SONGWON

2011

ANNUAL REPORT

SALIENT

From the Latin Verb 'salire' to leap or leaping.
As an adjective, meaning the most noticeable, prominent or important.

SALIENT SONGWON,
LEAPING AHEAD IN
THE WORLD OF POLYMERS;
A PROMINENT
GLOBAL SUPPLIER OF
CHEMICAL ADDITIVES.

SALIENT IN ADDITIVES

LETTER TO SHAREHOLDERS

CHAPTER 2

Dear Shareholders,

2011 has been yet another year of growth for Songwon. We have delivered a consolidated net profit of 8,6 Million US$, on revenues of 542,8 Million US$, a growth of 12,92% compared to 2010. The strength of our business has been recognized by being awarded an A credit rating as well as being selected on the Korean Stock Exchange as a constituent of the KOSPI 200 index, which takes into account year over year performance as well as liquidity and industry representation. With these results achieved under the most arduous market conditions we have had to face in recent times, we are well positioned to reach our future growth and profitability goals.

Our results are in line with the target we set and are particularly impressive, when taken in the context of one of the most volatile years in terms of market conditions and global financial unrest, since our inception in 1965. 2011 started on a positive note with a very strong global demand for our products, which continued until the middle of the year. At the same time our key raw materials costs, which were already rising significantly during the second half of 2010, continued in an accelerated trend. As a consequence in 2011 we faced the largest increases and highest prices of raw materials we have known so far. Unfortunately several price increases were necessary to offset the increase in manufacturing costs, though not fully compensating for the unknown extremes we have faced. At the same time, the uncertain global financial and economic situation started to have an effect on industry growth rates, which put pressure on the overall market, causing a considerable decline in demand. This resulted in an easing of raw material pricing in the third and fourth quarters, allowing us to pull back some of the ground we had lost on our cost targets.

The fact that we have been able to successfully navigate through these rough and suddenly changing conditions, can be attributed to three factors:

- Our clear strategic plan, which led us in previous years to the decision to backward integrate, based on proprietary technologies, and our constant focus on cost and process improvement.
- The focus on operational excellence, which led to the implementation of a streamlined business processes and our strong customer and supplier relationships.
- A strong management team empowered to take quick decisions to respond to the global challenges and the volatile market conditions.

In 2011 we maintained our strategic goal of becoming the global number two supplier of polymer stabilizers, a position we will continue to strengthen in 2012 and the years ahead.

Jongho Park, Chairman of the Board and CEO

This position is founded on the commitment we have made to the polymer industry to continue to deliver better quality, better service and better value. The cornerstones of our strategy to achieve this are:

- Service excellence, global presence, and local execution.
- Operational excellence and innovative technologies
- Extending the range of products and physical forms
- A strong focus on innovation and technical support
- Regulatory compliance and support

From many perspectives 2011 was for Songwon a landmark and exciting year as we continued to focus on following our strategic plan. We have continued to strengthen our competitive position focusing on our offering to the market and on the creation of a strong platform to sustain further growth.

The expansion of our Maeam plant which was commissioned in 2010 started on time in July 2011, with the production of 15.000 MT of antioxidants. At the same time, work began on upgrading our production lines in Ulsan using proprietary technology. This will bring additional capacity at an improved cost position in the course of 2012. In addition we have significantly expanded our capacity for TPU in Suwon by starting up a new extruder.

Early in 2011 we completed the acquisition of 40% of Songwon International AG, which is now owned 100% by Songwon Industrial Co., Ltd., a key step in the globalization of our group.

In China, we have entered into an agreement to acquire 30% shares of Tangshan Baifu Chemical Co. Ltd., the largest producer of thioesters in the world. When completed, this will put us in a strong position in this important family of antioxidants and will establish our first significant manufacturing footprint in this key market. China is important for Songwon's future growth to the extent that we are targeting significant additional manufacturing activities in the future. To support this we have established a new structure: Songwon China Ltd., based in Hong Kong, which spearheads our activities with Songwon Trading Ltd., and Songwon Chemicals Co. Ltd., responsible for manufacturing and sales of dry and liquid products for the Chinese market.

