LG Chem, Ltd. and Subsidiaries

Consolidated Financial Statements
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 consolidated statements of financial position of LG Chem, Ltd. and its subsidiaries (collectively the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Ningbo LG Yongxing Chemical Co., Ltd. and certain other consolidated subsidiaries, whose financial statements represent 19% of the Company's consolidated total assets as of December 31, 2011 (2010: 22%), and represent 19% of the Company's consolidated total revenue for the year ended December 31, 2011 (2010: 22%). These financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these subsidiaries, is based solely on the reports of the other auditors.

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, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LG Chem, Ltd. and its subsidiaries as of December 31, 2011 and 2010, and their finance performance and cash flows for the years then ended in conformity with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such consolidated 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 consolidated 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. and Subsidiaries
Consolidated 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, 6, 7	1,379,379	1,368,034
Trade receivables	3, 6, 8, 34	3,117,239	2,529,962
Other receivables	3, 6, 8, 34	133,915	78,015
Prepaid income taxes		17,848	3,379
Other financial assets	3, 6, 9, 11	-	2,194
Other current assets	16	132,598	127,609
Inventories	12	2,475,233	2,182,484
Total current assets		7,256,212	6,291,677
Non-current assets			
Other receivables	3, 6, 8	33,657	20,737
Other financial assets	3, 6, 9, 10	5,973	4,183
Investments in associates and joint ventures	1, 5, 13	328,408	213,572
Deferred income tax assets	31	32,211	45,289
Property, plant and equipment	14	7,375,955	5,872,040
Intangible assets	15	207,172	180,115
Other non-current assets	16	45,966	45,846
Total non-current assets		8,029,342	6,381,782
Total assets		15,285,554	12,673,459
Liabilities and equity			
Liabilities			
Current liabilities			
Trade payables	3, 6, 34	1,503,106	1,302,563
Other payables	3, 6, 34	950,168	821,435
Borrowings	3, 6, 17, 34	1,837,637	1,620,581
Other financial liabilities	3, 6, 9, 11	536	20,535
Provisions	18	7,229	4,949
Current income tax liabilities	31	289,460	409,658
Other current liabilities	20	135,768	97,671
Total current liabilities		4,723,904	4,277,392
Non-current liabilities			
Other payables	3, 6	41,329	47,792
Borrowings	3, 6, 17	689,081	480,510
Other financial liabilities	3, 6, 9, 11	146	1,545
Provisions	18	2,314	-
Defined benefit liability	19	60,777	8,136
Deferred income tax liabilities	31	60,324	14,249
Total non-current liabilities		853,971	552,232
Total liabilities		5,577,875	4,829,624

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

(in millions of Korean won)	Notes	2011	2010
Equity			
Equity attributable to owners of the parent			
Share capital	1, 22	369,500	369,500
Capital surplus		1,157,772	1,157,772
Other components of equity	24	(15,699)	(15,699)
Accumulated other comprehensive income		(11,398)	(62,017)
Retained earnings	23	8,053,307	6,253,917
		9,553,482	7,703,473
Non-controlling interests		154,197	140,362
Total equity		9,707,679	7,843,835
Total liabilities and equity		15,285,554	12,673,459

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

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

(in millions of Korean won, except per share amounts)	Notes	2011	2010
Revenue	5, 34	22,675,593	19,471,450
Cost of sales	26, 34	(18,594,862)	(15,472,600)
Gross profit		4,080,731	3,998,850
Selling, general and administrative expenses	25, 26, 34	(1,264,198)	(1,158,929)
Other operating income	6, 28	454,969	445,585
Other operating expenses	6, 26, 29	(436,078)	(464,178)
Operating profit	5	2,835,424	2,821,328
Non-operating income (expenses)			
Financial income	5, 6, 30	194,859	137,481
Financial expenses	5, 6, 30	(217,909)	(182,931)
Share of profit of associates and joint ventures	5, 13	15,266	55,459
Other non-operating expenses		(31,042)	(12,900)
		(38,826)	(2,891)
Profit before income tax	5, 35	2,796,598	2,818,437
Income tax expense	31	(626,928)	(618,672)
Profit for the year		2,169,670	2,199,765
Attributable to:			
Owners of the parent		2,137,926	2,158,256
Non-controlling interests		31,744	41,509
Earnings per share for profit attributable to owners of the parent (in won)	32		
Basic and diluted earnings per ordinary share for profit for the year		29,069	29,345
Basic and diluted earnings per preferred share for profit for the year		29,118	29,395

