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").

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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 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.

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.

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.

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.

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	-	-

(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.

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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.

2.22 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.

2.23 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.

2.24 Leases

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

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

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are recognized as ‘borrowings’. The interest element of the finance cost is charged to the statement of income over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term (Note 17).

2.25 Dividend distribution

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

3. Financial risk management

3.1 Financial risk factors

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

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

(1) Market risk

1) Foreign exchange risk

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

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

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

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

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

(in millions of Korean won)	**December 31, 2011**		**December 31, 2010**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
USD	2,003,470	2,357,283	1,945,873	2,584,070
EUR	41,212	71,013	44,303	49,263
GBP	6,995	2,055	2,454	2,076
JPY and others	20,913	715,298	74,862	287,492

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

(in millions of Korean won)	**December 31, 2011**		**December 31, 2010**	
	10% Increase	**10% Decrease**	**10% Increase**	**10% Decrease**
USD	(35,381)	35,381	(63,820)	63,820

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

2) Cash flow and fair value interest rate risk

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

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

Based on the simulations performed, the impact on profit for the year of a 0.1% shift would be a maximum increase of ₩1,919 million (2010: ₩1,796 million) or decrease of ₩1,919 million (2010: ₩1,796 million), respectively.

Based on the various scenarios, the Company manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Company raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Company borrowed at fixed rates directly. Under the interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

(2) Credit risk

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

(in millions of Korean won)	**December 31, 2011**			**December 31, 2010**		
	Before impairment	**Accumulated impairment loss**	**After impairment (maximum exposure)**	**Before impairment**	**Accumulated impairment loss**	**After impairment (maximum exposure)**
Loans and receivables (excluding cash on hand)	4,666,481	(5,072)	4,661,409	4,001,683	(7,293)	3,994,390
Financial assets at fair value through profit or loss	-	-	-	2,194	-	2,194
Total	4,666,481	(5,072)	4,661,409	4,003,877	(7,293)	3,996,584

Details of financial guarantees provided by the Company are disclosed in Notes 3.1.(3) and 21.

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

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

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

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

(3) Liquidity risk

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

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

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

(in millions of Korean won)	**December 31, 2011**			
	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**
Borrowings (excluding finance lease liabilities)	1,860,238	151,473	593,718	590
Finance lease liabilities	2,481	2,481	3,195	-
Trade and other payables	2,453,274	41,329	-	-
Total	4,315,993	195,283	596,913	590

(in millions of Korean won)	**December 31, 2010**			
	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**
Borrowings (excluding finance lease liabilities)	1,630,874	335,705	140,988	823
Finance lease liabilities	2,481	2,481	5,676	-
Trade and other payables	2,123,998	47,792	-	-
Total	3,757,353	385,978	146,664	823

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

(in millions of Korean won)

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

(in millions of Korean won)

		December 31, 2010			
		Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**
Net-settled derivative financial liabilities	**Hedging**				
	Net-cash flow	(979)	(596)	(162)	-
	Subtotal	(979)	(596)	(162)	-
Gross-settled derivative financial liabilities	**Trading**				
	Inflow	173,029	-	-	-
	Outflow	(170,835)	-	-	-
	Hedging				
	Inflow	144,394	-	-	-
	Outflow	(167,232)	-	-	-
	Subtotal	(20,644)	-	-	-
	Total	(21,623)	(596)	(162)	-

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

(in millions of Korean won)

	December 31, 2011			
	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**
Financial guarantee contracts[1]	150,109	60,121	433	741

(in millions of Korean won)

	December 31, 2010			
	Less than 1 year	**1 to 2 years**	**2 to 5 years**	**Over 5 years**
Financial guarantee contracts[1]	98	150,109	60,397	897

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

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, 2011 and 2010, are as follows:

(in millions of Korean won, except for ratios)	**December 31, 2011**	**December 31, 2010**
Total borrowings (Note 17) (A)	2,526,718	2,101,091
Less: cash and cash equivalents (B)	(1,379,379)	(1,368,034)
Net debt (C=A+B)	1,147,339	733,057
Total liabilities (D)	5,577,875	4,829,624
Total equity (E)	9,707,679	7,843,835
Total capital (F=C+E)	10,855,018	8,576,892
Gearing ratio (C/F)	10.6%	8.5%
Debt to equity ratio (D/E)	57.5%	61.6%

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).

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

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

(in millions of Korean won)	December 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Other current financial assets	-	2,194	-	2,194
Total financial assets	-	2,194	-	2,194
Financial liabilities				
Other current financial liabilities	-	20,535	-	20,535
Other non-current financial liabilities	-	1,545	-	1,545
Total financial liabilities	-	22,080	-	22,080

All other non-current financial assets of the Company consist of available-for-sale equity securities and are measured at cost (December 31, 2011: ₩ 5,973 million; December 31, 2010: ₩ 4,183 million) as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. These are not included in the analysis above (Note 10). The Company does not have any plans to dispose these available-for-sale equity securities in the near future.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses various techniques and makes judgments based on current market conditions. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

4. Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities after the end of the reporting period are addressed below.

(1) Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.16. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(2) Income taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(3) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(4) Provisions

The Company recognizes provisions for product warranties and sales return as of the reporting date as described in Note 18. The amounts are estimated based on historical data.

(5) Defined benefit liability

The present value of the defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Company considers the 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. Other key assumptions for defined benefit liability are based in part on current market conditions. Additional information is disclosed in Note 19.

5. Segment information

(1) General information about the Company's reportable segments is as follows:

Segment	Products or services	Major customers
Petrochemicals	PE, PVC, VCM, Alcohol, Plasticizers, ABS/PS, EPS, MBS, SBL, EP, Ethylene, Propylene, BPA and others	LG International Corp., Hyundai Oil Bank, LG Hausys Ltd., Mitsui & Co. Ltd., GS Caltex Corp., LG Electronics Inc., Daewoo International Corp., and others
Information & Electronic Materials	Batteries, Polarizers	LG Electronics Inc., LG Display Co., Ltd., Nokia Corp., Apple Inc., Hewlett-Packard Co. and others
Common and others	General management, sales and R&D.	

(2) The segment information on revenue and profit and loss for the years ended December 31, 2011 and 2010, is as follows:

(in millions of Korean won)	2011			
	Petro - Chemicals	**Information & Electronic Materials**	**Common and others**[4]	**Total**
Total segment revenue	17,398,098	5,118,475	528,130	23,044,703
Inter-segment revenue[1]	132,720	22,738	213,652	369,110
Revenue from external customers[2]	17,265,378	5,095,737	314,478	22,675,593
Operating profit (loss)[3]	2,353,259	490,658	(8,493)	2,835,424
Financial income[2]	214,824	15,638	(35,603)	194,859
Financial expenses	165,188	53,312	(591)	217,909
Depreciation and amortization	420,868	292,705	43,095	756,668
Share of the profit of associates and joint ventures	11,039	3,292	935	15,266
Profit (loss) before tax	2,389,219	449,690	(42,311)	2,796,598

(in millions of Korean won)	**2010**			
	Petro - chemicals	**Information & Electronic Materials**	**Common and others[4]**	**Total**
Total segment revenue	14,650,756	4,923,967	232,417	19,807,140
Inter-segment revenue[1]	125,272	20,966	189,452	335,690
Revenue from external customers[2]	14,525,484	4,903,001	42,965	19,471,450
Operating profit (loss)[3]	2,278,856	600,070	(57,598)	2,821,328
Financial income[2]	106,344	30,562	575	137,481
Financial expenses	134,385	49,376	(830)	182,931
Depreciation and amortization	377,617	276,262	18,231	672,110
Share of the profit of associates and joint ventures	44,629	11,687	(857)	55,459
Profit (loss) before tax	2,307,659	576,168	(65,390)	2,818,437

[1] Sales between segments are carried out at arm's length.

[2] Revenue from external customers consists of sales of goods. Interest income and dividend income are included in financial income.

[3] Management assesses the performance of the operating segments based on a measure of operating profit of segment.

[4] Common and other segments include operating segments not qualifying as a reportable segment, supporting divisions as well as R&D divisions.

(3) The segment information on assets and liabilities as of December 31, 2011 and 2010, is as follows:

(in millions of Korean won)	**December 31, 2011**			
	Petro - chemicals	**Information & Electronic Materials**	**Common and others**	**Total**
Total assets for the segment [1]	8,598,796	2,948,489	3,738,269	15,285,554
Investments in associates and joint ventures	95,334	-	233,074	328,408
Total liabilities for the segment[1]	2,826,217	1,316,453	1,435,205	5,577,875

(in millions of Korean won)	**December 31, 2010**			
	Petro - chemicals	**Information & Electronic Materials**	**Common and others**	**Total**
Total assets for the segment [1]	7,842,350	2,952,718	1,878,391	12,673,459
Investments in associates and joint ventures	1,393	-	212,179	213,572
Total liabilities for the segment[1]	2,680,840	1,300,394	848,390	4,829,624

[1] Assets and liabilities are measured in a manner consistent with those in the financial statements and allocated on the basis of segment operation. Corporate assets and liabilities as of December 31, 2010, were reallocated in line with the current year allocation method.

