LG Chem, Ltd.

Separate Financial Statements
December 31, 2011 and 2010

LG Chem, Ltd.
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December 31, 2011 and 2010

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Report of Independent Auditors

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

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

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

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

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

Samil PricewaterhouseCoopers

Seoul, Korea
March 8, 2012

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. General Information

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

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

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

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

2. Summary of significant accounting policies

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

2. 1 Basis of preparation

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

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

2.2 Investments in subsidiaries, associates and joint ventures

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

2.3 Changes in accounting policy and disclosures

(1) New and amended standards adopted by the Company

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.4 Foreign currency translation

(1) Functional and presentation currency

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

(2) Transactions and balances

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

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

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

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

(3) Translation to presentation currency

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

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

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

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

2.5 Cash and cash equivalents

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

2.6 Financial instruments

2.6.1 Classification

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

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

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

(2) Loans and receivables

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

(3) Held-to-maturity financial assets

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

(4) Available-for-sale financial assets

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

(5) Financial liabilities measured at amortized cost

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

2.6.2 Recognition and measurement

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

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

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

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

2.6.3 Offsetting financial instruments

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

2.6.4 Derecognition

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

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

2.6.5 Impairment of financial assets

(1) Assets carried at amortized cost

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

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

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

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

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

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

(2) Assets classified as available for sale

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

2.7 Derivative financial instruments

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

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

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

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

2.8 Trade receivables

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

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

2.9 Inventories

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

2.10 Property, plant and equipment

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

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

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

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

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

2.11 Borrowing costs

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

2.12 Government grants

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

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

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

2.13 Intangible assets

(1) Goodwill

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

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

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

(2) Industrial property rights

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

(3) Other intangible assets

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

2.14 Research and development

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

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

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

2.15 Impairment of non-financial assets

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

2.16 Trade payables

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

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

2.17 Borrowings

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

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

2.18 Current and deferred income tax

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

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

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

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

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

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

2.19 Provisions

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

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

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

2.20 Employee benefits

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

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

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

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

2.21 Share capital

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

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

2.22 Revenue recognition

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

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

(a) Sales of goods

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

(b) Interest income

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

(c) Dividend income

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

2.23 Leases

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

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

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

2.24 Dividend distribution

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

3. Financial risk management

3.1 Financial risk factors

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

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

(1) Market risk

1) Foreign exchange risk

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

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

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

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

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

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

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

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

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

2) Cash flow and fair value interest rate risk

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

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

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

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

(2) Credit risk

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

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

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

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

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

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

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

(3) Liquidity risk

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

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

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

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

(in millions of Korean won)	**December 31, 2010**			
	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**
Borrowings (excluding finance lease liabilities)	1,071,934	210,922	813	823
Finance lease liabilities	2,481	2,481	5,676	-
Trade and other payables	1,814,333	47,181	-	-
Total	2,888,748	260,584	6,489	823

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

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

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

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

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

(in millions of Korean won)	December 31, 2010			
	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years
Financial guarantee contracts[1]	205,564	150,109	60,397	897

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

3.2 Capital risk management

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

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

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

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

3.3 Fair value estimation

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

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

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

(in millions of Korean won)	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Financial assets				
Other current financial assets	-	-	-	-
Total financial assets	-	-	-	-
Financial liabilities				
Other current financial liabilities	-	536	-	536
Other non-current financial liabilities	-	146	-	146
Total financial liabilities	-	682	-	682

(in millions of Korean won)	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Financial assets				
Other current financial assets	-	2,194	-	2,194
Total financial assets	-	2,194	-	2,194
Financial liabilities				
Other current financial liabilities	-	20,535	-	20,535
Total financial liabilities	-	20,535	-	20,535