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

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

(in millions of Korean won)	Notes	2011	2010
Profit for the year		2,169,670	2,199,765
Other comprehensive income			
Actuarial loss on defined benefit liability	19	(53,541)	(17,771)
Currency translation differences		49,572	7,390
Cash flow hedges		4,682	5,795
Others		5,658	798
Income tax effect relating to components of other comprehensive income		11,680	828
Other comprehensive income for the year, net of tax		18,051	(2,960)
Total comprehensive income for the year		2,187,721	2,196,805
Attributable to:			
Owners of the parent		2,147,961	2,154,721
Non-controlling interests		39,760	42,084

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

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

(in millions of Korean won)

		Attributable to owners of the parent							
	Notes	Share capital	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2010		369,500	1,157,736	(479,564)	(74,557)	4,836,099	5,809,214	117,475	5,926,689
Comprehensive income:									
Profit for the year		-	-	-	-	2,158,256	2,158,256	41,509	2,199,765
Actuarial loss on defined benefit liability	19	-	-	-	-	(16,075)	(16,075)	-	(16,075)
Currency translation differences		-	-	-	7,056	-	7,056	575	7,631
Cash flow hedges		-	-	-	4,571	-	4,571	-	4,571
Others, net of tax		-	-	-	913	-	913	-	913
Total comprehensive income		-	-	-	12,540	2,142,181	2,154,721	42,084	2,196,805
Transactions with owners:									
Loss on capital reduction		-	-	464,272	-	(464,272)	-	-	-
Dividends		-	-	-	-	(257,752)	(257,752)	(22,217)	(279,969)
Others		-	36	(407)	-	(2,339)	(2,710)	3,020	310
Total transactions with owners		-	36	463,865	-	(724,363)	(260,462)	(19,197)	(279,659)
Balance at December 31, 2010		369,500	1,157,772	(15,699)	(62,017)	6,253,917	7,703,473	140,362	7,843,835
Balance at January 1, 2011		369,500	1,157,772	(15,699)	(62,017)	6,253,917	7,703,473	140,362	7,843,835
Comprehensive income:									
Profit for the year		-	-	-	-	2,137,926	2,137,926	31,744	2,169,670
Actuarial loss on defined benefit liability	19	-	-	-	-	(40,584)	(40,584)	-	(40,584)
Currency translation differences		-	-	-	41,232	-	41,232	8,016	49,248
Cash flow hedges		-	-	-	3,735	-	3,735	-	3,735
Others, net of tax		-	-	-	5,652	-	5,652	-	5,652
Total comprehensive income		-	-	-	50,619	2,097,342	2,147,961	39,760	2,187,721
Transactions with owners:									
Dividends	33	-	-	-	-	(294,520)	(294,520)	(25,225)	(319,745)
Others		-	-	-	-	(3,432)	(3,432)	(700)	(4,132)
Total transactions with owners		-	-	-	-	(297,952)	(297,952)	(25,925)	(323,877)
Balance at December 31, 2011		369,500	1,157,772	(15,699)	(11,398)	8,053,307	9,553,482	154,197	9,707,679

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

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LG Chem, Ltd. and Subsidiaries
Consolidated 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	35	2,985,906	2,985,720
Interest received		29,185	25,547
Interest paid		(88,036)	(81,889)
Dividends received		1,860	1,196
Income taxes paid		(688,576)	(423,384)
Net cash generated from operating activities		2,240,339	2,507,190
Cash flows from investing activities			
Decrease in other receivables		103,562	285,614
Decrease in non-current other receivables		12,651	7,869
Decrease in non-current other financial assets		13	617
Proceeds from disposal of property, plant and equipment		4,917	5,080
Proceeds from disposal of intangible assets		-	182
Increase in other receivables		(110,591)	(189,958)
Increase in non-current other receivables		(25,297)	(13,023)
Increase in non-current other financial assets		(1,817)	(612)
Acquisition of subsidiary, net of cash acquired	36	-	(61,972)
Acquisition of investments in associates and joint ventures		(41,381)	(14,210)
Acquisition of property, plant and equipment		(2,195,418)	(1,617,231)
Acquisition of intangible assets		(27,089)	(24,304)
Net cash used in investing activities		(2,280,450)	(1,621,948)
Cash flows from financing activities			
Proceeds from borrowings		1,376,356	231,776
Capital increase from non-controlling interests		-	3,437
Repayments of borrowings		(987,321)	(579,627)
Dividends paid		(318,645)	(279,988)
Payment on settlement of derivatives		(7,378)	-
Net cash provided by (used in) financing activities		63,012	(624,402)
Net increase in cash and cash equivalents		22,901	260,840
Cash and cash equivalents at the beginning of year		1,368,034	1,106,596
Exchange gains (losses) on cash and cash equivalents		(11,556)	598
Cash and cash equivalents at the end of year		1,379,379	1,368,034

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

1. General Information

General information about LG Chem, Ltd. (the "Parent Company") and its subsidiaries (collectively "the Company") is as follows:

1.1 The Parent Company

The Parent 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 Parent Company's shares have been listed on the Korea Stock Exchange since April 25, 2001.