(4) The external sales by geographical segments from continuing operations are as follows:

(in millions of Korean won)	**2011**	**2010**
Korea[1]	9,876,440	8,720,224
China	9,639,702	8,906,641
South East Asia	1,464,064	1,209,587
America	1,577,783	1,155,349
Western Europe	695,723	538,186
Others	2.910,444	2,051,111
Eliminations	(3,488,563)	(3,109,648)
Total	22,675,593	19,471,450

[1] Domestic sales include the exports made through local letters of credit.

(5) There is no external customer attributing to more than 10% of total revenue for the years ended December 31, 2011 and 2010.

6. Financial instruments by category

Categorizations of financial instruments are as follows:

(in millions of Korean won)	**December 31, 2011**			
Financial assets	**Loans and receivables**	**Assets at fair value through profit or loss**	**Assets classified as available-for-sale**	**Total**
Cash and cash equivalents	1,379,379	-	-	1,379,379
Trade receivables	3,117,239	-	-	3,117,239
Other receivables	133,915	-	-	133,915
Other non-current receivables	33,657	-	-	33,657
Other non-current financial assets	-	-	5,973	5,973
Total	4,664,190	-	5,973	4,670,163

(in millions of Korean won)	**December 31, 2011**		
Financial liabilities	**Hedging derivatives**	**Liabilities at amortized cost**	**Total**
Trade payables	-	1,503,106	1,503,106
Other payables	-	950,168	950,168
Borrowings (current)	-	1,837,637	1,837,637
Other financial liabilities	536	-	536
Other non-current payables	-	41,329	41,329
Borrowings (non-current)	-	689,081	689,081
Other non-current financial liabilities	146	-	146
Total	682	5,021,321	5,022,003

(in millions of Korean won)	December 31, 2010			
Financial assets	**Loans and receivables**	**Assets at fair value through profit or loss**	**Assets classified as available-for-sale**	**Total**
Cash and cash equivalents	1,368,034	-	-	1,368,034
Trade receivables	2,529,962	-	-	2,529,962
Other receivables	78,015	-	-	78,015
Other financial assets	-	2,194	-	2,194
Other non-current receivables	20,737	-	-	20,737
Other non-current financial assets	-	-	4,183	4,183
Total	3,996,748	2,194	4,183	4,003,125

(in millions of Korean won)	December 31, 2010		
Financial liabilities	**Hedging derivatives**	**Liabilities at amortized cost**	**Total**
Trade payables	-	1,302,563	1,302,563
Other payables	-	821,435	821,435
Borrowings (current)	-	1,620,581	1,620,581
Other financial liabilities	20,535	-	20,535
Other non-current payables	-	47,792	47,792
Borrowings (non-current)	-	480,510	480,510
Other non-current financial liabilities	1,545	-	1,545
Total	22,080	4,272,881	4,294,961

Net gains(losses) on financial instruments by category are as follows:

(in millions of Korean won)	**2011**	**2010**
Assets at fair value through profit or loss		
Loss on valuation/ disposal	(29,431)	(17,010)
Hedging derivatives		
Gain on valuation/ disposal	8,914	14,723
Gain on valuation recognized in other comprehensive expenses	4,682	5,795
Interest expense	(12,198)	(13,933)
Assets classified as available-for-sale		
Loss on valuation/ disposal	(2)	(1)
Interest income	-	11
Dividend income	159	279
Loans and receivables		
Interest income	27,393	26,679
Gain(loss) on foreign currency translation	5,366	(7,744)
Gain(loss) on foreign exchange	22,514	(40,825)
Liabilities at amortized cost		
Interest expense	(77,488)	(66,239)
Gain on foreign currency translation	12,708	13,558
Gain(loss) on foreign exchange	(18,713)	21,174

7. Cash and cash equivalents

Details of cash and cash equivalents are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**
Bank deposits and cash on hand	324,364	258,041
Financial deposits, others	1,055,015	1,109,993
Total	1,379,379	1,368,034

As of December 31, 2011, non-current other receivables amounted to ₩40 million are restricted from withdrawal in connection with maintaining checking accounts (December 31, 2010: ₩46 million).

8. Trade and other receivables

Trade and other receivables, net of allowance for doubtful accounts, are as follows:

(in millions of Korean won)	December 31, 2011			December 31, 2010		
	Original amount	Less : allowance for doubtful accounts	Carrying amount	Original amount	Less : allowance for doubtful accounts	Carrying amount
Current						
Trade receivables[1]	3,122,311	(5,072)	3,117,239	2,537,255	(7,293)	2,529,962
Other receivables	133,915	-	133,915	78,015	-	78,015
Non-current						
Other receivables	33,657	-	33,657	20,737	-	20,737
Total	3,289,883	(5,072)	3,284,811	2,636,007	(7,293)	2,628,714

[1] As of December 31, 2011, trade receivables transferred to financial institutions but not derecognized amounted to ₩927,555 million (Note 17).

Details of other receivables are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010
Current		
Non-trade receivables	111,466	60,676
Financial deposits	12,477	5,508
Loans	-	93
Accrued income	2,230	4,472
Deposits	7,742	7,266
	133,915	78,015
Non-current		
Financial deposits	40	46
Loans	705	724
Deposits	32,912	19,967
	33,657	20,737
Total	167,572	98,752

The aging analysis of these trade and other receivables is as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010
Up to 3 months	3,011,532	2,465,462
3 to 6 months	103,599	66,641
Over 6 months	7,180	5,152
Total	3,122,311	2,537,255

The movements in bad debt allowance for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**December 31, 2011**				**December 31, 2010**			
	Trade receivables		**Other receivables**		**Trade receivables**		**Other receivables**	
	Current	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**
Beginning balance	7,293	-	-	-	12,567	3	1,430	-
Additions	130	-	-	-	-	-	-	-
Reversals	(2,150)	-	-	-	(1,146)	(3)	-	-
Write-off	(202)	-	-	-	(4,775)	-	(1,430)	-
Business combination	-	-	-	-	554	-	-	-
Exchange differences	1	-	-	-	93	-	-	-
Ending balance	5,072	-	-	-	7,293	-	-	-

The carrying amounts of trade and other receivables approximate their fair values.

9. Other financial assets and liabilities

Details of other financial assets and liabilities are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**
Other financial assets		
Derivatives (Note 11)	-	2,194
Available-for-sale (Note 10)	5,973	4,183
Less: current portion	-	(2,194)
Total	5,973	4,183
Other financial liabilities		
Derivatives (Note 11)	682	22,080
Less: current portion	(536)	(20,535)
Total	146	1,545

10. Financial assets classified as available-for-sale

The movements in financial assets classified as available-for-sale for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**
Beginning balance	4,183	4,182
Exchange differences	(12)	2
Additions	1,817	7
Disposals	(15)	(8)
Ending balance	5,973	4,183

Financial assets classified as available-for-sale consist of listed and unlisted equity securities. The unlisted equity securities are measured at cost as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

No impairment losses were recognized for financial assets classified as available-for-sale during the years ended December 31, 2011 and 2010.

11. Derivative financial instruments

Details of derivative financial assets and liabilities are as follows:

(in millions of Korean won)	December 31, 2011		December 31, 2010	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Current				
Cash flow hedges	-	536	-	20,535
Held-for-trading	-	-	2,194	-
	-	536	2,194	20,535
Non-current				
Cash flow hedges	-	146	-	1,545

Details of derivative financial contracts are as follows:

	December 31, 2011				
Classification	**Contractor**	**Contract date**	**Contract amount (in thousands)**	**Contract period**	**Contract terms**
Interest rate swap	HSBC	2006.10.11	₩ 7,000,000	2006.10.11 ~ 2013.09.05	Received: 3 month CD, Paid: 4.61%
	HSBC	2007.06.15	US$ 10,500	2007.06.15 ~ 2013.09.05	Received: 3 month Libor Paid: 5.59%

	December 31, 2010				
Classification	**Contractor**	**Contract date**	**Contract amount (in thousands)**	**Contract period**	**Contract terms**
Forward foreign exchange contract	Korea Exchange Bank and 15 other banks	2010.12.10, various	US$ 10,000, various	2010.12.10 ~ 2011.01.04, various	₩1145.66 / US$, various
Currency swap, Various	BTMU	2008.12.19	￥ 5,000,000	2008.12.19 ~ 2011.12.19	₩15.53/￥
	BTMU	2008.12.19	￥ 5,000,000	2008.12.19 ~ 2011.12.19	₩15.67/￥
Interest rate swap	HSBC	2006.10.11	₩ 12,000,000	2006.10.11 ~ 2013.09.05	Received: 3 month CD, Paid: 4.61%
	HSBC	2007.06.15	US$ 18,000	2007.06.15 ~ 2013.09.05	Received: 3 month Libor Paid: 5.59%

Trading derivative financial instrument is classified as a current asset or liability. Hedging derivative financial instrument is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months.

