1,547,260	(124)	1,547,136
Non-current trade receivables	26,291	-	26,291
Other current receivables	1,072,787	(54)	1,072,733
Other non-current receivables	454,026	-	454,026
Total	<u>3,100,364</u>	<u>(178)</u>	<u>3,100,186</u>

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Details of other receivables as at December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Current	
Non-trade receivables	455,756
Deposits held by financial institutions	600,000
Accrued income	9,293
Guarantee deposits provided	7,684
	<u>1,072,733</u>
Non-current	
Non-trade receivables	43,896
Deposits held by financial institutions ¹	60,014
Loans	333,920
Guarantee deposits provided	16,196
	<u>454,026</u>
Total	<u>1,526,759</u>

¹ As at December 31, 2020, ₩ 60,000 million is restricted from being withdrawn in relation to large, small and medium-sized companies cooperation agreement and others, and 14 million won is limited to use as a deposit for checking account opening.

The aging analysis of trade and other receivables as at December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020	
	Trade receivables	Other receivables
Receivables not past due	<u>1,272,961</u>	<u>1,491,427</u>
Past due but not impaired		
Up to 3 months	146,684	33,876
Between 3-6 months	65,219	117
Over 6 months	88,687	1,339
	<u>300,590</u>	<u>35,332</u>
Impaired receivables	-	54
	<u>1,573,551</u>	<u>1,526,813</u>

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Movements on the provision for impairment of trade and other receivables for the one-month period ended December 31, 2020, are as follows:

(in millions of Korean won)

	2020			
	Trade receivables		Other receivables	
	Current	Non-current	Current	Non-current
Beginning balance	159	-	-	-
Additions (reversal)	(35)	-	54	-
Ending balance	<u>124</u>	<u>-</u>	<u>54</u>	<u>-</u>

As at December 31, 2020, the carrying amounts of trade and other receivables are approximation of their fair values.

8. Other Financial Assets and Liabilities

(a) Details of other financial assets and liabilities as at December 31, 2020, are as follows:

(in millions of Korean won)

	2020
Other financial assets	
Derivative financial assets (futures contract) (current)	23,821
	<u>23,821</u>
Other financial liabilities	
Financial guarantee contracts (current)	62,544
Financial liabilities at fair value through profit or loss (non-current)	41,768
	<u>104,312</u>

No impairment losses on other financial assets were recognized for the one-month period ended December 31, 2020.

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9. Inventories

Details of inventories as at December 31, 2020, are as follows:

(in millions of Korean won)

	2020		
	Gross amount	Valuation allowance	Carrying amount
Merchandise	43,165	(1,666)	41,499
Finished / Semi-finished products	595,201	(21,403)	573,798
Raw materials	235,354	(629)	234,725
Supplies	12,068	-	12,068
Materials-in-transit	87,659	-	87,659
Total	<u>973,447</u>	<u>(23,698)</u>	<u>949,749</u>

During the one-month period ended December 31, 2020, the cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩ 387,585 million.

10. Investments in Subsidiaries, Associates and Joint ventures

Changes in investments in subsidiaries, associates and joint ventures for the one-month period ended December 31, 2020, are as follows:

(in millions of Korean won)

	2020
Beginning balance	4,452,376
Additions / Transfer	<u>34,729</u>
Ending balance	<u>4,487,105</u>

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Details of investments in subsidiaries, associates and joint ventures as at December 31, 2020, are as follows:

(in millions of Korean won and in percentage)

		2020	
	Location	Percentage of ownership (%)	Carrying amount
Subsidiaries			
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd. ¹	China	81	1,138,401
LG Energy Solution Michigan, Inc.	USA	100	583,577
Nanjing LG Chem New Energy Battery Co., Ltd. ^{1,2}	China	50	88,706
LG Chem Wroclaw Energy sp. z o.o. ¹	Poland	100	1,810,008
LG Energy Solution Australia Pty Ltd	Australia	100	429
LG Chem (Nanjing) Energy Solution Co., Ltd. ¹	China	100	788,171
LG Energy Solution Europe GmbH ³	Germany	100	34,729
			4,444,021
Associates			
Wuxi CL New Energy Technology Ltd.	China	30	1,737
VINFAST LITHIUM BATTERY PACK LLC.	Vietnam	35	5,323
Jiangxi VL Battery Co., Ltd	China	34	21,814
			28,874
Joint ventures			
HL Greenpower Co., Ltd.	Korea	49	14,210
			14,210
Total			43,084

¹ The subsidiary's entity name will be changed during 2021.

² Although the Company owns less than 50% of voting rights of Nanjing LG Chem New Energy Battery Co., Ltd., the Company has concluded that the Company controls Nanjing LG Chem New Energy Battery Co., Ltd. This is because the Company is able to exercise the majority voting rights in its decision-making process by virtue of an agreement with other investors.

³ LG Energy Solution Europe GmbH was established during the one-month period ended December 31, 2020, and the Company newly acquired 100% shares of LG Energy Solution Europe GmbH for ₩ 34,729 million.