In Europe, we have successfully acquired 100% of the shares of ATG (Additive Technology Greiz GmbH) in Germany, one of the largest independent producers of OPS (One Pack Systems). This key acquisition represents a step forward in the globalization of Songwon's manufacturing footprint and will significantly boost our presence in the European market. Most importantly, it provides us with access to technologies which will enable us to expand the OPS business globally and, in particular, to the fastest growing polymer production area in the world, the Middle East and to the United States.

Late in 2011 a Memorandum of Understanding) MOU was signed by Songwon, Pan Gulf Holdings of Bahrain and Polysys Industries of Abu Dhabi; Pan Gulf and Polysys will take a share in Songwon Additive Technologies AG, the parent company of ATG, which will become the vehicle for a series of manufacturing and commercial JV's in the Middle East.

At the beginning of 2011 we established a new global organization structure in line with our growth and globalization strategy. The leaders of this new organization are managers with international experience and with a proven track record. At the same time we have created an Executive Committee composed of these leaders which have the responsibility for coordinating our activities globally.

In addition we have focused on the establishment, streamlining and globalization of our most important business processes, to be ready to successfully support our ambitious targets.

The future looks bright for Songwon. In spite of short term economic downturns, we expect our market segment to gradually regain lost ground during 2012. Most importantly, our perspective of the polymer market in general, which represents our major future growth potential, is that it remains strong in the medium to long term. This opportunity will be driven by population growth, demand for end use products in the emerging markets and inter-material competition.

Songwon is in an excellent position now and for the future, having proprietary technology, excellent economics and best in class quality and reliability. Our global footprint is taking shape and our product portfolio is robust and growing; we are rapidly becoming the additives partner of choice and a leading supplier in emerging markets.

Yours sincerely

Jongho Park

Jongho Park
Chairman of the Board and CEO


500 : 5
in 20° C
± 3,75 ml
ml
500
450
400
350
300
250
200
150
100
50
in 20°C
100
90
80
70
60
40
30
20
10

HISTORY - 46 YEARS SONGWON

CHAPTER 3

In just over 46 years Songwon has emerged from being the only producer of plastic additives in Korea to being the second largest supplier of polymer additives globally. In doing so it has remained financially robust and has successfully weathered a number of volatile economic periods, where many others have failed.

In 1965 Songwon Industrial Co., Ltd. was established with a manufacturing plant in Busan for the production of liquid PVC stabilizers and metal soaps. Offices in Seoul were established a few years later and a second manufacturing site was started at Suwon in 1977 for the production of polyester diols and PU resins. In the following years the production of rubber antioxidants was started in Busan, while flocculants were produced in Suwon.

In 1983 Songwon opened its Research & Development center with the approval of the Korean Ministry of Science and Technology. 1983 also saw the addition of production of tin stabilizers and agrochemicals in the Busan plant. Two years later the first phenolic antioxidants were produced in Busan and Songwon continued growing, refining and tailoring its product portfolio according to market and customer needs. Production of SAP was added in Suwon in 1986.

In the same year a new production site in Ulsan was started, focusing on the expansion of capacity for all products manufactured at the Busan site. Phosphite antioxidants were added in 1993 and shortly afterwards, in 1995, Songwon implemented ISO standards to ensure that it remained at the leading edge of quality and reliability, gaining ISO 9002 approval in 1995. In 1998 alkylphenol production was started which represented Songwon's first step into backward integration. Just before 2000 the production of methyl tin stabilizers was added. In 2001 Songwon entered the production of biphenol, bi-functional monomers and PTBP .

From its inception in 1965 through to a major turning point in 2005, Songwon had grown in 40 years to a 230 million US$ business and was proudly considered as the strongest Korean additives manufacturer and supplier as well as being a major player in the South East Asian region.

In 2006, Jongho Park, Songwon's CEO, and his leadership team took the decision to drive the company further ahead by approaching the global market directly and setting Songwon on the road to becoming a major global force in polymer additives.