There was no ineffectiveness to be recorded from cash flow hedges

12. Inventories

Details of inventories are as follows:

(in millions of Korean won)	December 31, 2011 Original amount	December 31, 2011 Valuation allowance	December 31, 2011 Carrying amount	December 31, 2010 Original amount	December 31, 2010 Valuation allowance	December 31, 2010 Carrying amount
Merchandise	89,527	(303)	89,224	60,028	(108)	60,520
Finished products	1,163,744	(10,911)	1,152,833	1,019,709	(7,852)	1,011,857
Semi-finished products	317,357	-	317,357	268,895	-	268,895
Work-in-process	3,508	-	3,508	1,032	-	1,032
Raw materials	634,518	(1,178)	633,340	571,525	(976)	570,549
Supplies	71,598	-	71,598	60,331	-	60,331
Materials-in-transit	207,373	-	207,373	209,300	-	209,300
Total	2,487,625	(12,392)	2,475,233	2,191,420	(8,936)	2,182,484

The cost of inventories recognized as expense and included in ‘Cost of Sales’ amounted to ₩16,162,188 million (2010: ₩13,170,725 million).

13. Investments in associates and joint ventures

Changes in the carrying amount of investments in associates and joint ventures for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	December 31, 2011					
	Beginning balance	Acquisitions	Dividends	Share of profit(loss) of associates	Share of other comprehensive income of associates	Ending balance
LG Vina chemical Co.,Ltd	3,387	-	(1,695)	2,170	49	3,911
HL Greenpower Co.,Ltd.	13,354	-	-	896	-	14,250
LG Holdings (HK) Ltd.	53,731	-	-	4,723	3,005	61,459
TECWIN Co.,Ltd.	3,892	-	(34)	717	(5)	4,570
SEETEC Co.,Ltd.	138,793	-	-	8,684	(54)	147,423
LG Chem Brasil INTERMEDICAO DE NEGOCIOS DO SETOR QUIMICO LTDA.	258	-	-	-	-	258
LG Yongxing International Trading Co.,Ltd	157	-	-	-	(75)	82
CNOOC & LG Petrochemicals Co.,Ltd.	-	40,230	-	(1,924)	2,663	40,969
“Ammonia Production and Distribution” Limited Liability Partnership[1]	-	55,486	-	-	-	55,486
Total	213,572	95,716	(1,729)	15,266	5,583	328,408

[1] The Company has recognized ₩27,621 million as other payable and ₩26,714 million as non-current other payable as of December 31, 2011, for the unpaid consideration in the acquisition of “Ammonia Production and Distribution” Limited Liability Partnership.

(in millions of Korean won)	December 31, 2010						
	Beginning balance	**Acquisitions**	**Dividends**	**Share of profit(loss) of associates**	**Share of other comprehensive income of associates**	**Reclassification to subsidiary**	**Ending balance**
LG Polycarbonate Ltd.[1]	57,002	-	-	16,929	752	(74,683)	-
LG Vina chemical Co.,Ltd.	3,017	-	(862)	1,345	(113)	-	3,387
HL Greenpower Co.,Ltd.	-	14,210	-	(856)	-	-	13,354
LG Holdings (HK) Ltd.	51,520	-	-	2,025	186	-	53,731
TECWIN Co.,Ltd.	3,466	-	-	469	(43)	-	3,892
SEETEC Co.,Ltd.	103,231	-	-	35,547	15	-	138,793
LG Chem Brasil INTERMEDICAO DE NEGOCIOS DO SETOR QUIMICO LTDA.	258	-	-	-	-	-	258
LG Yongxing International Trading Co.,Ltd.	156	-	-	-	1	-	157
Ningbo Zhenhai LG Yongxing trade Co.,Ltd.[2]	855	-	-	-	-	(855)	-
Total	219,505	14,210	(862)	55,459	798	(75,538)	213,572

[1] Reclassified from an investment in associate to a subsidiary since the Company acquired control over LG Polycarbonate Ltd. on October 1, 2010.

[2] Established in 2009 and has been reclassified as a subsidiary in 2010.

14. Property, plant and equipment

Changes in the carrying amounts of property, plant and equipment for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	December 31, 2011										
	Land	**Buildings**	**Structures**	**Machinery**	**Vehicles**	**Tools**	**Equipment**	**Others**	**Construction -in-progress**	**Machinery-in-transit**	**Total**
Beginning balance	443,411	1,212,290	353,777	2,529,794	8,454	145,096	57,894	61,651	890,720	168,953	5,872,040
Cost	443,411	1,475,425	632,000	6,928,120	34,440	374,325	179,962	94,668	925,516	168,953	11,256,820
Accumulated depreciation	-	(258,901)	(278,216)	(4,372,096)	(25,986)	(225,197)	(121,967)	(33,017)	-	-	(5,315,380)
Accumulated impairment	-	(4,234)	(7)	(26,230)	-	(4,032)	(101)	-	(34,796)	-	(69,400)
Acquisitions/ Transfer	162,175	293,245	32,780	781,560	8,464	109,902	28,221	93,889	1,891,465	282,656	3,684,357
Disposals/ Transfer	-	(1,010)	(99)	(4,916)	(238)	(2,610)	(353)	-	(1,340,674)	(145,854)	(1,495,754)
Exchange differences	(717)	8,165	3,255	31,264	-	326	473	-	14,336	1	57,103
Depreciation	-	(39,432)	(27,827)	(560,661)	(3,836)	(50,672)	(19,115)	(40,248)	-	-	(741,791)
Ending balance	604,869	1,473,258	361,886	2,777,041	12,844	202,042	67,120	115,292	1,455,847	305,756	7,375,955
Cost	604,869	1,765,429	663,417	7,540,031	41,219	473,328	200,374	186,155	1,490,643	305,756	13,271,221
Accumulated depreciation	-	(292,165)	(301,524)	(4,753,396)	(28,375)	(267,254)	(133,153)	(70,863)	-	-	(5,846,730)
Accumulated impairment	-	(6)	(7)	(9,594)	-	(4,032)	(101)	-	(34,796)	-	(48,536)

(in millions of Korean won)	December 31, 2010										
	Land	**Buildings**	**Structures**	**Machinery**	**Vehicles**	**Tools**	**Equipment**	**Others**	**Construction -in-progress**	**Machinery- in-transit**	**Total**
Beginning balance	432,093	1,045,559	341,582	2,222,794	11,498	117,350	46,629	10,667	482,796	64,382	4,775,350
Cost	432,093	1,272,910	586,626	5,955,011	36,447	312,697	159,618	17,978	517,592	64,382	9,355,354
Accumulated depreciation	-	(220,508)	(245,037)	(3,721,524)	(24,949)	(191,315)	(112,888)	(7,311)	-	-	(4,523,532)
Accumulated impairment	-	(6,843)	(7)	(10,693)	-	(4,032)	(101)	-	(34,796)	-	(56,472)
Acquisitions/ Transfer	170	179,657	26,500	728,284	1,914	70,990	28,623	77,386	1,328,426	284,814	2,726,764
Disposals/ Transfer	(77)	(2,842)	(1,548)	(9,156)	(115)	(957)	(1,876)	(232)	(923,220)	(180,243)	(1,120,266)
Exchange differences	(155)	240	2,733	10,342	(1,165)	160	473	201	2,569	-	15,398
Depreciation	-	(33,668)	(26,769)	(505,948)	(3,678)	(42,447)	(16,023)	(26,371)	-	-	(654,904)
Impairment	-	(4,228)	-	(15,537)	-	-	-	-	-	-	(19,765)
Business combination	11,380	27,572	11,279	99,015	-	-	68	-	149	-	149,463
Ending balance	443,411	1,212,290	353,777	2,529,794	8,454	145,096	57,894	61,651	890,720	168,953	5,872,040
Cost	443,411	1,475,425	632,000	6,928,120	34,440	374,325	179,962	94,668	925,516	168,953	11,256,820
Accumulated depreciation	-	(258,901)	(278,216)	(4,372,096)	(25,986)	(225,197)	(121,967)	(33,017)	-	-	(5,315,380)
Accumulated impairment	-	(4,234)	(7)	(26,230)	-	(4,032)	(101)	-	(34,796)	-	(69,400)

For the year ended December 31, 2011, the Company capitalized ₩22,555 million of borrowing costs (2010: ₩18,622 million) to property, plant and equipment.