The Parent Company merged with LG Daesan Petrochemical Ltd. on January 1, 2006, and with LG Petrochemical Co., Ltd. on November 1, 2007. The Parent 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 36).

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

The Parent 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 Parent 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 Parent Company is LG Corp., which owns 33.53% of the Parent Company's ordinary shares. Preferred shareholders have no voting rights but are entitled to receive dividends at a rate 1% more than those paid to ordinary shareholders.

1.2 Business overview

The Company is engaged in petrochemicals business, and information and electronic materials business. The Company is also engaged in the manufacturing and distribution of medium and large-sized batteries for electric vehicles.

Petrochemical business is an upstream supplier of raw materials and a large processing industry that produces, mainly using Naphtha, a variety of primary petrochemicals and their derivatives such as ethylene, propylene, butadiene (olefin petrochemicals) and benzene, xylene, toluene, and others (aromatic petrochemicals), as well as synthetic resin, synthetic rubber and synthetic components made from these primary petrochemicals. The Company's main products are ethylene, polyethylene, propylene, synthetic rubber, polyvinyl chloride (PVC), plasticizer, acrylate, acrylonitrile -butadiene-styrene (ABS), epoxy resin, and others.

Information and electronic materials business manufactures and supplies a variety of display materials such as polarizer, sensitized material, PDP filter and toners along with lithium-ion batteries for cell phone, laptop computers and electric vehicles. Presently, the medium and large-sized battery division for electronic vehicles supplies its products to domestic car manufacturing companies. To maintain its dominant position in the North American battery market, the Company is currently constructing new manufacturing facilities in North America which will manufacture medium and large-sized batteries for HEV / EV. The Company is also preparing the mass production of Liquid Crystal Display Glass based on the source technology licensed from SCHOTT Solar, Inc., a Germany-based company, combining with its high-quality production techniques.

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

1.3 Consolidated subsidiaries, associates and joint ventures

	December 31, 2011			
	Percentage of ownership (%)	Business location	Fiscal year-end	Business activities
Consolidated subsidiaries				
Tianjin LG Dagu Chemical Co.,Ltd.	75	China	December	PVC Manufacturing and sales
Ningbo LG Yongxing Chemical Co.,Ltd.[1]	75	China	December	ABS/SBL Manufacturing and sales
LG Chem HK Ltd.	100	Hong Kong	December	Sales and trading
LG Chem America, Inc.	100	USA	December	Sales and trading
LG Chemical India Pvt. Ltd.[2]	100	India	December	Syntetic resins Manufacturing and sales
LG Polymer India Pvt. Ltd.[2]	100	India	December	PS Manufacturing
LG Chemical (Guangzhou) Engineering Plastics Co.,Ltd.	100	China	December	EP Manufacturing and sales
LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd.	100	China	December	Battery/ Polarizer Manufacturing and sales
LG Chem (Taiwan), Ltd.	100	Taiwan	December	Polarizer Manufacturing and sales
LG Chem Display Materials (Beijing) Co.,Ltd.	100	China	December	Polarizer Manufacturing
Tianjin LG Bohai Chemical Co.,Ltd.	75	China	December	VCM, EDC Manufacturing and sales
LG Chem (China) Investment Co.,Ltd.	100	China	December	China holding company
LG Chem (Tianjin) Engineering Plastics Co.,Ltd.	100	China	December	ABS/EP Manufacturing and sales
LG Chem Europe GmbH	100	Germany	December	Sales and trading
LG Chem Poland Sp. z.o.o	100	Poland	December	Polarizer Manufacturing
LG Chem Michigan Inc.	100	USA	December	Medium&Large sized battery Research and manufacturing
LG Chem Power Inc.	100	USA	December	Medium&Large sized battery research
Tianjin LG Botian Chemical Co.,Ltd.	56	China	December	SBS Manufacturing and sales
Ningbo Zhenhai LG Yongxing trade Co.,Ltd.[1]	100	China	December	ABS sales
Associates and Joint ventures				
LG Vina chemical Co.,Ltd.	40	Vietnam	December	DOP Production and sales
HL Greenpower Co.,Ltd.	49	Korea	December	Battery manufacturing for electric automobile
LG Holdings (HK) Ltd.	26	Hong Kong	December	Sales and trading
TECWIN Co.,Ltd.	20	Korea	December	Environment solution and Construction of chemical plant
SEETEC Co.,Ltd.	50	Korea	December	Plant utility and Distribution, research assistance service
LG Chem Brasil INTERMEDICAO DE NEGOCIOS DO SETOR QUIMICO LTDA.[3]	100	Brazil	December	Sales and trading
LG Yongxing International Trading Co.,Ltd[1,3]	90	China	December	Sales and trading
CNOOC & LG Petrochemicals Co.,Ltd.	50	China	December	ABS Manufacturing and sales
"Ammonia Production and Distribution" Limited Liability Partnership	50	Kazakhstan	December	PE Manufacturing and sales