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11. Property, Plant and Equipment

Changes in property, plant and equipment for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020										
	Land	Buildings	Structures	Machinery	Vehicles	Tools	Equipment	Right-of-use assets	Construction -in-progress	Machinery -in-transit	Total
Beginning balance	223,170	648,605	37,760	178,802	640	161,959	34,526	5,432	143,580	23,224	1,457,698
Cost	223,838	809,121	69,010	1,370,400	3,432	460,150	99,682	7,133	143,580	23,224	3,209,570
Accumulated depreciation	-	(157,344)	(29,416)	(1,190,342)	(2,788)	(297,917)	(64,732)	(1,701)	-	-	(1,744,240)
Accumulated impairment	(668)	(3,172)	(1,834)	(1,256)	(4)	(274)	(424)	-	-	-	(7,632)
Acquisitions/ Transfer	-	591	269	24,194	13	6,914	6,275	569	88,316	515	127,656
Disposals/ Transfer	-	-	-	(5,604)	-	(15)	(420)	-	(32,142)	(470)	(38,651)
Depreciation	-	(1,394)	(188)	(11,108)	(21)	(4,615)	(909)	(172)	-	-	(18,407)
Ending balance	223,170	647,802	37,841	186,284	632	164,243	39,472	5,829	199,754	23,269	1,528,296
Cost	223,838	809,711	69,279	1,386,192	3,444	465,363	105,526	7,701	199,754	23,269	3,294,077
Accumulated depreciation	-	(158,737)	(29,604)	(1,198,652)	(2,808)	(300,846)	(65,629)	(1,872)	-	-	(1,758,148)
Accumulated impairment	(668)	(3,172)	(1,834)	(1,256)	(4)	(274)	(425)	-	-	-	(7,633)

During the one-month period ended December 31, 2020, the Company capitalized ₩ 72 million of borrowing costs in relation to acquisition of property, plant and equipment, on property, plant and equipment. The capitalization rate of borrowings used to determine the amount of borrowing costs eligible for capitalization is 2.43%.

Line items including depreciation in the separate statement of profit or loss for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Cost of sales	14,608
Selling and administrative expenses	3,799
Total	18,407

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Lease

(i) Amounts recognized in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

<i>(in millions of Korean won)</i>	2020
Right-of-use assets ¹	
Land	3,034
Buildings	520
Vehicles	2,275
	<u>5,829</u>

¹ Included in the line item 'Property, plant and equipment' in the statement of financial position.

Additions to the right-of-use assets during the one-month period ended December 31, 2020, were ₩ 569 million.

<i>(in millions of Korean won)</i>	2020
Lease liabilities ¹	
Current	2,273
Non-current	3,563
	<u>5,836</u>

¹ Included in the line item 'borrowings' in the statement of financial position.

(ii) Amounts recognized in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

<i>(in millions of Korean won)</i>	2020
Depreciation of right-of-use assets	
Land	34
Buildings	14
Vehicles and others	124
	<u>172</u>
Interest expense relating to lease liabilities (included in finance cost)	7
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)	699
Expense relating to leases of low-value assets that are not short-term leases (included in cost of goods sold and administrative expenses)	52

The total cash outflow for leases during the one-month period ended December 31, 2020 was ₩ 955 million.

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12. Intangible Assets

(a) Changes in intangible assets for the one-month period ended December 31, 2020, are as follows:

(in millions of Korean won)

	2020				
	Software	Industrial property rights	Memberships	Others	Total
Beginning balance	116,905	145,495	9,218	439	272,057
Separate acquisitions/ Transfer	1,122	3,908	-	-	5,030
Disposals/ Transfer	-	(73)	-	-	(73)
Amortization	(2,654)	(1,225)	-	(2)	(3,881)
Ending balance	<u>115,373</u>	<u>148,105</u>	<u>9,218</u>	<u>437</u>	<u>273,133</u>

(b) Line items including amortization of intangible assets for the one-month period ended December 31, 2020, are as follows:

(in millions of Korean won)

	2020
Cost of sales	1,136
Selling and administrative expenses	2,745
Total	<u>3,881</u>

(c) The Company recognized total research and development costs of ₩ 23,583 million as expenses.

13. Other Current and Non-current Assets

Details of other current and non-current assets as at December 31, 2020, consist of:

(in millions of Korean won)

	2020
Current	
Prepayments to suppliers and prepaid expense	42,993
Prepaid value added tax	14,361
Others	889
Total	<u>58,243</u>
Non-current	
Long-term prepayments and prepaid expenses	42,252
Total	<u>42,252</u>

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14. Borrowings

Borrowings as at December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Current	
Current-portion of lease liabilities	2,273
	<u>2,273</u>
Non-current	
Debentures	1,943,701
Lease liabilities	3,563
	<u>1,947,264</u>
Total	<u>1,949,537</u>

Details of debentures as at December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020					
	Financial institution	Annual interest rate (%)	Latest maturity date	Amount in Korean won	Current	Non-current
1st Debenture (non-guaranteed/public)	NH Investment & Securities Co., Ltd. and others	2.21	2026.03.13	200,000	-	200,000
USD foreign currency debenture with maturity in 2024	CITI and others	3.25	2024.10.15	544,000	-	544,000
USD foreign currency debenture with maturity in 2029	CITI and others	3.63	2029.04.15	544,000	-	544,000
EUR foreign currency debenture with maturity in 2023	CITI and others	50	2023.04.15	669,120	-	669,120
Less: discount on debentures				<u>(13,419)</u>	-	<u>(13,419)</u>
Total				<u>1,943,701</u>	<u>-</u>	<u>1,943,701</u>