As of December 31, 2011, certain property, plant and equipment have been pledged as collaterals for certain bank loans for up to a maximum of ₩8,787 million (December 31, 2010: ₩8,787 million).

The Company has a finance lease agreement on certain property, plant and equipment at the MTBE factory. The carrying amount of leased assets and depreciation are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**
Carrying amount	41	2,223
Depreciation	2,182	2,182

The said agreement is non-cancellable finance lease agreements and the lease term is 15 years.

Depreciation of property, plant and equipment was classified as follows:

(in millions of Korean won)	**2011**	**2010**
Cost of sales	692,536	612,529
Selling, general and administrative expenses	48,451	41,654
Others[1]	804	721
Total	741,791	654,904

[1] Amounts capitalized to development costs are included.

15. Intangible assets

Changes in the carrying amount of intangible assets for the years ended December 31, 2011 and 2010, are as follows:

	December 31, 2011					
(in millions of Korean won)	**Development costs**	**Industrial property rights**	**Goodwill**	**Memberships**	**Others**	**Total**
Beginning balance	25,798	55,708	33,415	49,243	15,951	180,115
Acquisitions/ Transfer	15,608	8,915	-	1,842	15,763	42,128
Disposals/ Transfer	-	(8)	-	-	(2)	(10)
Exchange differences	45	(228)	-	25	778	620
Amortization	(7,433)	(2,531)	-	-	(5,717)	(15,681)
Ending balance	34,018	61,856	33,415	51,110	26,773	207,172

	December 31, 2010					
(in millions of Korean won)	**Development costs**	**Industrial property rights**	**Goodwill**	**Memberships**	**Others**	**Total**
Beginning balance	24,300	47,205	33,415	46,747	10,492	162,159
Acquisitions/ Transfer	9,412	12,086	-	2,196	12,010	35,704
Disposals/ Transfer	(2)	(642)	-	(236)	(29)	(909)
Exchange differences	-	67	-	536	485	1,088
Amortization	(7,912)	(3,008)	-	-	(7,007)	(17,927)
Ending balance	25,798	55,708	33,415	49,243	15,951	180,115

Amortization of intangible assets was classified as follows:

(in millions of Korean won)	**2011**	**2010**
Cost of sales	4,835	5,540
Selling, general and administrative expenses	10,846	12,387
Total	15,681	17,927

Impairment tests for goodwill

Goodwill is allocated to the Company's cash-generating units (CGUs) identified according to operating segment. The carrying amounts of allocated goodwill by CGUs are as follows:

(in millions of Korean won)

CGUs	**Carrying amount**
Goodwill arising on the acquisition of LG Petrochemical Co.,Ltd.	
NCC	4,724
PO	977
Special resin	255
Synthetic rubber	600
Petrochemistry BPA	1,637
Subtotal	8,193
Goodwill arising on the acquisition of SAP business	
Acrylic business	25,222
Subtotal	25,222
Total	33,415

The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a four-year period. Cash flows beyond the four-year period are estimated using 0% of expected growth rate.

Management determined budgeted EBIT margin based on past performance and its expectations of market development. The discount rate used is pre-tax and reflect specific risks relating to the relevant operating segments. Discount rate used for value-in-use calculations for the current year is 12.82%. The recoverable amounts based on value-in-use calculations exceed carrying amounts and accordingly, no impairments were recognized for the year ended December 31, 2011.

16. Other current and non-current assets

Details of other current and non-current assets are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**
Current		
Prepayments to suppliers	40,353	26,919
Prepaid expenses	21,869	26,207
Prepaid value added tax	56,061	66,670
Others	14,315	7,813
Total	132,598	127,609
Non-current		
Long-term prepaid expenses	45,939	45,819
Other investment assets	27	27
Total	45,966	45,846

17. Borrowings

The carrying amount of borrowings are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010
Current		
Short-term borrowings	1,451,823	1,259,887
Current maturities of bank loans	233,914	219,421
Current maturities of debentures	149,922	139,461
Current maturities of finance lease liabilities	1,978	1,812
	1,837,637	1,620,581
Non-current		
Bank loans	385,122	323,767
Debentures	298,725	149,531
Finance lease liabilities	5,234	7,212
	689,081	480,510
Total	2,526,718	2,101,091

Details of borrowings are as follows:

Current borrowings

(in millions of Korean won)	Bank	Latest maturity date	Annual interest rate (%) at December 31, 2011	Carrying Amount December 31, 2011	Carrying Amount December 31, 2010
Notes discounted[1]	Woori Bank, others	2012.10.16	Libor+1.00, various	927,555	864,560
Bank loans	China Bank, others	2012.12.24	Libor+0.50~4.00, various	524,268	395,327
Total				1,451,823	1,259,887

[1] As of December 31, 2011, trade receivables transferred to financial institutions but not derecognized are accounted for as collateralized borrowing transaction (Note 8).

Non-current borrowings

(in millions of Korean won)

	December 31, 2011					
	Bank	**Annual interest rate (%)**	**Latest maturity date**	**Total amount**	**Current maturities**	**Long-term debts**
Won currency borrowings	Kookmin Bank	3.00	2018.07.14	931	112	819
	Kookmin Bank	3.00	2020.03.21	932	82	850
	BTMU	3CD+0.60	2013.09.05	17,500	10,000	7,500
Foreign currency borrowings	Shanghai Pudong Development Bank	6.65	2015.06.20	4,209	-	4,209
	Sumitomo Mitsui Banking Corporation	3Libor+0.60	2013.09.05	12,110	6,920	5,190
	Sumitomo Mitsui Banking Corporation	3Libor+0.85	2014.07.29	23,066	-	23,066
	Standard Chartered Bank	4.50	2013.06.10	23,000	-	23,000
	Woori Bank	6Libor+1.50	2012.12.11	23,000	23,000	-
	China Construction Bank	6Libor+1.40~2.50	2012.06.08	23,000	23,000	-
	China Construction Bank	6Libor+3.00	2013.01.17	23,000	-	23,000
	Bank of Communications	3Libor+1.50	2012.04.30	21,850	21,850	-
	Agricultural Bank of China	6.80	2015.10.15	23,726	-	23,726
	China Minsheng Bank	6Libor+3.30	2013.01.15	6,389	5,111	1,278
	Bank of China	6Libor+1.20	2012.03.01	33,430	34,430	-
	China Merchants Bank	6.65	2015.05.17	9,125	-	9,125
	Korea Development Bank	3Libor+0.36	2012.01.10	57,665	57,665	-
	ANZ Bank	3Libor+2.80	2013.10.11	20,530	10,265	10,265
	ANZ Bank	3Libor+2.10	2014.07.07	34,499	-	34,499
	Bank of America	3Libor+1.65	2013.11.18	28,833	-	28,833
	Bank of America	3Libor+1.68	2014.08.29	45,999	-	45,999
	Bank of America	3Libor+1.87	2014.10.24	34,499	-	34,499
	BTMU	6Libor+2.60	2013.06.21	25,874	17,249	8,625
	BTMU	6Libor+2.60	2013.04.26	25,874	17,249	8,625
	HSBC	6Libor+0.60	2013.09.05	6,005	3,460	2,595
	HSBC	3Libor+1.20	2014.09.19	45,999	-	45,999
	Mizuho Banking Corporation	3Libor+0.65	2014.05.31	34,599	-	34,599
	Mizuho Banking Corporation	3Libor+0.60	2013.09.05	8,073	4,613	3,460
	Nordea Bank	1Wibor+1.00	2014.06.30	5,418	-	5,418
	Less: discount on borrowings			(149)	(92)	(57)
Total				619,036	233,914	385,122

