PUBLIC
249 FILE

LG International Corp. and its subsidiaries

Consolidated financial statements

Years ended December 31, 2011

with independent auditors' report

ERNST & YOUNG

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248 FILE

LG International Corp. and its subsidiaries
December 31, 2011

Contents

ERNST & YOUNG

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Independent auditors' report

The Board of Directors and Stockholders
LG International Corp.

We have audited the accompanying consolidated financial statements of LG International Corp. ("the Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statements of comprehensive income, of income, of changes in equity and of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company for the year ended December 31, 2010 were audited by us and we expressed an unqualified opinion on those statements in our report dated on April 28, 2011. The financial statements of the Company for the year ended December 31, 2010, which we have expressed our opinion thereon in the preceding sentence had not been amended to Korea International Financial Reporting Standards (K-IFRS) by applying the adjustments described in Note 31. Such adjustments were applied to the comparative 2010 financial statements, presented herein.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LG International Corp. as of December 31, 2011, and the results of its financial performance and its cash flows for the year ended December 31, 2011 in accordance with Korea International Financial Reporting Standards (K-IFRS).

As mentioned in the preceding paragraph, we have conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea which may vary among countries. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are knowledgeable about Korean auditing standards and their application in practice.

Ernst & Young Han Young

February 29, 2012

> This audit report is effective as of February 29, 2012, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

PUBLIC
246 FILE

LG International Corp. and its subsidiaries
Consolidated statements of financial position
as at December 31, 2011 and 2010 and January 1, 2010
(Korean won in millions)

	Notes		December 31, 2011		December 31, 2010		January 1, 2010
Assets							
Current assets							
Cash and cash equivalents	4,5,28,29	₩	390,666	₩	199,932	₩	180,605
Short-term financial assets	4,28		155,103		19,216		590
Trade receivables	4,12,24,28,29		1,654,113		1,515,683		1,535,886
Other accounts receivable	4,6,12,29		92,056		76,993		103,494
Accrued income	12,29		21,310		22,105		19,202
Advance payments			82,817		98,939		82,016
Prepaid expenses			8,453		13,092		17,444
Derivative financial assets	4,6,29		17,703		8,170		8,960
Other current assets	4		34,488		23,025		4,825
Inventories	7		657,115		824,831		435,000
Total current assets			3,113,824		2,801,986		2,388,022
Non-current assets							
Investments assets	4,8,24,28,29		456,317		215,637		233,854
Investment in associates	8		645,969		771,833		535,365
Property, plant, and equipment	9		118,281		106,869		70,027
Investment properties	9		38,918		16,090		16,160
Intangible assets	10		506,299		344,980		320,439
Biological assets	11		38,881		20,676		-
Deferred tax assets	23		6,727		5,069		11,258
Other non-current assets	4,5		15,792		22,363		28,079
Total non-current assets			1,827,184		1,503,517		1,215,182
Total assets		₩	4,941,008	₩	4,305,503	₩	3,603,204
Liabilities and equity							
Current liabilities							
Short-term borrowings	4,13,28,29	₩	823,041	₩	825,932	₩	665,726
Trade payable	4,24		1,331,423		1,402,055		1,264,597
Other accounts payable	4,6		240,529		176,550		204,900
Advance received			62,177		56,523		25,560
Withholdings			26,762		19,284		8,642
Current tax liabilities	23		66,865		13,764		5,002
Accrued expenses	4		38,086		26,960		23,810
Dividends payable	4		8		8		6
Current portion of bonds and long-term borrowings	4,13,28,29		198,379		130,731		195,718
Unearned income			56		76		117
Derivative financial liabilities	4,6,29		11,014		10,146		5,534
Deposits received	4		3,298		3,834		5,037
Total current liabilities			2,801,638		2,665,863		2,404,649
Non-current liabilities							
Bonds payables	4,13,28,29		39,927		131,634		89,638
Long-term borrowings	4,13,28,29		716,400		414,799		371,089
Defined benefit liabilites	20		4,883		4,637		7,664
Deferred income tax liabilities	23		13,413		33,698		3,262
Provisions	14		3,840		17,059		271
Other non-current liabilities			6,028		6,345		788
Total non-current liabilities			784,491		608,172		472,712
Total liabilities			3,586,129		3,274,035		2,877,361
Equity							
Issued capital	15		193,800		193,800		193,800
Capital surplus	15		102,125		102,125		102,125
Capital adjustments	15		(1,312)		(1,175)		(1,112)
Accumulated other comprehensive income	15		147,067		74,130		82,933
Retained earnings			897,659		664,494		356,503
Equity attributable to owners of the parent			1,339,339		1,033,374		734,249
Non-controlling interests			15,540		(1,906)		(8,406)
Total equity			1,354,879		1,031,468		725,843
Total liabilities and equity		₩	4,941,008	₩	4,305,503	₩	3,603,204