Details of lease liabilities as at December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020				
Leaser	Annual interest rate (%)	Latest maturity date	Total amount	Current	Non-current
Baekshin industry and others	2.01 ~ 2.338%	2025.12.31	5,836	2,273	3,563

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15. Provisions

Changes in the carrying amount of provisions for the one-month period ended December 31, 2020, are as follows:

(in millions of Korean won)

	2020			
	Warranty ¹	Greenhouse gas emission ²	Legal claims ³	Total
Beginning balance	546,648	746	336	547,730
Additions (reversal)	560,266	96	(5)	560,357
Used	(13,527)	-	-	(13,527)
Ending balance	1,093,387	842	331	1,094,560
Less: current portion	(983,393)	(842)	-	(984,235)
Total	<u>109,994</u>	<u>-</u>	<u>331</u>	<u>110,325</u>

¹ Warranty provisions have been accrued for the estimated warranty costs to be incurred due to quality control, exchange, refunds with regard to products based on historical experience. In addition, provisions related to replacement costs for ESS and voluntary automotive battery recalls are included.

² Greenhouse gas emission provisions have been accrued for estimated expenditures to be obligated for any excess emission. As a result of split-off from LG Chem, Ltd. on December 1, 2020, provisions were recognized by estimating the beginning allocation to 194 thousand tons based on the estimated quantity of greenhouse gas emission of 2020 amounting to 219 thousand tons. The estimated emission for the one-month period ended December 31, 2020, amounts to 215 thousand tons.

³ Lawsuit provisions have been accrued for certain pending cases.

16. Net Defined Benefit Liability

Details of net defined benefit liabilities recognized in the statement of financial position as at December 31, 2020, are as follows:

(in millions of Korean won)

	2020
Present value of defined benefit obligations ¹	458,710
Fair value of plan assets	(415,924)
Liability in the separate statement of financial position	<u>42,786</u>

¹ The present value of retirement benefit obligations is net of existing contributions to the National Pension Plan of ₩ 44 million as at December 31, 2020.

The amounts recognized in the separate statement of profit or loss for the one-month period ended December 31, 2020, are as follows:

(in millions of Korean won)

	2020
Current service cost ¹	5,303
Interest cost	53
Total, included in employee benefit expenses	<u>5,356</u>

¹ Of the current service cost, ₩ 483 million, which was replaced by assets under construction and development expenses, are not included.

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Post-employment benefits recognized for defined contribution plan for the one-month period ended December 31, 2020, amounted to ₩ 83 million.

Post-employment benefits recognized in the separate statement of profit or loss for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Cost of sales	2,702
Selling and administrative expenses	2,737
Total	<u>5,439</u>

Movements in the present value of defined benefit obligations for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Beginning balance	455,133
Transfer in	998
Current service cost	5,786
Interest expense	924
Remeasurements:	
Actuarial gain from change in financial assumptions	(3,879)
Others	232
Payments from plans	(484)
Ending balance	<u>458,710</u>

Movements in the fair value of plan assets for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Beginning balance	415,772
Interest income	871
Remeasurements:	
Return on plan assets (excluding amounts included in interest income)	(258)
Contributions:	
Payments from plans	(395)
Administrative costs	(66)
Ending balance	<u>415,924</u>

The actual return on plan assets for the one-month period ended December 31, 2020, was ₩ 613 million.

The significant actuarial assumptions as at December 31, 2020, are as follows:

	2020
Discount rate	2.53%
Salary growth rate	5.00%

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The sensitivity analysis for changes in key actuarial assumptions as at December 31, 2020, is as follows:

<i>(in millions of Korean won)</i>	Increase by 0.5%	Decrease by 0.5%
Discount rate:		
Increase (decrease) in defined benefit obligations	(32,061)	35,495
Salary growth rate:		
Increase (decrease) in defined benefit obligations	34,445	(31,487)

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

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

Plan assets as at December 31, 2020, consist of:

<i>(in millions of Korean won)</i>	2020	
	Amount	Composition
Insurance contracts with guaranteed yield	415,924	100%

Plan assets consist of various debt instruments with principal and interest protection and others which have no quoted market prices in an active market.

As at December 31, 2020, the weighted average duration of defined benefit obligation is 13.13 years.

The Company reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2021 are ₩ 113,243 million.