(in millions of Korean won)	December 31, 2010					
	Bank	**Annual interest rate (%)**	**Latest maturity date**	**Total amount**	**Current maturities**	**Long-term debts**
Won currency borrowings	Kookmin Bank	3.00	2018.07.14	1,006	74	932
	Kookmin Bank	3.00	2020.03.21	1,033	102	931
	Shinhan Bank	2.00	2011.09.15	957	957	-
	BTMU	CD+0.60	2013.09.05	27,500	10,000	17,500
Foreign currency borrowings	Shanghai Pudong Development Bank	5.60	2015.09.15	3,979	-	3,979
	Woori Bank	3Libor+1.50	2011.12.23	22,848	22,848	-
	Woori Bank	5.18	2011.03.21	2,300	2,300	-
	China Construction Bank	6Libor+1.40~2.50	2012.06.08	22,848	-	22,848
	Sumitomo Mitsui Banking Corporation	6Libor+0.35	2011.07.20	56,945	56,945	-
	Sumitomo Mitsui Banking Corporation	3Libor+0.60	2013.09.05	18,792	6,834	11,958
	Standard Chartered Bank	4.50	2013.06.10	22,849	-	22,849
	Bank of Communications	3Libor+1.50	2012.04.30	21,706	-	21,706
	Agricultural Bank of China	5.18	2011.06.20	19,756	19,756	-
	Agricultural Bank of China	5.35	2015.10.15	25,875	-	25,875
	Agricultural Bank of China	6Libor+0.95	2011.02.28	2,285	2,285	-
	China Minsheng Bank	5.18	2011.02.27	2,386	2,386	-
	China Minsheng Bank	6Libor+3.30	2013.01.15	11,426	5,077	6,349
	Bank of China	6Libor+1.20	2012.03.01	66,660	33,450	33,210
	China Merchants Bank	5.18	2011.06.15	4,081	4,081	-
	China Merchants Bank	5.60	2015.05.17	8,625	-	8,625
	Korea Development Bank	3Libor+0.36	2012.01.10	56,945	-	56,945
	Korea Export-Import Bank	6Libor+2.00	2011.09.26	34,272	34,272	-
	ANZ Bank	3Libor+2.80	2013.10.11	7,022	-	7,022
	Bank of America	3Libor+1.65	2013.11.18	9,111	-	9,111
	BTMU	6Libor+2.60	2013.06.21	34,272	-	34,272
	BTMU	6Libor+2.60	2013.04.26	34,272	8,568	25,704
	HSBC	3Libor+0.60	2013.09.05	9,397	3,418	5,979
	Mizuho Banking Corporation	3Libor+0.60	2013.09.05	12,528	4,556	7,972
	Nordea Bank	3Euribor+0.40	2011.07.29	1,512	1,512	-
Total				543,188	219,421	323,767

Certain property, plant and equipment have been pledged as collaterals for the above non-current borrowings (Note 14).

Debentures

(in millions of Korean won)	December 31, 2011					
	Financial institution	**Annual interest rate (%)**	**Latest maturity date**	**Total amount**	**Current maturities**	**Long-term debts**
Won currency debentures	Woori Security	4.85	2012.04.29	150,000	150,000	-
	Woori Security	3.83	2014.12.05	200,000	-	200,000
	Woori Security	4.03	2016.12.05	100,000	-	100,000
	Less: discount on debentures			(1,353)	(78)	(1,275)
Total				448,647	149,922	298,725

(in millions of Korean won)	December 31, 2010					
	Financial institution	**Annual interest rate (%)**	**Latest maturity date**	**Total amount**	**Current maturities**	**Long-term debts**
Won currency debentures	Woori Security	4.85	2012.04.29	150,000	-	150,000
Foreign currency debentures	Woori Security	3Tibor+3.00	2011.12.19	139,708	139,708	-
	Less: discount on debentures			(716)	(247)	(469)
Total				288,992	139,461	149,531

Finance lease liabilities

December 31, 2011					
Bank	**Annual interest rate (%)**	**Latest maturity date**	**Total amount**	**Current maturities**	**Long-term debts**
Hyundai Oil Bank	9.00	2014.10.29	7,212	1,978	5,234

December 31, 2010					
Bank	**Annual interest rate (%)**	**Latest maturity date**	**Total amount**	**Current maturities**	**Long-term debts**
Hyundai Oil Bank	9.00	2014.10.29	9,024	1,812	7,212

The finance lease liabilities are liabilities associated with sales and leaseback arrangements of property, plant and equipment of the MTBE factory (Note 14).

Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

Carrying amounts and fair values of non-current borrowings are as follows:

(in millions of Korean won)	December 31, 2011		December 31, 2010	
	Carrying amount	Fair value[1]	Carrying amount	Fair value[1]
Bank loans	385,122	385,838	323,767	323,574
Debentures	298,725	300,675	149,531	153,716
Finance lease liabilities	5,234	5,052	7,212	7,197
Total	689,081	691,565	480,510	484,487

[1] Fair values are based on cash flows discounted using Korean won currency note yield (AA+) in the same credit grade with the Company, and borrowing rate quoted by People's Bank of China and others.

The present value of finance lease liabilities is as follows:

(in millions of Korean won)	December 31, 2011			December 31, 2010		
	Minimum lease payments	Future finance costs	Present value	Minimum lease payments	Future finance costs	Present value
Within 1 year	2,481	503	1,978	2,481	669	1,812
1 to 5 years	5,676	442	5,234	8,157	945	7,212

18. Provisions

Changes in the carrying amount of provisions for the years ended December 31, 2011, and 2010, are as follows:

	December 31, 2011		
(in millions of Korean won)	Sales returns [1]	Warranty [2]	Total
Beginning balance	2,822	2,127	4,949
Additions	(22)	4,616	4,594
Ending balance	2,800	6,743	9,543
Less : current portion	(2,800)	(4,429)	(7,229)
Total	-	2,314	2,314

	December 31, 2010		
(in millions of Korean won)	Sales returns [1]	Warranty [2]	Total
Beginning balance	3,501	1,792	5,293
Additions	-	335	335
Reversals	(679)	-	(679)
Ending balance	2,822	2,127	4,949
Less : current portion	(2,822)	(2,127)	(4,949)
Ending balance	-	-	-

[1] Sales return provisions have been accrued for the estimated sales return determined based on historical experience.
[2] Warranty provisions have been accrued for the estimated warranty service costs to be incurred based on the terms of warranty and historical experience.

19. Defined benefit liability

The amounts recognized in the statements of financial position are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**
Present value of obligations[1]	253,396	162,363
Fair value of plan assets	(192,619)	(154,227)
Liability in the statement of financial position	60,777	8,136

[1] The present value of retirement benefit obligations is net of existing contributions to the National Pension Plan of ₩979 million as of December 31, 2011 (December 31, 2010: ₩1,052 million).

The amounts recognized in the statements of income for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Current service cost[1]	42,145	37,260
Interest cost	8,629	10,730
Expected return on plan assets	(6,764)	(7,621)
Curtailment of plan	-	7,967
Past service cost	-	(8,834)
Total, included in employee benefit expenses	44,010	39,502

[1] The above amounts excluded ₩582 million (2010: ₩127 million) of expenses capitalized to construction in progress and development costs.

Severance costs recognized for defined contribution plan for the year ended December 31, 2011, amounted to ₩522 million(2010 : nil).

The amounts recognized in the statement of income for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Cost of sales	29,994	30,366
Selling, general and administrative expenses	14,538	9,136
Total	44,532	39,502

Actuarial gains and losses recognized as other comprehensive income for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Actuarial losses before tax	(53,541)	(17,771)
Income tax effect	12,957	1,696
Actuarial losses after tax	(40,584)	(16,075)

As of December 31, 2011, ₩64,717 million (December 31, 2010: ₩24,133 million) of accumulated actuarial losses are included in other comprehensive income.

Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**
Beginning balance	162,363	219,256
Transfer in	886	452
Current service cost	42,727	37,387
Interest expense	8,629	10,730
Actuarial losses(before tax)	53,926	16,769
Benefits paid	(15,437)	(34,741)
Business combination	-	3,300
Curtailment of plan	-	7,967
Settlements of plan	-	(90,067)
Past service cost	-	(8,834)
Exchange differences	302	144
Ending balance	253,396	162,363

Changes in the fair value of plan assets for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**
Beginning balance	154,227	164,867
Transfer in	430	-
Expected return on plan assets	6,764	7,621
Actuarial gains/(losses) (before tax)	385	(1,002)
Employer contributions	40,000	52,500
Benefits paid	(9,187)	(20,388)
Business combination	-	2,501
Settlements of plan	-	(51,872)
Ending balance	192,619	154,227

The actual return on plan assets for the year ended December 31, 2011, was ₩7,149 million (2010: ₩6,619 million).