Songwon International - Japan K.K. had already been established and a true global network took shape as Songwon International AG, based in Frauenfeld, Switzerland, and its subsidiary Songwon International - Americas Inc., based in Houston, USA, were added.

Customer response was so positive that additional capacity was required. The new Meaem plant was commissioned in 2008 delivering 25.000 MT of products. The second step into full backward integration was taken a year later when the production of isobutylene, based on proprietary technology, was started and increased a year later in 2010.

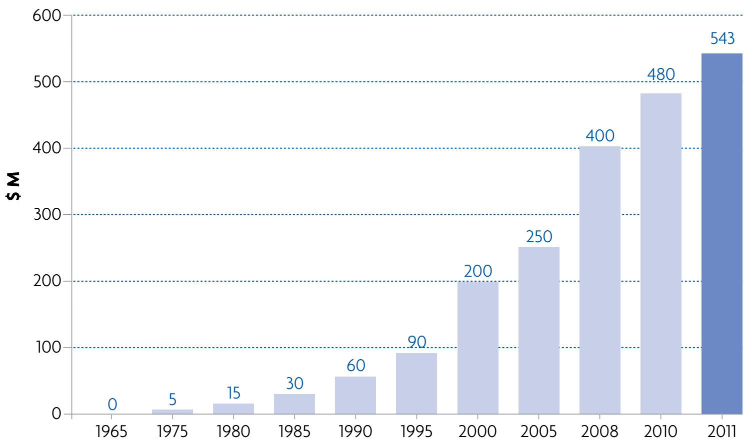


Fig. 3.1
Turnover in million US$

With the addition of Songwon China Ltd. and Songwon International - India Pvt. Ltd, a representative office in Bahrain, and with its intendend acquisition of 30% of Tangshan Baifu Chemical Co. Ltd. shares, Songwon Industrial Co., Ltd. has established a truly global presence and a global network, capable of serving its global market and global customers.

In 2011, the new production line for Songnox® 1076 was started in Maeam, which has increased the capacity to 40.000 MT of antioxidants, making Maeam the largest dedicated pant for antioxidants in the world.

With the acquisition of ATG at the end of 2011 Songwon has established a European manufacturing base for OPS (One Pack Systems). The facility in Greiz, Germany, has a current annual capacity of 7.000 MT and expansion is planned to increase the capacity to 15.000 MT by mid 2012, making Songwon the second largest manufacturer for One Pack Systems in Europe.
At the end of 2011 a MOU was signed by Songwon, Pan Gulf Holdings of Bahrain and Polysys Industries of Abu Dhabi; Pan Gulf and Polysys will take a share in Songwon Additive Technologies AG which will become the basis from which to expand OPS manufacturing globally. As a first step a Middle East manufacturing site of 7.500 MT is planned to come on stream by mid 2013.

Songwon had doubled in size in 5 years to become in 2011 a 542,8 Million US$ business which is set to double again in the coming five years to establish us as the global co-leader in polymer additives.

SONGWON PROFILE

CHAPTER 4

Founded in December 1965, Songwon Industrial Co., Ltd. today employs over 500 employees and is listed on the Korea stock exchange, Seoul (KRX), with a registered turnover of 543 Million US$ in 2011.

The English translation of 'Songwon' is pine tree field. Since planting the first pine tree sapling, in the form of producing PVC stabilizers in Korea in 1966, Songwon has devoted all its efforts to growing a strong, healthy and ever-green pine tree, in the Fine Chemical Industries.

Songwon Industrial Co., Ltd. has grown to become the second largest antioxidant supplier in the world. The company is headquartered in Ulsan, Korea, and operates three manufacturing facilities in Korea, one manufacturing facility in Germany and two manufacturing joint ventures in China.

Songwon's Proposition

Songwon delivers the best quality, service and value chemical, additives to the global polymer industry through:

- Operational and Service excellence
- Focus on innovation and technical support
- Providing products that the customer requires, where the customer needs it and at a competitive price.