[1] As of December 31, 2011, Ningbo LG Yongxing Chemical Co.,Ltd. owns 100% of Ningbo Zhenhai LG Yongxing Trade Co.,Ltd. shares and 90% of LG Yongxing International Trading Co.,Ltd. shares.

[2] As of December 31, 2011, LG Chemical India Pvt. Ltd. owns 100% of LG Polymer India Pvt. Ltd. shares.

[3] Classified as an investment in associate due to its small scale.

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

1.4 Summarized financial information of subsidiaries, associates and joint ventures

Summarized financial information(before elimination of intercompany transactions) of subsidiaries, associates and joint ventures is as follows:

(in millions of Korean won)	December 31, 2011				
	Assets	Liabilities	Equity	Revenue	Profit(loss) for the year
Consolidated subsidiaries					
Tianjin LG Dagu Chemical Co.,Ltd.	211,132	119,098	92,034	483,857	(2,074)
Ningbo LG Yongxing Chemical Co.,Ltd.	847,188	486,969	360,219	1,791,155	95,976
LG Chem HK Ltd.	111,387	97,657	13,730	593,380	1,036
LG Chem America, Inc.	106,447	96,887	9,560	506,985	2,140
LG Chemical India Pvt. Ltd.	32,533	72	32,461	1,520	3,129
LG Polymer India Pvt. Ltd.	103,899	55,984	47,915	195,185	5,165
LG Chemical (Guangzhou) Engineering Plastics Co.,Ltd.	82,324	45,698	36,626	153,713	2,191
LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd.	914,327	529,565	384,762	1,250,442	80,491
LG Chem (Taiwan), Ltd.	147,635	94,963	52,672	396,461	14,918
LG Chem Display Materials (Beijing) Co.,Ltd.	21,469	2,038	19,431	16,442	3,027
Tianjin LG Bohai Chemical Co.,Ltd.	410,685	173,645	237,040	516,667	55,414
LG Chem (China) Investment Co.,Ltd.	94,865	24,006	70,859	23,056	(64)
LG Chem (Tianjin) Engineering Plastics Co.,Ltd.	66,563	37,032	29,531	104,465	1,546
LG Chem Europe GmbH	43,089	35,123	7,966	130,066	1,492
LG Chem Poland Sp. z.o.o	29,494	12,726	16,768	14,985	1,232
LG Chem Michigan Inc.	167,949	114,945	53,004	500	(1,735)
LG Chem Power Inc.	14,766	12,403	2,363	24,803	(7,236)
Tianjin LG Botian Chemical Co.,Ltd.	86,557	79,684	6,873	125,720	(12,981)
Ningbo Zhenhai LG Yongxing trade Co.,Ltd.	3,709	2,450	1,259	24,877	328
Associates and Joint ventures					
LG Vina chemical Co.,Ltd.	23,553	13,778	9,775	83,647	3,269
HL Greenpower Co.,Ltd.	46,963	17,936	29,027	60,506	1,872
LG Holdings (HK) Ltd.	407,284	177,950	229,334	35,315	18,165
TECWIN Co.,Ltd.	58,243	35,516	22,727	89,763	3,496
SEETEC Co.,Ltd.	368,722	47,671	321,051	441,443	13,948
LG Chem Brasil INTERMEDICAO DE NEGOCIOS DO SETOR QUIMICO LTDA.	190	69	121	1,416	11
LG Yongxing International Trading Co., Ltd.	176	11	165	-	(5)
CNOOC & LG Petrochemicals Co.,Ltd.	84,677	1,016	83,661	-	(3,848)
"Ammonia Production and Distribution" Limited Liability Partnership	1	-	1	-	-

