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LG Chem, Ltd. and Subsidiaries

Consolidated Financial Statements
December 31, 2010 and 2009

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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, 2010 and 2009, and the related consolidated statements of income, comprehensive income, changes in shareholders' 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 22% of the Company's consolidated total assets as of December 31, 2010 (2009: 18%), and represent 22% of the Company's consolidated total revenue for the year ended December 31, 2010 (2009: 17%). 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 conformity 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 and the reports of the other auditors 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, 2010 and 2009, and the results of their operations, change in its shareholders' equity and their 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 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 10, 2011

This report is effective as of March 10, 2011, 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, 2010 and 2009, and January 1, 2009

(in millions of Korean won)	Notes	December 31,	December 31,	January 1,
Assets				
Current assets				
Cash and cash equivalents	3, 6, 7	1,368,034	1,106,596	513,664
Trade receivables	3, 6, 8, 35	2,529,962	2,285,743	1,992,788
Other receivables	3, 6, 8	78,015	165,666	222,702
Prepaid income taxes		3,379	4,072	-
Other financial assets	3, 6, 9	2,194	378	-
Other current assets	16	127,609	117,121	95,518
Inventories	12	2,182,484	1,597,571	1,808,792
Total current assets		6,291,677	5,277,147	4,633,464
Non-current assets				
Trade receivables	3, 6, 8	-	40	220
Other receivables	3, 6, 8	20,737	20,026	31,946
Other financial assets	3, 6, 9	4,183	22,179	53,961
Investments in associates	1, 5, 13	213,572	219,505	241,629
Deferred income tax assets	31	45,289	16,333	46,405
Property, plant and equipment	14	5,872,040	4,775,350	4,988,332
Intangible assets	15	180,115	162,159	188,864
Other non-current assets	16	45,846	37,853	55,431
Total non-current assets		6,381,782	5,253,445	5,606,788
Total assets		12,673,459	10,530,592	10,240,252
Liabilities and equity				
Liabilities				
Current liabilities				
Trade payables	3, 6, 35	1,302,563	1,095,966	595,270
Other payables	3, 6, 35	821,435	679,155	633,015
Borrowings	3, 6, 17	1,620,581	1,832,657	1,986,376
Other financial liabilities	3, 6, 9	20,535	39	-
Provisions	18	4,949	5,293	-
Current income tax liabilities	31	409,658	200,295	357,809
Other current liabilities	20	97,671	93,433	90,040
Total current liabilities		4,277,392	3,906,838	3,662,510
Non-current liabilities				
Other payables	3, 6, 35	47,792	29,485	5,881
Borrowings	3, 6, 17	480,510	577,917	1,135,841
Other financial liabilities	3, 6, 9	1,545	35,024	26,961
Defined benefit liability	19	8,136	54,389	65,372
Deferred income tax liabilities	31	14,249	-	-
Other non-current liabilities		-	250	37
Total non-current liabilities		552,232	697,065	1,234,092
Total liabilities		4,829,624	4,603,903	4,896,602

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LG Chem, Ltd. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2010 and 2009, and January 1, 2009

(in millions of Korean won)	Notes	December 31,	December 31,	January 1,
Equity				
Equity attributable to owners of the parent				
Share capital	1, 22	369,500	369,500	419,500
Capital surplus		1,157,772	1,157,736	1,314,549
Other components of equity	24	(15,699)	(479,564)	(14,600)
Accumulated other comprehensive income(expense)		(62,017)	(74,557)	(18,385)
Retained earnings	23	6,253,917	4,836,099	3,544,810
		7,703,473	5,809,214	5,245,874
Non-controlling interests		140,362	117,475	97,776
Total equity		7,843,835	5,926,689	5,343,650
Total liabilities and equity		12,673,459	10,530,592	10,240,252

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

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LG Chem, Ltd. and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2010 and 2009

(in millions of Korean won, except per share amounts)	Notes	2010	2009
Revenue	5, 35	19,471,450	15,520,813
Cost of sales	26, 35	(15,472,600)	(12,260,974)
Gross profit		3,998,850	3,259,839
Selling, general and administrative expenses	25, 26, 35	(1,158,929)	(1,018,421)
Other operating income	28	445,585	526,684
Other operating expenses	26, 29	(464,178)	(670,353)
Operating profit	5	2,821,328	2,097,749
Non-operating income/expenses			
Financial income	5, 30	137,481	184,729
Financial expenses	5, 30	(182,931)	(236,005)
Share of profit (loss) of associates	5, 13	55,459	(19,842)
Other non-operating expenses		(12,900)	(11,239)
		(2,891)	(82,357)
Profit before income tax	5	2,818,437	2,015,392
Income tax expense	31	(618,672)	(443,179)
Profit from continuing operations		2,199,765	1,572,213
Loss from discontinued operations	34	-	(33,016)
Profit for the year		2,199,765	1,539,197
Attributable to:			
Owners of the parent		2,158,256	1,508,546
Non-controlling interests		41,509	30,651
Earnings per share for profit attributable to owners of the parent (in won)	32		
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic and diluted earnings per share for profit from continuing operations		29,345	20,274
Basic and diluted earnings per share for profit for the year		29,345	19,846
Earnings per share for profit attributable to the preferred equity holders of the company			
Basic and diluted earnings per share for profit from continuing operations		29,395	20,322
Basic and diluted earnings per share for profit for the year		29,395	19,894