See accompanying notes.

LG International Corp. and its subsidiaries
Consolidated statements of income
for the year ended December 31, 2011 and 2010

(Korean won in millions, except per share amounts)

	Notes		2011		2010
Sales	3,17,24	₩	13,986,834	₩	14,386,136
Cost of sales	19,24		(13,357,450)		(13,717,202)
Gross profit			629,384		668,934
Selling and administrative expenses	18,19,20,25		(466,856)		(430,081)
Other operating income	21		419,827		403,115
Other operating expenses	21		(381,620)		(410,465)
Operating income			200,735		231,503
Financial income	3,22		180,119		133,483
Financial expenses	3,22		(209,354)		(162,502)
Other non-operating income/expenses	22		200,927		211,056
Income before income tax			372,427		413,540
Income tax expenses	23		(110,645)		(89,316)
Profit for the year			261,782		324,224
Attributable to:					
Owners of the parent			247,777		319,235
Non-controlling intersts			14,005		4,989
Earnigs per share attributable to ordinary equity holders of the parent	15				
- Basic earnings per share		₩	6,409	₩	8,258
- Diluted earnings per share		₩	6,409	₩	8,258

See accompanying notes.

LG International Corp. and its subsidiaries
Consolidated statements of comprehensice income
for the year ended December 31, 2011 and 2010

(Korean won in millions, except per share amounts)

	Notes	2011	2010
Profit for the year		261,782	324,224
Net gain (loss) on valuation of available-for-sale financial assets		45,769	(12,690)
Actuarial losses on defined benefit plans		(2,711)	(1,552)
Equtiy adjustments in equity method		14,510	17,981
Exchange differences on translation of foreign operations		17,714	(19,243)
Total comprehensive income for the year, net of tax		337,064	308,720
Attributable to:			
Owners of the parent		317,895	309,441
Non-controlling interests		19,169	(721)

See accompanying notes.

LG International Corp. and subsidiaries
Consolidated statements of changes in equity
for the years ended December 31, 2011 and 2010
(Korean won in millions)