Songwon's Vision

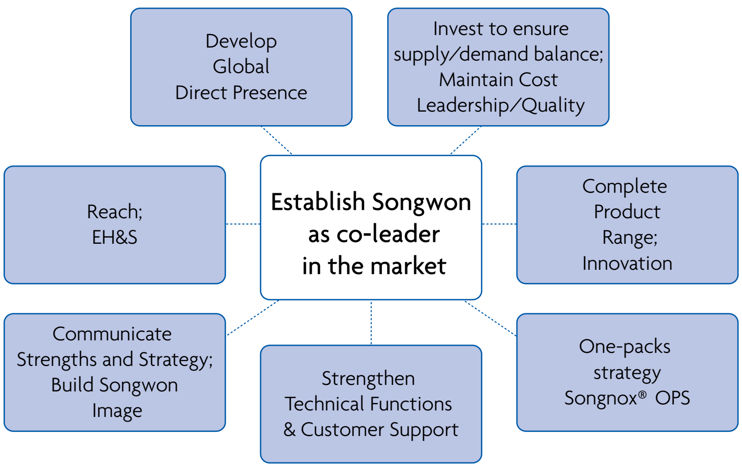
Songwon is the supplier of choice for polymer stabilizers by offering:

- A broad range of products and physical forms
- Regulatory compliance and support
- A global presence and local execution
- Care for the environment

Songwon's Mission

By 2015 Songwon will be:

- A business with a value of at least 700 million US$
- With an operating income of 15%
- Capturing 50% of the market growth



PRODUCT PORTFOLIO

CHAPTER 5

Songwon Industrial Co., Ltd. is a leading producer of Songnox® Antioxidants, Songnox® OPS, Songlight® Hindered Amine Light Stabilizers, Songsorb® Ultraviolet Light Absorbers, Songstab™ Acid Scavengers, Songstab™ PVC Stabilizers, Songcat™ Tin Intermediates, Songcizer™ Plasticizers for the plastics industry, as well as lubricants, surface coating agents, polyurethane, alkyl phenols, biphenol, SAP, flocculants and other chemicals.