The principal actuarial assumptions used are as follows:

	December 31, 2011	December 31, 2010
Discount rate	4.9%	5.7%
Expected return on plan assets	3.9%	4.3%
Future salary increase	4.8%	4.7%

The sensitivity analysis for changes in key actuarial assumptions is as follows:

(in millions of Korean won)	Increase by 1%	Decrease by 1%
Discount rate:		
Increase(decrease) of defined benefit obligations	(25,672)	30,596

Plan assets consist of:

(in millions of Korean won)	December 31, 2011		December 31, 2010	
	Amount	Proportion	Amount	Proportion
Equity instruments	35,973	19%	29,669	20%
Time deposits	66,377	34%	54,901	36%
Insurance contracts with guaranteed yield	90,269	47%	69,657	44%
Total	192,619	100%	154,227	100%

The amounts of experience adjustments on the defined benefit obligations and the plan assets are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	December 31, 2009
Present value of defined benefit obligations	253,396	162,363	219,256
Fair value of plan assets	(192,619)	(154,227)	(164,867)
Deficit in the plan	60,777	8,136	54,389
Experience adjustments on plan liabilities	(25,232)	(20,393)	(4,674)
Experience adjustments on plan assets	385	(1,002)	2,068

20. Other current liabilities

Other current liabilities consist of:

(in millions of Korean won)	December 31, 2011	December 31, 2010
Advances from customers	21,718	28,188
Dividends payable	1,143	43
Withholding	44,993	37,232
Unearned revenues	12,398	10,609
Others	55,516	21,599
Total	135,768	97,671

21. Commitments and contingencies

(1) The Company and the newly established company, LG Hausys Ltd., are jointly liable for the obligations outstanding as of April 1, 2009, the spin-off date.

(2) As of December 31, 2011 and 2010, the Company has been provided with guarantees from the Seoul Guarantee Insurance for the execution of supply contracts.

(3) As of December 31, 2011, the Company has provided one blank promissory note to the Korea National Oil Corporation as collateral in relation to petroleum import surcharges.

(4) As of December 31, 2011, the Company has various specific and comprehensive line of credit agreements with several financial institutions, as follows:

(*unit: Korean won in millions, foreign currencies in millions*)

Classification	KRW	USD	CNY	EUR	INR	PLN
Limit of bank overdraft	95,000	115	210	11	435	32
Limit of the letter of credit	299,200	424	360	-	675	-
Limit of discount of notes from export	3,000	1,482	-	-	-	-
Limit of loan arrangements	-	986	4,706	3	1,865	20

(5) As of December 31, 2011, the Company has B2B purchase arrangements with several financial institutions.

(6) As of December 31, 2011, the Company has been named as a plaintiff for 18 legal actions involving ₩3,476 million in claims and defendant for 15 legal actions with ₩3,978 million in claims. The ultimate outcome of these cases cannot be determined at this time.

(7) As of December 31, 2011, the Company has technology license agreements with STYRON EUROPE GmbH and other companies for the production of Polycarbonate products. Further, the Company has entered into manufacture and production technical contracts with Exxon Mobile and others.

(8) The Company has entered into a license agreement with LG Corp. to use trademarks on the products that the Company manufactures and sells, and on the services the Company provides in relation to its business.

(9) As of December 31, 2011, the Company has a long-term purchase contract for certain raw materials and was provided with a US$ 67 million guarantee for this contract. Further, as of December 31, 2011, the Company provided of US$ 7 million guarantee in regard to a delivery contract for certain products.

(10) As of the reporting date, the Company has guaranteed the repayment of various obligations of its subsidiaries and associates. The outstanding balance of such guarantees as of December 31, 2011, amounts to US$ 214 million, EUR 3 million and PLN 52 million (total equivalent to ₩268,650 million) (2010: US$ 170 million, EUR 1 million and PLN 32 million, total equivalent to ₩207,744 million). Details of guarantees provided as of December 31, 2011 and 2010, are as follows:

(in millions of Korean won)

		December 31, 2011		
Guarantor	**Guarantee beneficiary**	**Financial institution**	**Amount of guarantee**	**Outstanding loan amount**
The Parent Company	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	Bank of China	33,430	33,430
	〃	HSBC	45,999	45,999
	〃	Bank of America	34,499	34,499
	LG Chem Poland Sp. z o.o.	Nordea Bank	17,610	9,836
	LG Chem Europe GmbH	Shinhan Bank	4,482	-
	LG Chem Michigan, Inc.	Bank of America	28,833	28,833
	〃	Mizuho Bank	69,198	34,599
	〃	SMBC	23,066	23,066
	LG Chem Power, Inc.	Comerica Bank	11,533	-
	Total		268,650	210,262

(in millions of Korean won)

		December 31, 2010		
Guarantor	**Guarantee beneficiary**	**Financial institution**	**Amount of guarantee**	**Outstanding loan amount**
The Parent Company	LG Chem (Nanjing) Information & Electronics Materials Co., Ltd.	Bank of China	66,455	66,455
	〃	Woori Bank	22,778	22,778
	〃	Korea Export-Import Bank	34,167	34,167
	LG Chem Poland Sp. z o.o.	Nordea Bank	13,731	8,865
	LG Chem America, Inc.	Bank of America	5,695	-
	LG Chem Michigan, Inc.	Bank of America	39,862	20,272
	LG Chem Power, Inc.	Woori Bank	11,389	3,417
	〃	Comerica Bank	11,389	2,278
LG Chem (China) Investment Co., Ltd.	LG Chem Display Materials (Beijing) Co., Ltd.	Agricultural Bank of China	2,278	2,278
	Total		207,744	160,510

(11) Capital expenditure contracted for as of the reporting date but not yet incurred is as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**
Property, plant and equipment	1,182,391	1,136,056

22. Equity

Changes in share capital and share premium are as follows:

(in millions of Korean won)	Ordinary shares		Preferred shares			
	Number of shares	**Amount**	**Number of shares**	**Amount**	**Share premium**	**Loss on capital reduction**
January 1, 2010	66,271,100	331,356	7,628,921	38,144	897,424	(464,272)
Offset of loss on capital reduction	-	-	-	-	-	464,272
December 31, 2010	66,271,100	331,356	7,628,921	38,144	897,424	-
December 31, 2011	66,271,100	331,356	7,628,921	38,144	897,424	-

Changes in treasury shares are as follows:

(in millions of Korean won)	Number of shares			
	Ordinary shares	**Preferred shares**	**Carrying amount**	**Gain on sale of treasury shares**
January 1, 2010	359,778	5,518	15,484	13,855
Purchase of treasury shares	3	1	-	-
December 31, 2010	359,781	5,519	15,484	13,855
Purchase of treasury shares	3	-	-	-
December 31, 2011	359,784	5,519	15,484	13,855

The Company intends to sell its treasury shares in the near future.

23. Retained earnings

Details of retained earnings are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**
Legal reserve [1]	212,843	153,441
Discretionary reserve [2]	5,444,028	3,488,528
Unappropriated retained earnings	2,396,436	2,611,948
Total	8,053,307	6,253,917

1 The Commercial Code of the Republic of Korea requires the Company to appropriate an amount equal to a minimum of 10% of its cash dividends as a legal reserve until such reserve equals 50% of its paid-in capital. This reserve is not available for the payment of cash dividends, but may be transferred to common stock or used to reduce accumulated deficit, if any.

2 Pursuant to the Special Tax Treatment Control Law, the Company is required to appropriate,. as a reserve for business rationalization, a portion of retained earnings equal to tax reductions arising from investment and other tax credits. This reserve may be distributed as dividends after reversal.

24. Other components of equity

Details of other components of equity are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**
Treasury shares (Note 22)	(15,484)	(15,484)
Capital transactions within the Company [1]	(215)	(215)
Total	(15,699)	(15,699)

[1] Included gain(loss) from transactions with non-controlling interests and other reserves of subsidiaries.

25. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Wages and salaries	253,053	220,225
Pension costs (Note 19)	14,538	9,136
Welfare expense	57,269	49,172
Travel expense	23,007	22,403
Water & utilities	18,225	15,582
Packaging expense	4,522	3,999
Rental expense	93,913	68,979
Commission expense	178,577	173,711
Depreciation (Note 14)	48,451	41,654
Advertising expense	18,378	11,442
Freight expense	332,550	341,471
Training expense	11,329	10,171
Amortization (Note 15)	10,846	12,387
Sample expense	8,406	7,811
Others	191,134	170,786
Total	1,264,198	1,158,929

26. Expenses by nature

Expenses that are recorded by nature as cost of sales, selling, general and administrative expenses and other operating expenses in the statements of income for the years ended December 31, 2011 and 2010, consist of:

(in millions of Korean won)	**2011**	**2010**
Changes in inventories	(220,617)	(409,394)
Raw materials and consumables used	15,514,447	12,780,587
Purchase of merchandise	868,358	799,532
Employee benefit expense (Note 27)	892,083	767,043
Advertising expense	19,379	12,385
Transportation expense	357,081	365,074
Service fees	271,187	249,836
Depreciation, amortization and impairment	756,668	691,875
Operating lease payments	43,061	34,582
Other expenses	1,793,491	1,804,187
Total	20,295,138	17,095,707