	Issued capital	Capital surplus	Capital adjustment	Accumulated other comprehensive income	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
As of January 1, 2010	₩ 193,800	₩ 102,125	₩ (1,112)	₩ 82,933	₩ 356,503	₩ 734,249	₩ (8,406)	₩ 725,843
Profit for the year	-	-	-	-	319,235	319,235	4,989	324,224
Net gain on valuation of available-for-sale financial assets	-	-	-	(12,747)	-	(12,747)	57	(12,690)
Actuarial losses on defined benefit plans	-	-	-	-	(1,552)	(1,552)	-	(1,552)
Equtiy adjustments in equity method	-	-	-	17,276	-	17,276	705	17,981
Exchange differences on translation of foreign operations	-	-	-	(12,771)	-	(12,771)	(6,472)	(19,243)
Total comprehensive income	-	-	-	(8,242)	317,683	309,441	(721)	308,720
Dividends	-	-	-	-	(7,732)	(7,732)	-	(7,732)
Change in consolidation scope	-	-	-	-	-	-	7,506	7,506
Others	-	-	(63)	(561)	(1,960)	(2,584)	(286)	(2,870)
As of December 31, 2010	₩ 193,800	₩ 102,125	₩ (1,175)	₩ 74,130	₩ 664,494	₩ 1,033,374	₩ (1,907)	₩ 1,031,467
As of January 1, 2011	₩ 193,800	₩ 102,125	₩ (1,175)	₩ 74,130	₩ 664,494	₩ 1,033,374	₩ (1,907)	₩ 1,031,467
Profit for the year	-	-	-	-	247,777	247,777	14,005	261,782
Net gain on valuation of available-for-sale financial assets	-	-	-	45,814	-	45,814	(45)	45,769
Actuarial losses on defined benefit plans	-	-	-	-	(2,711)	(2,711)	-	(2,711)
Equtiy adjustments in equity method	-	-	-	14,806	-	14,806	(296)	14,510
Exchange differences on translation of foreign operations	-	-	(107)	12,317	-	12,210	5,504	17,714
Total comprehensive income	-	-	(107)	72,937	245,066	317,896	19,168	337,064
Dividends	-	-	-	-	(13,531)	(13,531)	-	(13,531)
Change in consolidation scope	-	-	-	-	-	-	(1,649)	(1,649)
Others	-	-	(30)	-	1,630	1,600	(72)	1,528
As of December 31, 2011	₩ 193,800	₩ 102,125	₩ (1,312)	₩ 147,067	₩ 897,659	₩ 1,339,339	₩ 15,540	₩ 1,354,879

See accompanying notes.

PUBLIC
243 FILE

LG International Corp. and subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2011 and 2010
(Korean won in millions

	Notes	2011	2010
Cash flows from operating activities:			
Profit for the year		₩ -	₩ -
Non-cash adjustments to reconcile profit for the year to net cash flows	30	-	-
Working capital adjustments	30	(20,717)	(193,267)
Interest received		17,386	13,678
Interest paid		(44,945)	(44,667)
Dividends received		40,080	12,580
Income taxes paid		(91,236)	(101,882)
Net cash flows from operating activities		(99,432)	(313,558)
Cash flows from investing activities:			
Decrease (increase) in financial assets		(100,851)	17,143
Proceeds from disposal of property, plant, and equipment		61,344	1,712
Proceeds from disposal of investment properties		-	-
Proceeds from disposal of intangible assets		18,184	-
Proceeds from disposal of investment in an associate and others		321,770	61,784
Proceeds from disposal of available-for-sale financial assets		317	6,688
Decrease (increase) in long-term loans receivable, net		(474)	22,360
Payment of long-term guarantee deposits, net		5,670	(440)
Proceeds from disposal of other investments assets		-	-
Additions to property, plant, and equipment		(124,340)	(16,891)
Acqusitions of intangible assets		(164,557)	(48,054)
Acqusitions of investment in an associate and others		(183,100)	(122,271)
Acqusitions of available-for-sale financial assets		(622)	(5,265)
Acqusitions of other investments assets		3,832	-
Net cash used in investing activities		(162,827)	(83,234)
Cash flows from financing activities:			
Increase (decrease) in finance liabilities		146,116	72,675
Net cash flows from other financing activities		1	-
Dividends paid to the stockholders		-	-
Net cash flows from financing activities		146,117	72,675
Net increase in cash and cash equivalents		(116,142)	(324,117)
Cash and cash equivalents at January 1		199,932	180,605
Net foreign exchange difference		4,641	3,137
Cash and cash equivalents at December 31		₩ 390,666	₩ 199,932

See accompanying notes

1. Organization and business

The organization and business of LG International Corp. ("LGI" or the "Company"), the parent company, and its consolidated subsidiaries, which consist of three domestic subsidiaries including Twinwine Co., Ltd. and 29 foreign subsidiaries including LG International (America) Inc., (collectively, the "Group") are described below.