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17. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as at December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Current	
Advances from customers	100,135
Withholding	28,197
Unearned revenues	1,015
Accrued expenses	76,829
Total	<u>206,176</u>
Non-current	
Long-term accrued expenses	21,762
Long-term advances from customers	18,300
Total	<u>40,062</u>

18. Commitments and Contingencies

- (1) The company is jointly liable for pre-split liabilities of LG Chem Co., Ltd., a split-off company.
- (2) As at December 31, 2020, the Company has been guaranteed from the Seoul Guarantee Insurance Company for the execution of contracts and others.
- (3) As at December 31, 2020, the Company has bank overdraft agreements with several banks for up to ₩ 8,700 million, and has entered into contracts with several financial institutions, and for letters of credit for up to ₩ 30 million, foreign currency purchase agreement for up to US\$ 135 million, and for the guaranteed payments in foreign currency for up to US\$ 56 million. The Company also has B2B purchase arrangements with several financial institutions amounting to ₩ 140,000 million.
- (4) As at December 31, 2020, the Company has contracts of US\$ 3 million, EUR 3 million and ₩ 5,373 million in guarantees with financial institutions in regard to warranty for certain products.
- (5) As at December 31, 2020, in relation to price fixing of mobile batteries, the consumers in Israel have filed one class action against the Parent Company and certain overseas subsidiaries. However, the ultimate outcome of these cases cannot be determined at the reporting date.
- (6) In addition, as at December 31, 2020, the Company has been named as a plaintiff and a defendant in 4 and 144 legal actions, respectively, with ₩ 5,158 million in claims. The ultimate outcome of these cases cannot be determined at the reporting date.
- (7) The Company has entered into a 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.
- (8) Capital expenditure arrangement that has not incur as at December 31, 2020, is as follows:

<i>(in millions of Korean won)</i>	2020
Property, plant and equipment	59,506

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(9) After the reporting period, General Motors Company has issued a recall for the Chevrolet Bolt EV to investigate fire risk. Investigation on the cause of the fire is being conducted by related authorities and the exact cause of fire has not been determined yet at the reporting date. As such, the Company cannot make reasonable expectation of the timing and amount of an outflow from the Company of resources due to the uncertainty of the cause of the accident.

(10) As at December 31, 2020, the Company has guaranteed the repayment of various obligations of its subsidiaries. The outstanding balance of such guarantees as at December 31, 2020, amounts to ₩ 3,335,344 million. Details of guarantees provided as at December 31, 2020, are as follows:

(in millions of Korean won)

Guarantee beneficiary	Financial institution	Guarantee period	2020	
			Amount of guarantee	Outstanding loan amount
LG Chem Wroclaw Energy sp. z o.o.	Citi	2018.11.2 ~ 2023.11.2	67,381	67,381
LG Chem Wroclaw Energy sp. z o.o.	Citi	2018.12.12 ~ 2021.7.27	33,690	-
LG Chem Wroclaw Energy sp. z o.o.	Citi	2019.3.22 ~ 2024.3.31	67,381	67,381
LG Chem Wroclaw Energy sp. z o.o.	Citi	2019.7.28 ~ 2021.7.27	26,952	-
LG Chem Wroclaw Energy sp. z o.o.	Citi	2019.8.20 ~ 2024.8.20	67,381	67,381
LG Chem Wroclaw Energy sp. z o.o.	Citi	2020.8.28 ~ 2021.7.27	40,428	-
LG Chem Wroclaw Energy sp. z o.o.	ING	2017.9.1 ~ 2022.9.1	67,381	67,381
LG Chem Wroclaw Energy sp. z o.o.	ING	2018.11.23 ~ 2023.11.23	67,381	67,381
LG Chem Wroclaw Energy sp. z o.o.	ING	2018.11.23 ~ 2023.11.23	26,952	26,952
LG Chem Wroclaw Energy sp. z o.o.	MUFG	2019.1.16 ~ 2024.1.31	67,381	67,381
LG Chem Wroclaw Energy sp. z o.o.	MUFG	2019.1.16 ~ 2022.1.31	67,381	67,381
LG Chem Wroclaw Energy sp. z o.o.	SMBC	2019.9.25 ~ 2021.11.24	134,761	134,761
LG Chem Wroclaw Energy sp. z o.o.	SMBC	2020.2.7 ~ 2023.2.6	134,761	134,761
LG Chem Wroclaw Energy sp. z o.o.	SMBC	2020.2.7 ~ 2027.2.5	67,381	67,381
LG Chem Wroclaw Energy sp. z o.o.	KEB Hana Bank	2019.2.6 ~ 2024.3.31	269,523	269,523
LG Chem Wroclaw Energy sp. z o.o.	EBRD	2019.9.25 ~ 2026.9.24	134,761	134,761
LG Chem Wroclaw Energy sp. z o.o.	EBRD	2020.3.26 ~ 2027.3.26	202,142	202,142
LG Chem Wroclaw Energy sp. z o.o.	DBS	2020.3.11 ~ 2023.3.11	134,761	134,761
LG Chem Wroclaw Energy sp. z o.o.	EIB	2020.3.16 ~ 2031.3.6	646,854	646,854
LG Chem Wroclaw Energy sp. z o.o.	Korea Development Bank / The Export-Import Bank of Korea / Nonghyup Bank	2020.4.29 ~ 2022.4.29	741,188	741,188
LG Chem Wroclaw Energy sp. z o.o.	Korea Development Bank / The Export-Import Bank of Korea	2020.11.26 ~ 2021.11.26	269,523	134,761
Total			3,335,344	3,099,512

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

Further, as at December 31, 2020, the Company provided no financial guarantee to its associates in relation to their borrowings.