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

(in millions of Korean won)	December 31, 2010				
	Assets	**Liabilities**	**Equity**	**Revenue**	**Profit(loss) for the year**
Consolidated subsidiaries					
Tianjin LG Dagu Chemical Co.,Ltd.	202,433	113,139	89,294	460,325	8,782
Ningbo LG Yongxing Chemical Co.,Ltd.	705,816	360,942	344,874	1,657,702	146,063
LG Chem HK Ltd.	110,903	98,390	12,513	588,145	2,345
LG Chem America, Inc.	87,771	80,560	7,211	441,394	3,419
LG Chemical India Pvt. Ltd.	32,592	51	32,541	1,405	152
LG Polymer India Pvt. Ltd.	86,302	31,890	54,412	168,926	7,655
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	100,918	61,702	39,216	192,246	14,298
LG Chem (Nanjing) Information & Electronics Materials Co.,Ltd.	667,242	415,055	252,187	790,569	46,073
LG Chem (Taiwan), Ltd.	186,494	141,460	45,034	560,968	21,181
LG Chem Display Materials (Beijing) Co.,Ltd.	20,610	5,312	15,298	14,493	1,475
Tianjin LG Bohai Chemical Co.,Ltd.	401,880	231,749	170,131	449,904	18,109
LG Chem (China) Investment Co.,Ltd.	71,318	13,902	57,416	22,004	2,405
LG Chem (Tianjin) Engineering Plastics Co.,Ltd.	55,856	29,474	26,382	89,571	5,270
LG Chem Europe GmbH	41,416	34,798	6,618	92,941	2,052
LG Chem Poland Sp. z.o.o	17,985	7,348	10,637	17,627	1,719
LG Chem Michigan Inc.	49,900	29,916	19,984	24,881	(10,347)
LG Chem Power Inc.	5,043	8,789	(3,746)	2,959	(10,368)
Tianjin LG Botian Chemical Co.,Ltd.	88,003	68,438	19,565	28,665	(3,585)
Ningbo Zhenhai LG Yongxing trade Co.,Ltd.	4,438	3,572	866	3,905	4
LG Polycarbonate Ltd.[1]	315,243	165,036	150,207	122,020	2,415
Associates and Joint ventures					
LG Vina chemical Co.,Ltd	21,722	11,101	10,621	72,120	4,891
HL Greenpower Co.,Ltd.	30,287	3,033	27,254	1,875	(1,746)
LG Holdings (HK) Ltd.	389,907	190,297	199,610	32,117	7,787
TECWIN Co.,Ltd.	39,477	18,950	20,527	70,987	2,572
SEETEC Co.,Ltd.	362,133	47,268	314,865	395,423	43,714
LG Chem Brasil INTERMEDICAO DE NEGOCIOS DO SETOR QUIMICO LTDA.	159	262	(103)	-	-
LG Yongxing International Trading Co.,Ltd	171	10	161	-	(13)

[1] LG Polycarbonate Ltd. merged with the Parent Company on April 1, 2011 (Note 36)

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated 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 consolidated 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 judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. 2 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.

1) 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.

2) 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).

1) 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'.

2) 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.

3) 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.

4) 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.

5) 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.

6) 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.

1) 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.

2) 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.

3) 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.

4) 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.

5) 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.

2.3 Consolidation

The Company has prepared the consolidated financial statements in accordance with Korean IFRS 1027, 'Consolidated and separate financial statements'.

(1) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another company. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

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 at the acquisition date and the resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with Korean IFRS 1039, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree held by the Company over the fair value of 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.

Intercompany transactions, balances and unrealized gains and losses on transactions between consolidated companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with policies adopted by the Company.

(2) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(3) Disposal of subsidiaries

When the Company ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(4) Associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Company's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss (Note 2.16).

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Company's share of its associates' post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Company 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 Compnay calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as 'impairment loss on investment in an associate' in the statement of income.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with policies adopted by the Company. Dilution gains and losses arising in investments in associates are recognized in the statement of income.

(5) Joint venture

A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. As with associates, investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognized at cost. The Company's investment in jointly controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss (Note 2.16). The Company does not recognize its share of profits or losses from the joint venture that result from the Company's purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Corporate Management Committee that makes strategic decisions.

2.5 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 consolidated 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) Consolidated companies

The results and financial position of all consolidated entities that have a functional currency different from the presentation currency are translated 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.

2.6 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.

2.7 Financial Instruments

2.7.1 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.

2.7.2 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.

2.7.3 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.

2.7.4 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.

2.7.5 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.

2.8 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'.

2.9 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.

2.10 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.

2.11 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 2.16). 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.

2.12 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.

2.13 Government grants

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

Government grants 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.

2.14 Intangible assets

(1) Goodwill

Goodwill is measured as explained in Note 2.2(1). 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.

2.15 Research and development

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

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

2.16 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.

2.17 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.

2.18 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.

2.19 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.

2.20 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.

2.21 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.