1.1 The parent company

LGI was incorporated on November 26, 1953 under the laws of the Republic of Korea. LGI is a member of the LG group, which consist of numerous companies under common management control.

Lucky Industry was established in November 1953 as an import and export specialty company amongst the Lucky Group and changed its name to Bando Corporation in April 1956, and to Lucky-Goldstar International Corp. and to LG International Corp. in January 1984 and March 1995, respectively.

LGI is currently engaged in the import and export business, overseas resource and business development, and other business activities. LGI has 30 directly owned overseas subsidiaries, 23 liaison offices and 21 overseas branch offices as of December 31, 2011.

In January 1976, LGI listed its common shares on Korea Exchange. Also on November 12, 1976, LGI was designated as a general trading company by the Korean government.

1.2 Consolidated subsidiaries

Consolidated subsidiaries as of December 31, 2011 are as follows:

	Location	Ownership (%)	Reporting Date	Principal activities
LG International (America) Inc.	USA	100.00	Dec. 31	Export and import
LG International (Japan) Ltd.	Japan	100.00	Dec. 31	"
LG International (Honkong) Ltd.	Hong Kong	100.00	Dec. 31	"
LG International (Singapore) Pte. Ltd.	Singapore	100.00	Dec. 31	"
LG International (Deutschland) GmbH	Germany	100.00	Dec. 31	"
LG International (China) Ltd.	China	100.00	Dec. 31	"
Najing LG International VMI Co., Ltd.	China	100.00	Dec. 31	Hub
Yantai VMI Hub LG International Co., Ltd.	China	100.00	Dec. 31	"
Guangzhou Steel Flower Electric Machinary Co., Ltd.	China	100.00	Dec. 31	Steel frames
LG International (Australia) Pty. Ltd.	Australia	100.00	Dec. 31	Mining
Resource Investment (Marree) Pty. Ltd.	Australia	100.00	Dec. 31	Uranium
Twinwine Co., Ltd.	Korea	100.00	Dec. 31	Alcoholic liquors
Pixdix	Korea	100.00	Dec. 31	Optical instruments
Geovine	Korea	100.00	Dec. 31	Alcoholic liquors
PT. Batubara Global Energy(BGE)	Indonesia	100.00	Dec. 31	Flaming coal
PT. Mega Global Energy(MGE)	Indonesia	100.00	Dec. 31	"
PT. Megaprima Persada(MPP)	Indonesia	75.00	Dec. 31	"
KUMAH Steel Co., Ltd	Korea	51.00	Dec. 31	Steel frames
PT. Green Global Lestari(GGL)	Indonesia	100.00	Dec. 31	Palm oil
PT. Parna Agromas(PAM)	Indonesia	95.00	Dec. 31	"
PT. Indonesia Renewable Resources(IRR)	Indonesia	100.00	Dec. 31	Industrial planting
Hebei Youneng Trading Ltd.	China	100.00	Dec. 31	Export and import
Tianjin Steel Flower Electric Machinary Co., Ltd.	China	70.00	Dec. 31	Steel frames
De Zwarte Ponk BV	Netherlands	90.00	Dec. 31	Oil & Gas
EPC Munai LLP	Kazakhstan	90.00	Dec. 31	"
LG International Properties (Singapore) Pte. Ltd.	Singapore	70.00	Dec. 31	Real estate
Philco Resources Ltd.	Malaysia	60.00	Dec. 31	Copper mining
PT. Tutui Batubara Utama	Indonesia	75.00	Dec. 31	Flaming coal
Resource Investment (Honkong) Ltd.	Hong Kong	100.00	Dec. 31	"
LG International Investment (Canada) Ltd.	Canada	100.00	Dec. 31	"
LG International Yakutsk Ltd.	Russia	100.00	Dec. 31	Real estate
LG (Timor Sea 06-102) Ltd.	Marshal Islands	100.00	Dec. 31	Oil & Gas
Korea Carbon International Inc.	Hong Kong	60.00	Dec. 31	Power plant
Colmineral, S.A.DE.C	Maxico	100.00	Dec. 31	Ironstone