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19. Share Capital

Share capital and share premium as at December 31, 2020, are as follows:

(in millions of Korean won and in shares)

	Ordinary shares		Share premium
	Number of shares	Share capital	
December 31, 2020	200,000,000	100,000	7,510,351

20. Deficit

Deficit as at December 31, 2020, consist of:

<i>(in millions of Korean won)</i>	2020
Unappropriated deficit	<u>(375,523)</u>
Total	<u>(375,523)</u>

The appropriation of deficit for the years ended December 31, 2020 is as follows:

<i>(in millions of Korean won)</i>	2020
Profit (loss) for the year	(377,980)
Remeasurements of net defined benefit liabilities	2,457
Retained earnings (deficit) available for appropriation	(375,523)
Unappropriated retained earnings (deficit) to be carried forward	<u>(375,523)</u>

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21. Selling and Administrative Expenses

Selling and administrative expenses for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Wages and salaries	11,470
Post-employment benefits (Note 16)	2,737
Employee benefits	5,152
Travel expense	957
Water & utilities	2,309
Packaging expenses	6
Rental expenses	3,453
Commission expenses	17,800
Depreciation	4,351
Advertising expense	924
Freight expenses	1,529
Training expense	250
Amortization (Note 12)	2,745
Sample expense	30
Development costs	5,447
Transfers to provisions for service warranties (Note 15)	560,266
Others	39,832
Total	<u>659,258</u>

22. Breakdown of Expenses by Nature

Cost of sales, and selling and administrative expenses by nature for the one-month period ended December 31, 2020, consist of:

<i>(in millions of Korean won)</i>	2020
Changes in inventories of merchandise, finished goods, semi-finished goods and work in process	(40,726)
Raw materials and consumables used	359,804
Purchase of merchandise	68,507
Employee benefit expenses (Note 24)	33,274
Advertising expenses	924
Freight expenses	1,915
Commission expenses	21,615
Depreciation and amortization	22,840
Rentals and fees	747
Other expenses	673,184
Total	<u>1,142,084</u>

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23. Employee Benefit Expenses

Details of employee benefit expenses for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Salaries	23,099
Post-employment benefits – Defined benefit plan (Note 16)	5,356
Post-employment benefits – Defined contribution plan (Note 16)	83
Others	4,736
Total	<u>33,274</u>

24. Finance Income and Costs

Details of finance income and costs for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Finance income	
Interest income ¹	1,611
Exchange differences	23,367
Total	<u>24,978</u>
Finance costs	
Interest expense ²	3,932
Exchange differences	18,188
Loss on derivative instruments	15,429
Total	<u>37,549</u>

¹ Details of interest income for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Deposits held by financial institutions	337
Other loans and receivables	1,274
Total	<u>1,611</u>

² Details of interest expense for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Interest on finance lease liabilities	7
Interest on debentures	3,997
Capitalized interest for qualifying assets	(72)
Total	<u>3,932</u>

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25. Other Non-Operating Income

Details of other non-operating income for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Exchange differences	22,461
Gain on disposal of property, plant and equipment	28
Others	1,973
Total	<u>24,462</u>

26. Other Non-Operating Expenses

Details of other non-operating expenses for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Exchange differences	31,346
Loss on disposal of property, plant and equipment	35
Others	1,538
Total	<u>32,919</u>

27. Tax Expense and Deferred Tax

(a) Income tax expense for the one-month period ended December 31, 2020, is as follows:

<i>(in millions of Korean won)</i>	2020
Current tax on profit for the year	54
Deferred tax movement in temporary differences	(133,287)
Deferred tax – credit carryforwards	(6,449)
Deferred tax – carried-forward tax losses	(11,046)
	<u>(150,728)</u>
Deferred tax charged directly to equity	(518)
Current tax charged directly to equity	(932)
Income tax expense	<u>(152,178)</u>

(b) The aggregate current and deferred tax charged directly to equity (other comprehensive income) for the one-month period ended December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Current tax	
Remeasurements of net defined benefit liabilities	(932)
Deferred tax	
Loss on valuation of derivative instruments	(518)
Total	<u>(1,450)</u>

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(c) Movements in deferred tax assets (liabilities) for the one-month period ended December 31, 2020, are as follows:

(in millions of Korean won)

	2020			Ending balance
	Beginning balance	Profit (loss) for the year	Other comprehensive income (loss)	
Defined benefit liability	119,472	734	-	120,206
Plan assets	(113,186)	(1,193)	-	(114,379)
Property, plant and equipment	-	5,216	-	5,216
Accrued income	-	(53)	-	(53)
Provision	156,567	150,430	-	306,997
Others	59,778	(17,426)	(518)	41,834
Assets succeeded due to split-off (Property, plant and equipment)	122,690	(3,790)	-	118,900
Assets succeeded due to split-off (Patents)	591,389	(112)	-	591,277
Assets succeeded due to split-off (Memberships)	600	-	-	600
	<u>937,310</u>	<u>133,806</u>	<u>(518)</u>	<u>1,070,598</u>
Tax credit carryforwards	-	6,449	-	6,449
Carried-forward tax losses	-	11,046	-	11,046
Deferred tax assets (liabilities)	<u>937,310</u>	<u>151,301</u>	<u>(518)</u>	<u>1,088,093</u>

(d) The reconciliations between income tax expense and accounting profit for the one-month period ended December 31, 2020, are as follows:

(in millions of Korean won)

	2020
Loss before income tax expense	<u>(530,158)</u>
Tax at domestic tax rates applicable	(145,794)
Tax effects of:	
Income not subject to tax	(71)
Expenses not deductible for tax purposes	1,531
Tax credit	(6,449)
Others	<u>(1,395)</u>
Income tax expense	<u>(152,178)</u>
Effective tax rate (income tax revenue/ loss before income tax)	<u>28.70%</u>

(e) Realization of deferred tax assets is dependent on the Company's ability to generate future taxable profits in excess of the profits arising from the reversal of taxable temporary differences, and economic and industry outlooks. Management periodically reviews on these factors.