27. Employee benefit expense

(in millions of Korean won)	**2011**	**2010**
Wages and salaries	776,297	679,633
Pension costs – Defined benefit plan (Note 19)	44,010	39,502
Pension costs – Defined contribution plan (Note 19)	522	-
Others	71,254	47,908
Total	892,083	767,043

28. Other operating income

Details of other operating income for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Foreign exchange gain	385,512	387,502
Gain on foreign currency translation	21,585	18,712
Gain on disposal of property, plant and equipment	2,286	4,667
Others	45,586	34,704
Total	454,969	445,585

29. Other operating expenses

Detail of other operating expenses for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Foreign exchange loss	398,986	392,481
Loss on foreign currency translation	23,302	16,433
Loss on disposal of property, plant and equipment	6,652	12,080
Loss on disposal of intangible assets	10	727
Impairment loss on property, plant and equipment	-	19,765
Others	7,128	22,692
Total	436,078	464,178

30. Financial income and expense

Details of financial income and expense for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Financial income		
Interest income [1]	27,393	26,690
Dividend income	159	279
Foreign exchange gain	93,108	59,940
Gain on foreign currency translation	28,785	20,328
Gain on settlement of trading derivatives	36,500	9,995
Gain on settlement of hedging derivatives	8,914	2,415
Gain on valuation of trading derivatives	-	2,194
Gain on valuation of hedging derivatives	-	13,426
Others	-	2,214
Total	194,859	137,481
Financial expense		
Interest expense [2]	67,131	61,250
Foreign exchange loss	75,851	74,072
Loss on foreign exchange translations	8,994	16,793
Loss on settlement of trading derivatives	65,931	29,199
Loss on settlement of hedging derivatives	-	1,118
Others	2	499
Total	217,909	182,931

[1] Details of interest income are as follows:

(in millions of Korean won)	**2011**	**2010**
Bank deposits	26,534	26,406
Financial assets classified as available-for-sale	-	11
Other loans and receivables	859	273
Total	27,393	26,690

[2] Details of interest expense are as follows:

(in millions of Korean won)	**2011**	**2010**
Interest on bank overdraft and borrowings	51,921	57,020
Interest on finance lease liabilities	669	822
Interest on debentures	8,512	8,994
Other interest expenses	28,584	13,336
Capitalized interest for qualifying assets	(22,555)	(18,922)
Total	67,131	61,250

31. Income taxes

Details of income tax expense are as follows:

(in millions of Korean won)	**2011**	**2010**
Current tax on profit for the year	561,514	608,333
Adjustments in respect of prior years	(6,153)	24,493
Deferred tax	58,610	(18,064)
	613,971	614,762
Current tax charged directly to equity	12,957	3,910
Income tax expense	626,928	618,672

The income taxes charged directly to other comprehensive income during the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Current tax		
Actuarial loss on defined benefit liability	12,957	3,910
Deferred tax		
Other consolidated comprehensive income	(6)	115
Actuarial loss on defined benefit liability	-	(2,214)
Cash flow hedges	(946)	(1,224)
Currency translation differences	(325)	241
Total	(1,277)	(3,082)

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The movements in deferred tax assets (liabilities) for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011				
		Increase (Decrease)			
	Beginning balance	Profit for the year	Other comprehensive income	Exchange differences	Ending balance
Defined benefit liability	26,697	19,442	-	-	46,139
Plan assets	(31,904)	(14,235)	-	-	(46,139)
Reserve for technology development	(59,562)	(34,818)	-	-	(94,380)
Allowance for doubtful accounts	7,240	(3,416)	-	(82)	3,742
Property, plant and equipment	35,322	9,656	-	1,069	46,047
Investments in subsidiaries, associates and joint ventures[1]	(3,390)	(11,584)	-	-	(14,974)
Accrued interest income	(954)	506	-	1	(447)
Others	47,485	(16,105)	-	(254)	31,126
	20,934	(50,504)	-	734	(28,886)
Deferred tax charged directly to equity	1,247	-	(1,277)	-	(30)
Tax credits carryforwards	7,525	(7,525)	-	-	-
Tax loss carryforwards	1,334	(531)	-	-	803
Deferred income tax assets (liabilities)	31,040	(58,610)	(1,277)	734	(28,113)

(in millions of Korean won)	2010					
		Increase (Decrease)				
	Beginning balance	Profit for the year	Other comprehensive income	Acquisition of subsidiary	Exchange differences	Ending balance
Defined benefit liability	30,394	(4,405)	-	706	2	26,697
Plan assets	(35,701)	3,797	-	-	-	(31,904)
Reserve for technology development	(41,082)	(18,480)	-	-	-	(59,562)
Allowance for doubtful accounts	5,531	1,727	-	-	(18)	7,240
Property, plant and equipment	21,128	14,251	-	-	(57)	35,322
Investments in subsidiaries, associates and joint ventures[1]	(3,939)	549	-	-	-	(3,390)
Accrued interest income	(681)	(273)	-	-	-	(954)
Others	36,131	19,371	-	3,439	(11,456)	47,485
	11,781	16,537	-	4,145	(11,529)	20,934
Deferred tax charged directly to equity	4,552	-	(3,082)	(223)	-	1,247
Tax credits carryforwards	-	910	-	6,615	-	7,525
Tax loss carryforwards	-	617	-	717	-	1,334
Deferred income tax assets (liabilities)	16,333	18,064	(3,082)	11,254	(11,529)	31,040

[1] Deferred tax liabilities of ₩16,086 million (2010: ₩16,239 million) for the accumulated temporary differences of ₩278,356 million (2010: ₩282,177 million) relating to unremitted earnings of certain subsidiaries have not been recognized as such amounts are reinvested permanently.

The reconciliation between income tax expense and accounting profit is as follows:

(in millions of Korean won)	**2011**	**2010**
Profit before income tax	2,796,598	2,818,437
Tax calculated based on applicable tax rate [1]	705,160	663,321
Tax adjustments	(78,232)	(44,649)
Income not subject to tax	(9,780)	(4,516)
Expenses not deductible for tax purposes	22,222	8,998
Unrecognized deferred income tax for temporary differences in the current year	(504)	(97)
Tax credit	(111,419)	(78,627)
Effect from change of tax rate	5,180	(3,494)
Others	16,069	33,087
Income tax expense	626,928	618,672
Effective tax rate(income tax expense/ profit before income tax)	22.42%	21.95%

[1] The weighted average applicable tax rate on profit before income tax for the year ended December 31, 2011, is 25.21% (2010: 23.54%).

Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook of the economic environment, and the overall future industry outlook. Management periodically considers these factors in reaching its conclusion. The Company did not recognize deferred income tax assets of ₩16,578 million (2010: ₩7,942 million) for the tax loss carryforwards of ₩53,649 million (2010: ₩26,943 million).

According to the amendment to tax law, effective on or after January 1, 2012, the applicable tax rate for taxable income over KRW 20 billion will be 22% for companies located in the Republic of Korea. As of December 31, 2011, the tax effect of cumulative temporary differences was calculated based on the future tax rate of the fiscal year when temporary differences are expected to reverse.

32. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Parent Company by the weighted average number of shares in issue excluding shares purchased by the Parent Company and held as treasury shares. As of the reporting date, the Parent Company has no potential ordinary shares. Preferred shares have a right to participate in the profits of the Parent Company. These participation rights have been considered in presenting the EPS for ordinary shares and preferred shares.

Basic earnings per share attributable to the owners of the Parent Company for the years ended December 31, 2011 and 2010, is computed as follows:

(in millions of Korean won)	**2011**	**2010**
Profit attributable to ordinary shares [1]	1,915,945	1,934,166
Weighted average number of ordinary shares outstanding [2]	65,911,319	65,911,322
Basic earnings per ordinary share (in won)	29,069	29,345

(in millions of Korean won)	**2011**	**2010**
Profit attributable to preferred shares[1]	221,981	224,090
Weighted average number of preferred shares outstanding[2]	7,623,402	7,623,403
Basic earnings per preferred share (in won)	29,118	29,395

[1] Profit attributable to ordinary and preferred shares are as follows:

(in millions of Korean won)	**2011**	**2010**
Profit for the year attributable to owners of the parent company	2,137,926	2,158,256
Ordinary shares dividends (A)	263,645	263,645
Preferred shares dividends (B)	30,875	30,875
Undistributed earnings for the year	1,843,406	1,863,736
Undistributed earnings available for ordinary shares (C)	1,652,300	1,670,521
Undistributed earnings available for preferred shares (D)	191,106	193,215
Profit for the year attributable to ordinary shares (A+C)	1,915,945	1,934,166
Profit for the year attributable to preferred shares (B+D)	221,981	224,090

[2] Weighted average numbers of shares are calculated as follows:

		2011		
Ordinary shares	**Period**	**Number of shares**	**Number of days**	**Number of shares x days**
Beginning	2011. 1. 1 ~ 2011.12.31	65,911,319	365	24,057,631,435
Purchase of treasury shares	2011.12.31 ~2011.12.31	(3)	1	(3)
Total				24,057,631,432

Weighted average number of ordinary shares outstanding: 24,057,631,432 / 365 = 65,911,319 shares

	2011			
Preferred shares	**Period**	**Number of shares**	**Number of days**	**Number of shares x days**
Beginning	2011. 1. 1 ~ 2011.12.31	7,623,402	365	2,782,541,730
Total				2,782,541,730

Weighted average number of preferred shares outstanding: 2,782,541,730 / 365 = 7,623,402 shares

	2010			
Ordinary shares	**Period**	**Number of shares**	**Number of days**	**Number of shares x days**
Beginning	2010. 1. 1 ~ 2010.12.31	65,911,322	365	24,057,632,530
Purchase of treasury shares	2010.12.31 ~2010.12.31	(3)	1	(3)
Total				24,057,632,527

Weighted average number of ordinary shares outstanding: 24,057,632,527 / 365 = 65,911,322 shares

	2010			
Preferred shares	**Period**	**Number of shares**	**Number of days**	**Number of shares x days**
Beginning	2010. 1. 1 ~ 2010.12.31	7,623,403	365	2,782,542,095
Purchase of treasury shares	2010.12.31 ~2010.12.31	(1)	1	(1)
Total				2,782,542,094

Weighted average number of preferred shares outstanding: 2,782,542,094 / 365 = 7,623,403 shares

There were no dilutive potential outstanding ordinary shares at the reporting date. Accordingly, diluted earnings per share for profit attributable to owners of the Parent Company are identical to basic earnings per share.

33. Dividends

Details of dividends are as follows:

	2011	**2010**
Number of shares entitled to dividends: shares issued and outstanding (par value per share: ₩5,000)		
Ordinary shares	65,911,316	65,911,319
Preferred shares	7,623,402	7,623,402
Dividend per share (in won)		
Ordinary shares: cash	4,000 (80%)	4,000 (80%)
Preferred shares: cash	4,050 (81%)	4,050 (81%)
Cash dividends to distribute (in millions of Korean won)		
Ordinary shares	263,645	263,645
Preferred shares	30,875	30,875
	294,520	294,520

Dividend payout ratios for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Dividends (A)	294,520	294,520
Profit for the year attributable to owners of the parent company (B)	2,137,926	2,158,256
Dividend payout ratio (A/B)	13.78%	13.65%

Dividend yield ratios for the years ended December 31, 2011 and 2010, are as follows:

	2011		**2010**	
(in Korean won)	**Ordinary shares**	**Preferred Shares**	**Ordinary shares**	**Preferred Shares**
Dividend per share (A)	4,000	4,050	4,000	4,050
Market value at the end of year (B)	317,500	107,500	391,000	159,000
Dividend yield ratio (A/B)	1.26%	3.77%	1.02%	2.55%

34. Related party transactions

Significant transactions, which occurred in the ordinary course of business with related parties for the years ended December 31, 2011 and 2010, and the related account balances as of December 31, 2011 and 2010, are summarized as follows:

(in millions of Korean won)	**2011**		**2010**	
	Sales	**Purchases**	**Sales**	**Purchases**
Entities with significant influence over the Company[1]	11	46,427	2	42,705
Associates and joint ventures	94,337	193,163	128,534	217,036
Key management	-	51,021	-	48,014
Others[2]	22,208	849,276	17,691	588,844
Total	116,556	1,139,887	146,227	896,599

(in millions of Korean won)	**December 31, 2011**		**December 31, 2010**	
	Receivables	**Payables**	**Receivables**	**Payables**
Entities with significant influence over the Company[1]	6,432	5,284	5,541	6,923
Associates and joint ventures	23,604	28,345	1,325	18,961
Key management	-	65,201	-	51,768
Others[2]	32,607	164,223	31,100	142,247
Total	62,643	263,053	37,966	219,899

[1] The largest shareholder of the Company is LG Corp., which owns 33.53% of the Company's ordinary shares (Note 1).

[2] Includes LG Corp.'s subsidiaries.

Compensation for key management of the Company for the years ended December 31, 2011 and 2010, consists of:

(in millions of Korean won)	**2011**	**2010**
Wages and salaries	35,895	33,768
Pension costs	2,638	2,621
Other long-term employee benefits	12,488	11,625
Total	51,021	48,014

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

The receivables from related parties are mainly from sales transactions. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

Details of the guarantees provided by the Company for related parties at the reporting date are disclosed in Note 21.

35. Cash generated from operations

Reconciliation between operating profit and net cash inflow (outflow) from operating activities for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Profit before income tax	2,796,598	2,818,437
Adjustments for:		
Depreciation	740,987	654,183
Amortization	15,681	17,927
Pension costs	44,010	39,502
Financial income	(123,046)	(76,611)
Financial expense	165,359	112,592
Foreign exchange differences	8,365	(19,435)
Gain on disposal of property, plant and equipment	(2,286)	(4,667)
Loss on disposal of property, plant and equipment	6,652	12,080
Loss on disposal of intangible assets	10	727
Other expenses	(10,165)	(40,810)
Inventories	(275,593)	(533,932)
Trade receivables	(533,618)	(155,999)
Other receivables	(36,467)	7,689
Settlement of derivatives	(27,237)	(18,866)
Trade payables	172,451	125,009
Other payables	105,722	160,014
Defined benefit liability	(45,794)	(111,821)
Other cash flows from operations	(15,723)	(299)
Cash generated from operations	2,985,906	2,985,720

The principal non-cash transactions for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2011**
Transfer of construction-in-progress	1,340,674	923,165
Transfer of machinery-in-transit	145,854	180,242
Reclassification of current maturities of borrowings	378,045	360,694
Gain on valuation of derivatives recognized as other comprehensive income	4,682	5,795

36. Business combination

In order to enhance business efficiency as well as to create synergy effect, based on the resolution of the board of directors on July 1, 2010, on October 1, 2010, the Parent Company acquired the remaining 50% of the share capital of LG Polycarbonate Ltd. (the "Acquiree"), in which the Parent Company had previously owned 50% of the share capital. As the acquisition was accounted for using the acquisition method in accordance with Korean IFRS 1103, the assets acquired and liabilities assumed from the acquisition were measured at fair value.

Details of the identifiable assets and liabilities as of October 1, 2010, arising from the acquisition are as follows:

(in millions of Korean won)	**Acquiree's carrying amount**	**Fair value**
I. Current assets	144,560	144,560
Cash and cash equivalents	12,398	12,398
Trade receivables	71,343	71,343
Inventories	39,656	39,656
Other current assets	21,163	21,163
II. Non-current assets	170,194	171,313
Property, plant and equipment	148,344	149,463
Other non-current assets	21,850	21,850
Total assets(A)	314,754	315,873
I. Current liabilities	114,286	114,286
II. Non-current liabilities	52,976	52,908
Total liabilities (B)	167,262	167,194
Fair value of net assets (C=A-B)		148,679
Consideration transferred (D)[1]		148,554
Gain from a bargain purchase (C-D)		125

[1] Consideration transferred consists of the fair value of the previously held equity interest(₩74,184 million) and the cash consideration paid for the additional acquisition of the remaining share capital (₩74,370 million).

The Company re-measured its previously held equity interest in the acquiree at its acquisition-date fair value. The acquisition-date fair value and the related loss recognized in the consolidated statement of income amounted to ₩74,184 million and ₩498 million, respectively.

The ₩125 million of gain from a bargain purchase was recognized as other operating income in the consolidated statement of income from the above business combination. The gain from a bargain purchase was recognized as cost of acquisition was less than the fair value of the net assets acquired.

The fair value of trade and other receivables acquired from LG Polycarbonate Ltd. is ₩75,119 million. The gross contractual amount for these trade and other receivables is ₩75,774 million, of which ₩655 million is expected to be uncollectible.

(in millions of Korean won)	**Fair value**	**Gross contractual amount**	**Amount expected to be uncollectible**
Trade receivables	71,343	71,998	655
Other receivables	3,776	3,776	-
Total	75,119	75,774	655

The acquired business contributed revenues of ₩97,932 million and net loss of ₩3,912 million for the Company for the period from October 1, 2010 to December 31, 2010.

If the acquisition had occurred on January 1, 2010, the consolidated revenue and consolidated profit for the year ended December 31, 2010, would have increased by ₩228,071 million and ₩6,003 million, respectively.

37. Approval of financial statements

The consolidated financial statements for the year ended December 31, 2011, were approved by the Board of Directors on February 21, 2012.