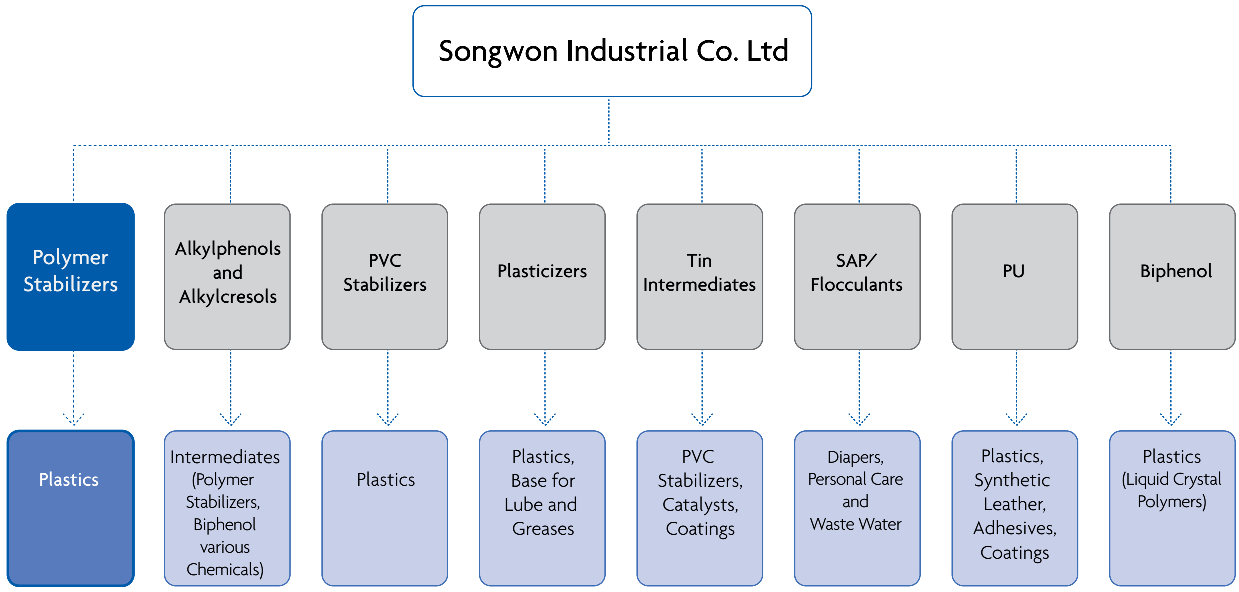
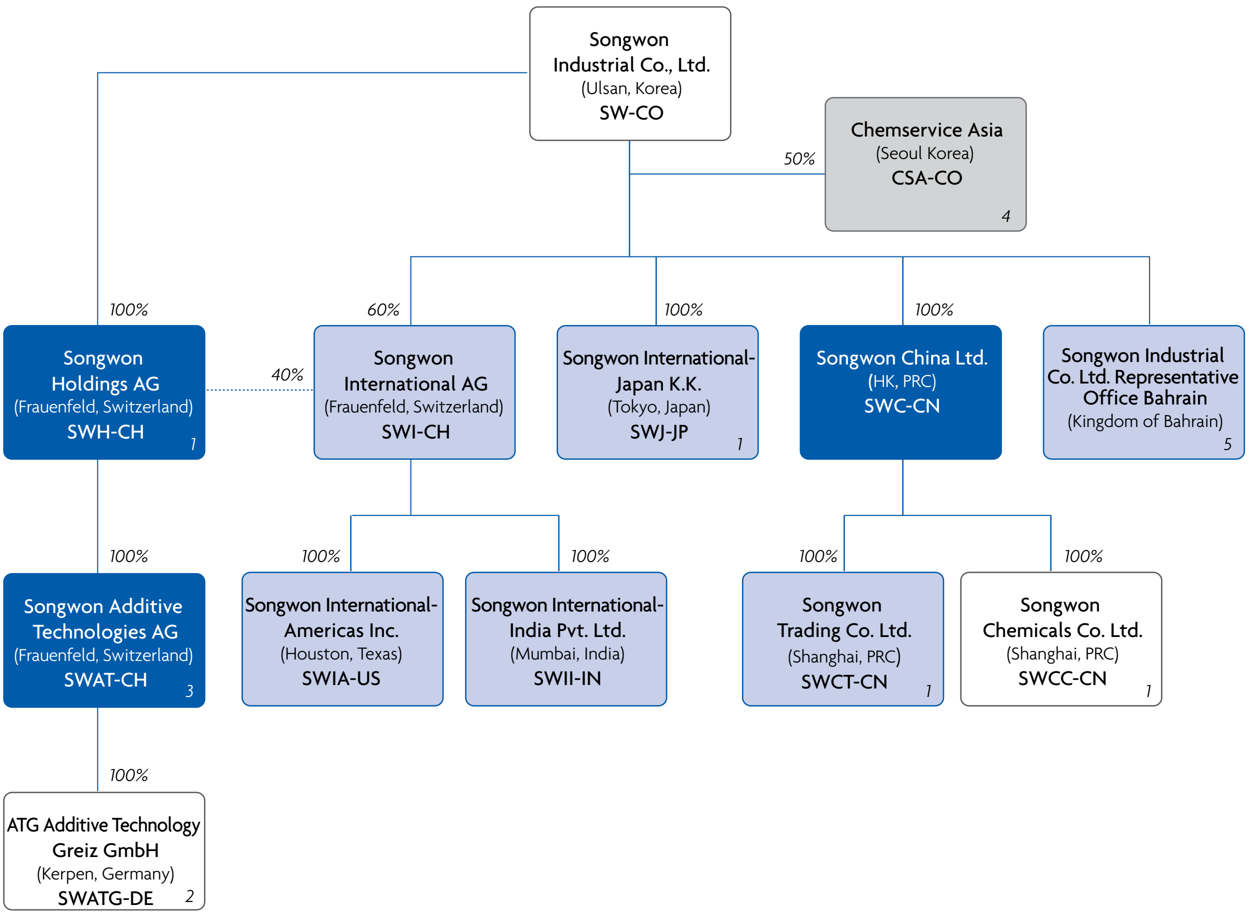