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(f) Details of deductible (taxable) temporary differences unrecognized as deferred tax assets (liabilities) as at December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Investment in subsidiaries, associates and joint ventures	793,277
Total	<u>793,277</u>

(g) The expiration date of the unused deficit is as follows.

<i>(in millions of Korean won)</i>	2020
Within 1 year	-
1 to 2 years or less	-
2 to 5 years or less	-
More than 5 years	40,168

28. Earnings per Share

Basic earnings per share is calculated by dividing the loss attributable to ordinary shares by the total number of ordinary shares issued.

Basic earnings per ordinary share for the one-month period ended December 31, 2020, are computed as follows:

Basic earnings per ordinary share

<i>(in millions of Korean won and in number of shares)</i>	2020
Loss attributable to ordinary shares	(377,980)
The total number of ordinary shares issued	<u>200,000,000</u>
Basic earnings per ordinary share <i>(in won)</i>	<u>(1,890)</u>

The Company did not issue any potential ordinary shares. Therefore, basic earnings per share is identical to diluted earnings per share.

29. Dividends

The Company did not pay a dividend in respect of the one-month period ended December 31, 2020.

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30. Related Party Transactions

- (a) As at December 31, 2020, the Parent Company is LG Chem, Ltd. (percentage of ownership: 100%) over which LG Corp. exercises a significant influence.
- (b) Details of other related parties that have sales and other transactions with the Company or have receivables and payables balances, other than separate subsidiaries, associates and joint ventures (Note 10), as at December 31, 2020, are as follows:

Related party	Related party's subsidiary (Domestic)	Related party's subsidiary (Overseas)	Details
LG Chem, Ltd.	HAENGBOKNURI CO., LTD. and others	LG Chem America, Inc. and others	Subsidiary of LG Chem, Ltd.
S&I corp.	S&I CM	S&I CM NANJING Co., Ltd. and others	Subsidiary of LG Corp.
LG CNS Co., Ltd.	Biz Tech Partners Co., Ltd. and others	LG CNS America Inc. and others	Subsidiary of LG Corp.
LG Management Development Institute	-	-	Subsidiary of LG Corp.
LG MMA Corporation	-	-	Joint venture of LG Corp.
LG Electronics, Inc.	LG Innotek Co., Ltd. and others	Inspur LG Digital Mobile Communications Co., Ltd. and others	LG Enterprise group ¹
LG International Corp.	Pantos Logistics Co., Ltd. and others	LG International (Japan) Ltd. and others	LG Enterprise group ¹
LG Household & Health Care Ltd.	Coca-Cola Beverage Co. and others	-	LG Enterprise group ¹
LG Uplus Corp.	LG HelloVision Corp.	-	LG Enterprise group ¹
GIIR Inc.	HS AD Inc.	-	LG Enterprise group ¹

¹ Although these entities are not the related parties of the Company in accordance with Korean IFRS 1024, the entities belong to a large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

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(c) Sales and purchases with related parties for the one-month period ended December 31, 2020, are as follows:

(in millions of Korean won)

	2020					
	Sales and others	Purchase and others				
Purchase of raw materials /merchandises		Acquisition of property, plant and equipment and intangible assets	Acquisition of right-of-use assets	Interest expense	Others	
Parent Company						
LG Chem, Ltd.	1,970	18,526	-	3,204	6	5,072
Subsidiaries¹						
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	5,088	137,317	-	-	-	-
LG Energy Solution Michigan Inc.	33,536	1,775	-	-	-	2,493
Nanjing LG Chem New Energy Battery Co., Ltd.	7,100	30,538	-	-	-	-
LG Chem Wroclaw Energy sp. z o.o.	81,476	71	-	-	-	233
LG Energy Solution Australia Pty Ltd.	550	-	-	-	-	398
LG Chem Nanjing Energy Solution Co., Ltd.	2,678	69,726	-	-	-	-
LG Energy Solution Europe GmbH	7,647	-	-	-	-	3,601
Associates and joint ventures						
HL Greenpower Co., Ltd.	83,875	-	-	-	-	319
Other related parties						
LG Corp.	-	-	-	-	-	2,058
TECHWIN Co., Ltd.	-	-	2,126	-	-	-
LG MMA Corporation	9	-	-	-	-	-
S&I Corp. and its subsidiaries	19	3,457	1,364	-	-	10,762
LG CNS Co., Ltd. and its subsidiaries	1,005	38	30,161	-	-	3,206
Others	2	-	-	-	-	491
Others						
LG Electronics Inc. and its subsidiaries	46,870	11,029	8,163	-	-	2,180
LG International Corp. and its subsidiaries	-	327	-	-	-	4,715
Others	2	-	175	-	-	737
Total	271,827	272,804	41,989	3,204	6	36,265

¹ Certain subsidiary's entity name will be changed during 2021.