1.3 Changes in consolidation scope

The following table presents the information of subsidiaries newly included in the consolidated financial statements in 2011:

Subsidiary name	Reason for inclusion
De Zwarte Ponk BV	Acquired in 2011
Yantai VMI Hub LG International Co., Ltd.	"
Guangzhou Steel Flower Electric Machinary Co.,	"
Colmineral, S.A.DE.C	"
Korea Commercial Vehicle Co., Ltd.	Disposed in 2011

The summary of the consolidated subsidiaries' financial position as of December 31, 2011, and the results of their financial performance for the year then ended are as follows (Korean won in millions):

	Assets	Liabilities	Revenue	Profit for the year
LG International (America) Inc.	112,381	73,457	526,105	2,425
LG International (Japan) Ltd.	458,855	428,527	2,937,533	8,873
LG International (Honkong) Ltd.	552,287	534,579	2,711,542	5,906
LG International (Singapore) Pte. Ltd.	384,309	357,191	1,679,758	4,897
LG International (Deutschland) GmbH	35,619	25,887	582,179	4,920
LG International (China) Ltd.	46,718	38,131	77,532	(2,662)
Najing LG International VMI Co., Ltd.	1,285	30	2,905	257
Yantai VMI Hub LG International Co., Ltd.	1,079	24	6	(117)
Guangzhou Steel Flower Electric Machinary Co., Ltd.	6,199	6	-	-
LG International (Australia) Pty. Ltd.	134,070	97,235	40,480	3,639
Resource Investment (Marree) Pty. Ltd.	1,507	14	-	(14)
Twinwine Co., Ltd.	3,475	2,560	5,846	(1,004)
Pixdix	19,039	2,356	97,605	(4,289)
Geovine	619	25	2,288	12
PT. Batubara Global Energy(BGE)	45,426	35,803	418,722	2,216
PT. Mega Global Energy(MGE)	43,586	(2,358)	136,169	23,861
PT. Megaprima Persada(MPP)	102,083	89,502	230,503	4,848
KUMAH Steel Co., Ltd	40,878	31,810	146,194	1,045
PT. Green Global Lestari(GGL)	22,829	12,714	-	(6,278)
PT. Parna Agromas(PAM)	60,410	17,073	3,753	(6,729)
PT. Indonesia Renewable Resources(IRR)	57,360	3,276	2,457	(7,446)
Hebei Youneng Trading Ltd.	3,309	-	-	(265)
Tianjin Steel Flower Electric Machinary Co., Ltd.	16,694	11,900	31,743	488
De Zwarte Ponk BV	121,119	121,455	-	6
EPC Munai LLP	82,568	128,392	-	(30,977)
LG International Properties (Singapore) Pte. Ltd.	37,711	73,229	-	879
Philco Resources Ltd.	137,344	71,264	-	39,301
PT. Tutui Batubara Utama	8,617	22,770	11,659	(699)
Resource Investment (Honkong) Ltd.	71,643	-	-	16,923
LG International Investment (Canada) Ltd.	6,338	-	-	(39)
LG International Yakutsk Ltd.	16,326	13,313	831	(1,134)
LG (Timor Sea 06-102) Ltd.	8,261	19,003	-	3,065
Korea Carbon International Inc.	8,784	8,248	-	(755)
Colmineral, S.A.DE.C	5	-	-	-
	2,648,733	2,217,416	9,645,810	61,153

2. Significant accounting policies and basis of financial statements preparation

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for Derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortized cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The consolidated financial statements are presented in Korean won and all values are rounded to the nearest thousand except when otherwise indicated.

2.1.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with Korea International Financial Reporting Standards ("K-IFRS") enacted by the Corporate External Audit Law

2.1.2 Korea International Financial Reporting Standards ("K-IFRS") first time adoption

The Group has adopted K-IFRS in preparation for its consolidated financial statements for the period beginning January 1, 2011 and the date of transition to K-IFRS is January 1, 2010.