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

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LG Chem, Ltd. and Subsidiaries
Consolidated Statements of Comprehensive income
Years Ended December 31, 2010 and 2009

(in millions of Korean won)	Notes	2010	2009
Profit for the year		2,199,765	1,539,197
Other comprehensive income			
Actuarial loss on defined benefit liability	19	(17,771)	(10,272)
Currency translation differences		7,390	(55,678)
Cash flow hedges		5,795	12,488
Others		798	(15,072)
Income tax effect relating to components of other comprehensive income		828	(2,018)
Other comprehensive income for the year, net of tax		(2,960)	(70,552)
Total comprehensive income for the year		2,196,805	1,468,645
Attributable to:			
Owners of the parent		2,154,721	1,448,888
Non-controlling interests		42,084	19,757

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

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LG Chem, Ltd. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 2010 and 2009

(in millions of Korean won)

		Attributable to owners of the parent							
	Notes	Share capital	Capital surplus	Other components of equity	Accumulated other comprehensive income (expense)	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2009		419,500	1,314,549	(14,600)	(18,385)	3,544,810	5,245,874	97,776	5,343,650
Comprehensive income:									
Profit for the year		-	-	-	-	1,508,546	1,508,546	30,651	1,539,197
Actuarial loss on defined benefit liability	19	-	-	-	-	(8,058)	(8,058)	-	(8,058)
Currency translation differences		-	-	-	(45,830)	-	(45,830)	(10,075)	(55,905)
Cash flow hedges		-	-	-	8,735	-	8,735	-	8,735
Others, net of tax		-	-	-	(14,505)	-	(14,505)	(819)	(15,324)
Total comprehensive income		-	-	-	(51,600)	1,500,488	1,448,888	19,757	1,468,645
Transactions with owners:									
Fair value of non-cash assets distributed due to spin-off		(50,000)	(155,216)	(464,272)	(4,572)	-	(674,060)	(6,008)	(680,068)
Purchase of treasury shares	22	-	-	(2,293)	-	-	(2,293)	-	(2,293)
Disposal of treasury shares	22	-	-	1,785	-	-	1,785	-	1,785
Dividends		-	-	-	-	(209,202)	(209,202)	(1,392)	(210,594)
Acquisition of subsidiary		-	-	-	-	-	-	6,925	6,925
Others		-	(1,597)	(184)	-	3	(1,778)	417	(1,361)
Total transactions with owners		(50,000)	(156,813)	(464,964)	(4,572)	(209,199)	(885,548)	(58)	(885,606)
Balance at December 31, 2009		369,500	1,157,736	(479,564)	(74,557)	4,836,099	5,809,214	117,475	5,926,689
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

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, 2010 and 2009

(in millions of Korean won)

	Notes	2010	2009
Cash flows from operating activities			
Cash generated from operations	36	2,985,720	2,886,497
Interest received		25,547	24,018
Interest paid		(81,889)	(115,004)
Dividends received		1,196	1,408
Income taxes paid		(423,384)	(585,814)
Net cash generated from operating activities		2,507,190	2,211,105
Cash flows from investing activities			
Decrease in other receivables		285,614	150,632
Decrease in non-current other receivables		7,869	3,402
Decrease in non-current other financial assets		617	7,250
Proceeds from disposal of property, plant and equipment		5,080	37,271
Proceeds from disposal of intangible assets		182	727
Decrease in other non-current assets		-	229
Increase in other receivables		(189,958)	(106,798)
Increase in non-current other receivables		(13,023)	(4,530)
Increase in non-current other financial assets		(612)	(3,893)
Acquisition of subsidiary, net of cash acquired	37	(61,972)	-
Acquisition of investments in associates		(14,210)	(20,146)
Purchases of property, plant and equipment		(1,617,231)	(1,099,333)
Purchases of intangible assets		(24,304)	(23,543)
Increase in other non-current assets		-	(173)
Net cash used in investing activities		(1,621,948)	(1,058,905)
Cash flows from financing activities			
Proceeds from borrowings		231,776	142,285
Proceeds from issuance of debentures		-	298,653
Proceeds from settlement of derivatives		-	28,442
Capital increase from non-controlling interests		3,437	6,925
Repayments of borrowings		(579,627)	(598,743)
Purchase of treasury shares		-	(2,293)
Dividends		(279,988)	(210,584)
Net cash used in financing activities		(624,402)	(335,315)
Cash flows from spin-off		-	(231,391)
Net increase in cash and cash equivalents		260,840	585,494
Cash and cash equivalents at beginning of year		1,106,596	513,664
Exchange gains on cash and cash equivalents		598	7,438
Cash and cash equivalents at the end of year		1,368,034	1,106,596