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(d) Balances of receivables and payables arising from sales and purchases of goods and services as at December 31, 2020 and December 1, 2020, are as follows:

(in millions of Korean won)

	December 31, 2020			
	Receivables			Total
	Trade receivables and others	Loan receivables	Other receivables	
Parent Company				
LG Chem, Ltd.	-	-	2,764	2,764
Subsidiaries¹				
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	12,097	333,920	53,573	399,590
LG Energy Solution Michigan Inc.	122,039	-	17,921	139,960
Nanjing LG Chem New Energy Battery Co., Ltd.	50,565	-	2,110	52,675
LG Chem Wroclaw Energy sp. z o.o.	182,243	-	258,450	440,693
LG Energy Solution Australia Pty Ltd.	2,590	-	-	2,590
LG Chem Nanjing Energy Solution Co., Ltd.	13,364	-	15,878	29,242
LG Energy Solution Europe GmbH	7,645	-	-	7,645
Associates and joint ventures				
HL Greenpower Co., Ltd.	277,326	-	-	277,326
Other related parties				
LG Corp.	-	-	25	25
LG Chem (Taiwan), Ltd.	-	-	-	-
LG Chem Europe GmbH	40,876	-	543	41,419
LEYOU NEW ENERGY MATERIALS(WUXI) Co., Ltd.	-	-	-	-
TECWIN Co., Ltd.	-	-	-	-
LG MMA Corporation	-	-	10	10
S&I Corp. and its subsidiaries	-	-	21	21
LG CNS Co., Ltd. and its subsidiaries	7,048	-	-	7,048
Others	-	-	1,800	1,800
Others				
LG Electronics Inc. and its subsidiaries	67,708	-	103,723	171,431
LG International Corp. and its subsidiaries	-	-	-	-
Others	-	-	3	3
Total	783,501	333,920	456,821	1,574,242

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(in millions of Korean won)

	December 31, 2020				
	Payables				
	Trade payables	Borrowings	Lease liabilities	Other payables	Total
Parent Company					
LG Chem, Ltd.	20,352	-	3,127	6,971	30,450
Subsidiaries¹					
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	466,069	-	-	14,165	480,234
LG Energy Solution Michigan Inc.	7,581	-	-	4,199	11,780
Nanjing LG Chem New Energy Battery Co., Ltd.	91,114	-	-	-	91,114
LG Chem Wroclaw Energy sp. z o.o.	2,401	-	-	3,858	6,259
LG Energy Solution Australia Pty Ltd.	-	-	-	505	505
LG Chem Nanjing Energy Solution Co., Ltd.	157,191	-	-	-	157,191
LG Energy Solution Europe GmbH	-	-	-	3,315	3,315
Associates and joint ventures					
HL Greenpower Co., Ltd.	-	-	-	330	330
Other related parties					
LG Corp.	-	-	-	664	664
LG Chem (Taiwan), Ltd.	-	-	-	638	638
LG Chem Europe GmbH	-	-	-	857	857
LEYOU NEW ENERGY MATERIALS(WUXI) Co., Ltd.	9,662	-	-	-	9,662
TECWIN Co., Ltd.	-	-	-	5,531	5,531
LG MMA Corporation	-	-	-	-	-
S&I Corp. and its subsidiaries	-	-	-	18,702	18,702
LG CNS Co., Ltd. and its subsidiaries	-	-	-	38,914	38,914
Others	-	-	-	672	672
Others					
LG Electronics Inc. and its subsidiaries	37,559	-	-	13,237	50,796
LG International Corp. and its subsidiaries	-	-	-	5,151	5,151
Others	-	-	-	661	661
Total	<u>791,929</u>	<u>-</u>	<u>3,127</u>	<u>118,370</u>	<u>913,426</u>

¹ Certain subsidiary's entity name will be changed during 2021.

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(e) Fund transactions with related parties for the one-month period ended December 31, 2020, are as follows:

(in millions of Korean won)

	2020						
	Dividends received	Dividends paid	Equity contributions in cash	Loans		Borrowings ¹	
				Loans	Repayment	Borrowings	Repayment
Parent Company							
LG Chem, Ltd.	-	-	-	-	-	3,204	71
Subsidiaries							
LG Energy Solution Europe GmbH	-	-	34,729	-	-	-	-
Other related parties							
LG Corp.	-	-	-	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>34,729</u>	<u>-</u>	<u>-</u>	<u>3,204</u>	<u>71</u>

¹ The amounts represent lease liabilities that were recognized or repaid for the one-month period ended December 31, 2020.

(f) Compensation for key management of the Company for the one-month period ended December 31, 2020, consists of:

(in millions of Korean won)

	2020
Short-term employee benefits	2,827
Post-employment benefits	227
Total	<u>3,054</u>

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

There is no provision recognized for receivables of related parties as at December 31, 2020 and no impairment losses on receivables for related parties are recognized for the one-month period ended December 31, 2020.