Fig. 4.1
Product overview

SONGWON INDUSTRIAL GROUP STRUCTURE

CHAPTER 6



Legend

- *Sales & Distribution*
- *Holding*
- *Service Company*
- *Manufacturing*

1 Name change in 2011
2 Acquisition in 2011
3 Founded in 2011
4 Joint Venture
5 Representative Office SW-CO in Bahrain

Fig. 6.1
Songwon Industrial Group Structure, December 2011


Markets Summary
Dow Jones Industrial Average
CLOSE
11187.68
-22.16
Late N.Y.
EURO
$1.0298
+0.0101

DEVELOPMENT OF SONGWON SHARE

CHAPTER 7

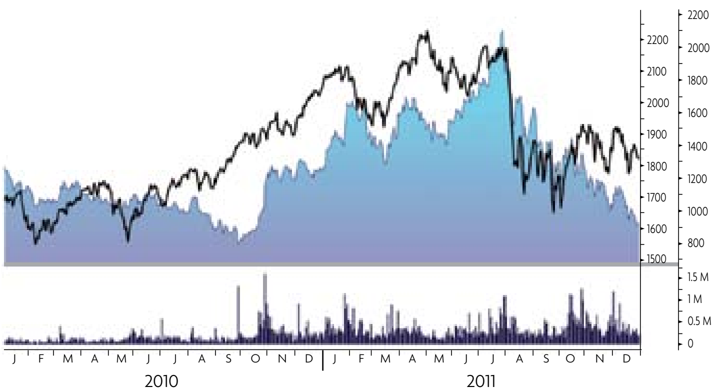
The Songwon share price started 2011 on an upward trend which peaked in July. However, the economic turbulence in Europe and US created a volatility in the stock markets all over the world, including the Korean stock market; this was reflected in the many short term highs and lows resulting in a global general decrease of share prices.

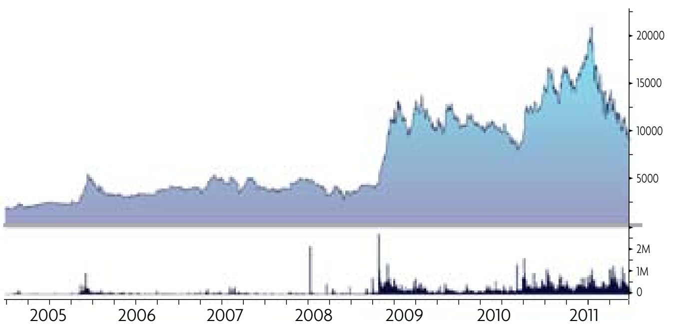
Expectation of Songwon's financial performance was set in context to the Korean Chemical Index which is largely related to Petrochemicals. In general this remained strong throughout 2011. However, Songwon's performance is affected by different factors; in particular during 2011, Songwon faced an unprecedented and continuous hike of raw material prices. Despite Songwon best efforts, the market and the contractual structures made it impossible to fully and timely recover the rise in raw material cost by increasing the sales prices. Consequently Songwon was unable to satisfy the expectations of some investors.

The financial markets uncertainty led investors to critically evaluate their portfolios and, where possible, to reduce risks to an absolute minimum. For this reason some Songwon shareholders viewed the short term share price volatility as questionable, leading them to move into safer markets.

In general the financial foundation of Songwon remains healthy and strong. The somewhat extreme fluctuation in short term share price, though disappointing, forms only part of a picture that paints a bright future for a company growing rapidly and beating market trends.