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

LG Chem, Ltd. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2010 and 2009, and January 1, 2009

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, and spun off its Industrial Materials segment to LG Hausys, Ltd. on April 1, 2009.

As of December 31, 2010, 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, 2010, 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 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.

1.3 Consolidated subsidiaries and associates

Consolidated subsidiaries and associates are as follows:

	Business location
Consolidated subsidiaries	
Tianjin LG Dagu Chemical Co., Ltd.	China
Ningbo LG Yongxing Chemical Co., Ltd.	China
LG Chemical Hong Kong Ltd.	Hong Kong
LG Chem America, Inc.	USA
LG Chemical India Pvt. Ltd.	India
LG Polymer India Pvt. Ltd.	India
LG Chemical (Guangzhou) Engineering Plastics Co., Ltd.	China
LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	China
LG Chem (Taiwan), Ltd.	Taiwan
LG Chem Display Materials (Beijing) Co., Ltd.	China
Tianjin LG Bohai Chemical Co., Ltd.	China
LG Chem (China) Investment Co., Ltd.	China
LG Chem (Tianjin) Engineering Plastics Co., Ltd.	China
LG Chem Europe GmbH	Germany
LG Chem Poland Sp. Z.O.O	Poland
LG Chem Michigan Inc.	USA
LG Chem Power Inc.	USA
Tianjin LG Botian Chemical Co., Ltd.	China
Ningbo Zhenhai LG Yongxing trade Co., Ltd.	China
LG Polycarbonate Ltd. (Note 37)	Korea
Associates	
SEETEC Co., Ltd.	Korea
LG Vina Chemical J/V Company	Vietnam
LG Holdings (HK) Ltd.	Hong Kong
LG Chem Brasil, Ltd.	Brazil
TECWIN Co., Ltd.	Korea
HL Greenpower Co., Ltd.	Korea
LG Yongxing International Trading Co., Ltd.	China

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. Reconciliations and descriptions of the effect of the transition from the accounting principles generally accepted in the Republic of Korean ("K-GAAP") to Korean IFRS on the Company's equity, its comprehensive income and cash flows are provided in Note 39.

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, 2010. 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.

The following new standards, new interpretations and amendments to standards and interpretations have been issued and announced but are not effective for the year beginning January 1, 2010 and have not been early adopted:

- Korean IFRS 2119: 'Extinguishing financial liabilities with equity instruments'
- Korean IFRS 1024 (amendment): 'Related party disclosures'
- Korean IFRS 1032 (amendment): 'Financial instruments – presentation'
- Korean IFRS 1101: (amendment): 'First-time adoption of Korean IFRS'
- Korean IFRS 2114 (amendment): Korean IFRS 1019 – 'The limit on a defined benefit asset, minimum funding requirements and their interaction'
- Korean IFRS' annual improvements

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

The excess 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 over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of income.

Inter-company 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) 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 2.15).

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 reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against 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.

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. 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 are reclassified to profit or loss where appropriate.

(3) 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 2.15).

(4) Transactions with non-controlling interests

The Company treats transactions with non-controlling interests as transactions with equity owners of the Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains and losses on disposals to non-controlling interests are also recognized in equity. When the Company ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss.

2.3 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.

2.4 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 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.

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 the 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.

On consolidation, 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 taken to other comprehensive income. When the Company ceases to control the subsidiary including foreign operations, accumulated 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 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.

The Company first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of income. If a loan and receivable or held-to-maturity financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value 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 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' 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

The Company capitalizes borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset as part of the cost of that asset during the period to prepare the asset for its intended use. The Company recognizes other borrowing costs as an expense in the period in which it incurs them.

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 estimated useful lives of the related assets.

2.13 Intangible assets

(1) Goodwill

Goodwill relating to the acquisition of subsidiary is included in intangible assets and goodwill relating to 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.

(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 ten 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 generate net cash inflows for the entity. 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 'finance lease liabilities'. 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 17).