In preparing these financial statements, the Group's opening statement of financial position was prepared as at January 1, 2010, the Group's date of transition to K-IFRS. Note 31 explains the principal adjustments made by the Group in restating its previous statements of financial position based on previous local GAAP (Previous Local GAAP) as at January 1, 2010 and its previously published local GAAP financial statements for the year ended December 31, 2010.

2.1.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

2.2 Summary of significant accounting policies

2.2.1 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with K-IFRS 1039 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured. until it is finally settled within equity. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of K-IFRS 1039, it is measured in accordance with the appropriate K-IFRS.

Goodwill is initially measured at cost, being the excess of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.2.2 Investment in an associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried on the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

2.2 Summary of significant accounting policies *continued*

2.2.2 Investment in an associate *continued*

The Group's share of profit of associates is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit of an associate' in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

2.2.3 Foreign currency translation

The Group's consolidated financial statements are presented in Korean won, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(1) Transactions and balances
Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

All differences are taken to the income statement with the exception of all monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

(2) Group companies
On consolidation the assets and liabilities of foreign operations are translated into Korean won at the rate of exchange prevailing at the reporting date and their income statement are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the spot rate of exchange at the reporting date.

2.2 Summary of significant accounting policies *continued*

2.2.4 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognized.

(1) Sale of goods
Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

(2) Commission revenues
Sales commission received in relation to export-import transactions where the Group acts as an agent without assuming the risks and rewards of ownership of the goods are recognized on a net basis. Revenue from sales of goods that can be returned are recognized when the goods are sold to end customer.

(3) Interest income
For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

(4) Dividends
Revenue is recognized when the Group's right to receive the payment is established.

2.2.5 Taxes

(1) Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(2) Deferred tax
Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.2 Summary of significant accounting policies *continued*

2.2.5 Taxes *continued*

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.2.6 Pensions and other post employment benefits

The Group operates two defined benefit pension plans, both of which require contributions to be made to separately administered funds. The Group has also agreed to provide certain additional post employment healthcare benefits to senior employees in Korea. These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method. Actuarial gains and losses for both defined benefit plans are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to profit or loss in subsequent periods.

Unvested past service costs are recognized as an expense on a straight line basis over the average period until the benefits become vested. Past service costs are recognized immediately if the benefits have already vested immediately following the introduction of, or changes to, a pension plan.

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less unrecognized past service costs and less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value is based on market price information and, in the case of quoted securities, it is the published bid price. The value of any defined benefit asset recognized is restricted to the sum of any past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

2.2 Summary of significant accounting policies *continued*

2.2.7 Financial instruments – initial recognition and subsequent measurement

(1) Financial assets

Initial recognition and measurement
Financial assets within the scope of K-IFRS 1039 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus transactions costs, except in the case of financial assets recorded at fair value through profit and loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized in the income statement in finance costs.

2.2 Summary of significant accounting policies *continued*

2.2.7 Financial instruments – initial recognition and subsequent measurement *continued*

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized in income statement in finance costs.

Available-for-sale financial investments
Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. .

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the income statement in finance costs.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When in rare circumstances, the Group is unable to trade those financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available-for-sale category, the fair value at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR.

Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.2 Summary of significant accounting policies *continued*

2.2.7 Financial instruments – Initial recognition and subsequent measurement *continued*

(2) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

Available-for-sale financial investments
For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from other comprehensive income and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognized directly in other comprehensive income.

2.2 Summary of significant accounting policies *continued*

2.2.7 Financial instruments – initial recognition and subsequent measurement *continued*

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

(3) Financial liabilities

Initial recognition and measurement
Financial liabilities within the scope of K-IFRS 1039 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, less directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

Subsequent measurement
The measurement of financial liabilities depends on their classification as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by K-IFRS 1039. Gains or losses on liabilities held for trading are recognized in the income statement. The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Loans and borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the income statement.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

2.2 Summary of significant accounting policies *continued*

2.2.7 Financial instruments – Initial recognition and subsequent measurement *continued*

(4) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(5) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- Discounted cash flow analysis or other valuation models.