Details of the guarantees manufactured by the Company for related parties at the end of reporting period are disclosed in Note 18.

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31. Cash Generated from Operations

Reconciliation between loss before income tax and cash generated from operations for the one-month period ended December 31, 2020, is as follows:

<i>(in millions of Korean won)</i>	2020
Loss before income tax	<u>(530,158)</u>
Loss before income tax from continuing operations	(530,158)
Adjustments for:	
Depreciation	18,957
Amortization	3,881
Post-employment benefits	5,839
Finance income	(36,417)
Finance costs	58,801
Loss on valuation of inventories	(1,344)
Gain on disposal of property, plant and equipment	(28)
Loss on disposal of property, plant and equipment	35
Additions to provisions	560,357
Other income	60
Increase in inventories	(192,154)
Increase in trade receivables	(9,247)
Increase in other receivables	(24,788)
Increase in other current assets	(36,160)
Increase in trade payables	61,525
Increase in other payables	94,300
Decrease in other current liabilities	(48,056)
Increase in net defined benefit liabilities	672
Decrease in provisions	(13,527)
Other cash flows from operations	<u>26,696</u>
Cash generated from operations	<u><u>(60,756)</u></u>

Changes in liabilities arising from financial activities for the one-month period ended December 31, 2020, are as follows:

	2020						
	At December 1, 2020	Cash flows from financing activities	Reclassification of current portion	Amortization	Lease liabilities	Others	At December 31, 2020
Short-term borrowings	2,087	(197)	383	-	-	-	2,273
Long-term borrowings	3,378	-	(383)	-	568	-	3,563
Debentures	<u>1,951,409</u>	<u>-</u>	<u>-</u>	<u>273</u>	<u>-</u>	<u>(7,981)</u>	<u>1,943,701</u>
	<u>1,956,874</u>	<u>(197)</u>	<u>-</u>	<u>273</u>	<u>568</u>	<u>(7,981)</u>	<u>1,949,537</u>

The significant non-cash transactions for the one-month period ended December 31, 2020, are as follows:

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<i>(in millions of Korean won)</i>	2020
Reclassification of construction-in-progress	32,142
Reclassification of machinery-in-transit	470
Reclassification of long-term borrowings into current portion	384
Other payables related to acquisitions of property, plant and equipment and intangible assets	135,326

32. Assets and Liabilities related to Contracts with Customers

- (a) Assets and liabilities related to contracts with customers as at December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Contract assets	
Total contract assets	-
Contract liabilities	
Advances in relation to revenue from the Company's main business activities	104,522
Expected customer incentives	3,858
Unearned revenue	<u>340</u>
Total contract liabilities	<u>108,720</u>

- (b) Revenue recognized in the current period that was included in the contract liability balance at the beginning of the period, and revenue recognized in the current period from performance obligations satisfied (or partially satisfied) in previous years are as follows.

<i>(in millions of Korean won)</i>	2020
Revenue recognized in the current period from the contract liability balance at the beginning of the period	11,162
Advances in relation to revenue from the Company's main business activities	10,367
Unearned revenue	795

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33. Investment Properties

(a) Details of investment properties as at December 31, 2020, are as follows:

(in millions of Korean won)

	2020			Book amount
	Cost	Accumulated depreciation	Accumulated impairment	
Buildings	333,869	(78,342)	(441)	255,086
	<u>333,869</u>	<u>(78,342)</u>	<u>(441)</u>	<u>255,086</u>

(b) Changes in investment properties for the one-month period ended December 31, 2020, are as follows:

(in millions of Korean won)

	2020
Beginning balance	255,638
Depreciation	<u>(552)</u>
Ending balance	<u>255,086</u>

(c) The fair value of investment properties is measured either by independent professional appraisers with certified qualification or measured based on official appraised value of land and available information from recent transactions of similar properties, and it is classified as 'level 3' of the fair value hierarchy. The fair value of investment properties as at December 31, 2020, is ₩ 282,227 million.

Rental income from investment properties under operating lease is ₩ 1,237 million, and operating expenses incurred for investment properties that generated rental income (including maintenance and repair expenses) are ₩ 552 million.

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(d) Operating lease

Investment properties are leased to tenants under operating leases with monthly rent payments. Where considered necessary to reduce credit risk, the Company may obtain bank guarantees for the term of the lease.

Although the Company is exposed to changes in the residual value at the end of the current leases, the Company typically enters into new operating leases and therefore will not immediately realize any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of investment properties.

The future minimum lease payments expected to be received in relation to the above operating lease agreement for investment properties as at December 31, 2020, are as follows:

<i>(in millions of Korean won)</i>	2020
Within one year	14,842
Between 1 and 2 years	12,831
Between 2 and 5 years	12,831
	<hr/>
	40,504
	<hr/>

34. Events After the Reporting Period

In January 2021, the Company acquired 6.28% shares of Doosan Electro-Materials Luxembourg S.ar.l.(“DEL”), which is a subsidiary of Solus Advanced Materials.

35. Approval of Issuance of the Financial Statements

The separate financial statements 2020 were approved for issue by the Board of Directors on March 4, 2021 and are subject to change with approval of shareholders at their Annual General Meeting.