2.24 Dividend distribution

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

2.25 Non-current assets (or disposal group) held for sale and discontinued operations

The Company classifies a non-current asset (or disposal groups) as held for sale if its carrying amount will be recovered principally through a sale transaction and the sale is highly probable. Non-current assets (or disposal groups) are stated at the lower of carrying amount and fair value less costs to sell.

When a component of the Company that either has been disposed of, or is classified as held for sale, i) represents a separate major line of business or geographical area of operations, or ii) is point of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or iii) is a subsidiary acquired exclusively with a view to resale, that component is classified as a discontinued operation. The Company separately discloses a single amount in the statement of income comprising the total of i) the post-tax profit or loss of discontinued operations and ii) the post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation. The net cash flows attributable to the operating, investing and financing activities of discontinued operations are presented in the notes to the consolidated financial statements (Note 34).

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, 2010 and 2009, and January 1, 2009, 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, 2010**		**December 31, 2009**		**January 1, 2009**	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
USD	1,945,873	2,584,070	1,957,471	2,689,960	1,692,424	2,562,45
EUR	44,303	49,263	46,062	44,762	68,092	66,345
GBP	2,454	2,076	2,022	1,276	1,456	1,260
JPY and others	74,862	287,492	88,221	309,405	127,104	301,287

As of December 31, 2010 and 2009, 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, 2010		December 31, 2009	
	10% Increase	**10% Decrease**	**10% Increase**	**10% Decrease**
USD	(63,820)	63,820	(73,249)	73,249

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 non-current borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by currency swap. In addition, borrowings issued at fixed rates expose the Company to fair value interest rate risk. As of December 31, 2010 and 2009, the Company's borrowings at variable rate were denominated in Korean won and foreign currencies.

The Company analyses 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 ₩1,796 million (2009: ₩2,037 million) or decrease of ₩1,796 million (2009: ₩2,037 million), respectively.

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

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(2) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. As of December 31, 2010 and 2009, and January 1, 2009, the maximum degrees of credit exposures are as follows:

(in millions of Korean won)	December 31, 2010			December 31, 2009			January 1, 2009		
	Before impairment	Accumulated impairment loss	After impairment (maximum exposure)	Before impairment	Accumulated impairment loss	After impairment (maximum exposure)	Before impairment	Accumulated impairment loss	After impairment (maximum exposure)
Loans and receivables	4,004,041	(7,293)	3,996,748	3,592,071	(14,000)	3,578,071	2,810,050	(48,730)	2,761,320
Financial assets at fair value through profit or loss	2,194	-	2,194	378	-	378	-	-	-
Available-for-sale financial assets	4,183	-	4,183	4,182	-	4,182	2,116	-	2,116
Hedging derivatives	-	-	-	17,997	-	17,997	51,845	-	51,845
Total	4,010,418	(7,293)	4,003,125	3,614,628	(14,000)	3,600,628	2,864,011	(48,730)	2,815,281

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.

The table below analyses the Company's 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, 2010			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings (excluding finance lease liabilities)	1,618,769	331,453	141,845	-
Finance lease liabilities	1,812	1,978	5,234	-
Hedging derivatives	20,535	-	1,545	-
Trade and other payables	2,123,998	47,792	-	-
Total	3,765,114	381,223	148,624	-

(in millions of Korean won)	December 31, 2009			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings (excluding finance lease liabilities)	1,830,998	303,904	263,763	1,226
Finance lease liabilities	1,659	1,812	7,212	-
Hedging derivatives	39	35,024	-	-
Trade and other payables	1,775,121	29,485	-	-
Total	3,607,817	370,225	270,975	1,226

(in millions of Korean won)	January 1, 2009			
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Borrowings (excluding finance lease liabilities)	1,984,858	752,153	369,246	3,759
Finance lease liabilities	1,518	1,623	3,708	5,352
Hedging derivatives	-	-	26,961	-
Trade and other payables	1,228,285	5,881	-	-
Total	3,214,661	759,657	399,915	9,111

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.

Debt to equity ratio and the gearing ratio as of December 31, 2010 and 2009, and January 1, 2009 are as follows:

(in millions of Korean won, except for ratios)	**December 31, 2010**	**December 31, 2009**	**January 1, 2009**
Total borrowings (Note 17) (A)	2,101,091	2,410,574	3,122,217
Less: cash and cash equivalents (B)	(1,368,034)	(1,106,596)	(513,664)
Net debt (C=A+B)	733,057	1,303,978	2,608,553
Total liabilities (D)	4,829,624	4,603,903	4,896,602
Total equity (E)	7,843,835	5,926,689	5,343,650
Total capital (F=C+E)	8,576,892	7,230,667	7,952,203
Gearing ratio (C/F)	8.5%	18.0%	32.8%
Debt to equity ratio (D/E)	61.6%	77.7%	91.6%

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).