Unquoted equity instrument and its related derivative instrument are carried at cost.

2.2.8 Derivative financial instruments and hedge accounting

(1) Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as commodity contracts to hedge its commodity price risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity contracts that are entered into in accordance with the Group's expected purchase is recognized as financial income and financial expense.

Any gains or losses arising from changes in fair value on derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated. Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

2.2 Summary of significant accounting policies *continued*

2.2.8 Derivative financial instruments and hedge accounting *continued*

Fair value hedges
The change in the fair value of an interest rate hedging derivative is recognized in the income statement in finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognized in the income statement in finance costs.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through the income statement over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognized, the unamortized fair value is recognized immediately in the income statement.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the income statement.

Current versus non-current classification
Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances.

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivates that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

2.2.9 Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

2.2.10 Property, plant and equipment

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

2.2 Summary of significant accounting policies *continued*

2.2.10 Property, plant and equipment *continued*

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	Years
Buildings	8 ~ 40
Structures	8 ~ 40
Machinery	5 ~ 8
Vehicles	5 ~12
Others	5

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

2.2.11 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

2.2.12 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.2.13 Investment properties

Investment properties are measured initially at cost, including transaction costs and replacement costs which satisfied asset recognition requirements when they incurred. However, costs incurred during common maintenance activities are recognized as expenses when they occurred. Subsequent to initial recognition, investment properties are stated at cost, net of accumulated depreciation and/or accumulated impairment losses.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.
The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

2.2 Summary of significant accounting policies *continued*

2.2.14 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

	Years	Amortization method
Goodwill	-	Test for impairment annually
Industrial proprietary rights	5~15	Straight-line method
Overseas resource development (*1)	Production period	Units of production method
Others	5	Straight-line method

(*1) Oil and natural gas exploration and development expenditure is classified as oversea resource development. And when proved reserves of oil are determined and development is sanctioned, it is depreciated on a unit of production basis. On the other hand, if there is any evidence or event that implies impairment of the asset, such as suspending the exploration or development before proposing its technical feasibility and possibility of commercialization, the Group is testing the assets for impairment. And when the book value of the asset is greater than estimated recoverable amounts for the residual period, the Group recognized it as impairment.

2.2.15 Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined using the specific identification method and moving average method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.2 Summary of significant accounting policies *continued*

2.2.16 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the income statement in expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill
Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

2.2.17 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and cash equivalents with an original maturity of three months or less.

2.2 Summary of significant accounting policies *continued*

2.2.18 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

2.2.19 Biological assets

A biological assets are measured on initial recognition and at the end of each reporting period at its fair value less costs to sell. Gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value of a biological asset shall be included in profit or loss for the period in which it arises. Agricultural products harvested from the Company's biological assets are measured at its fair value less costs to sell at the point of harvest which becomes the cost at that date. If an active market exists for a biological asset or agricultural products in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity uses the most relevant one. If an active market doesn't exist, the most recent market price, market price of similar asset can be used to assess fair value.

2.3 Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

2.3.1 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, 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. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets
The Group assesses at each reporting date whether there is any objective evidence that a non financial asset is impaired. Goodwill and intangible assets with indefinite useful lives are tested when there are indications. Other non financial asset is tested when there are indications that carrying amount is not to be collected. In assessing value in use, the management should estimated future cash flows from certain asset or CGU and select appropriate discount rate for calculate the present value of future cash flow.

Pension benefits
The cost of defined benefit pension plans and other post employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Recovery provisions
As a environmental rehabilitation of the resource development regions, the Group has recognized recovery provisions. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates and restoration expenses. The carrying amount of the recovery provision as at December 31, 2011 was ₩3,729million (2010: ₩16,821 million, January 1, 2010: ₩(-)million).