Songwon share	
Valor	722523
Stock Market	KRX Seoul
Source of information	Bloomberg





MARKET, RISKS AND OPPORTUNITIES

CHAPTER 8

8.1 MARKETS

The global economic crisis in 2008-2009 has forced companies in the chemical sector to restructure their businesses in such a way that they had not imagined and options for the way forward will be severely curtailed. Cost must be reduced and expenditure restricted to the absolute necessary. For suppliers to the polymer industry segment, this means that the competitive scenario that was tough prior to 2008 has become even tougher. Consolidation has become necessary in order to provide more attractive economies of scale, giving purchasers greater power, with the result that margins are being put under extreme pressure.

Globalization has moved entire value chains from West to East due to explosive demand in Asia and the BRIC countries. The Middle East, though not yet a significant demand driver, is taking advantage of its resources to expand existing core businesses, and new opportunities are beginning to emerge. The landscape in the West is under reconstruction; a process that will take many years and demand will continue to be sensitive to the economic environment.

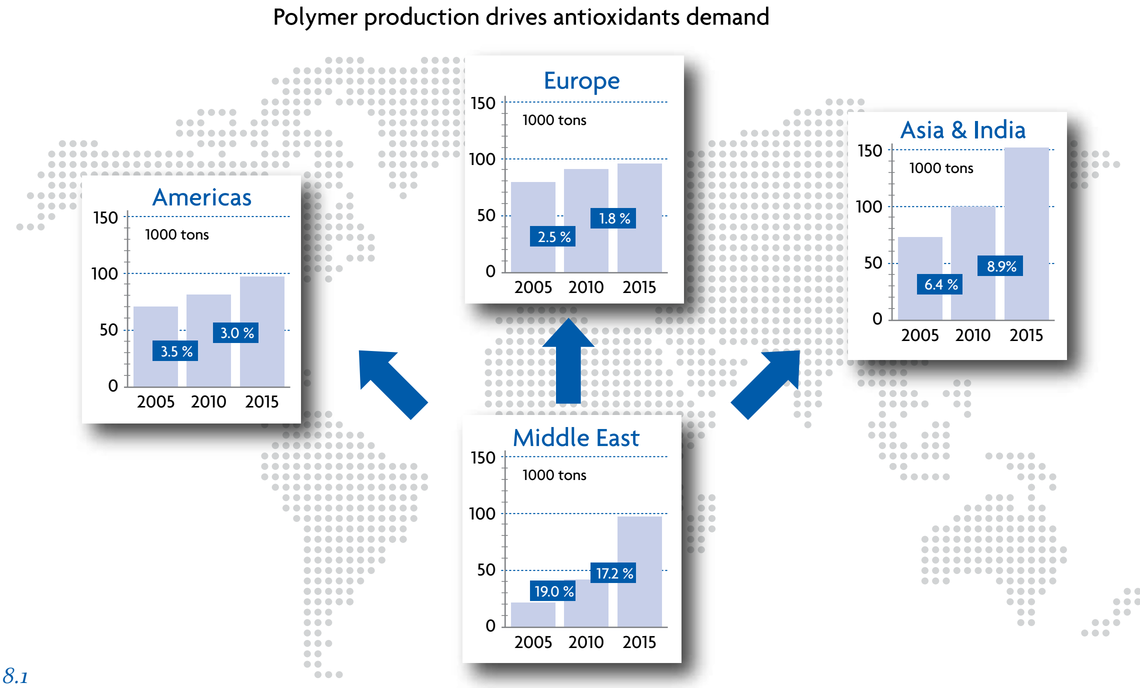


Fig. 8.1
Middle East – biggest opportunity for Antioxidants growth

Songwon Maeam
office building

Polymer demand was strong in the first half of 2011, and although it declined in the second half of 2011, driven by economic and financial concerns which in turn led to destocking activities, expectations are that it will continue to be strong in the future as demand in Asia for end-use products such as white goods, electronics and household items continues to grow. Year over year, consumers demand less expensive goods and expect improved performance which has put enormous pressure on component prices and the speed of product launches. European and North American demand has softened and the recovery, for the time being, is fragile as consumers remain cautious.

Consolidation in the polymer industry has been compacted by commoditization and producers seek every opportunity to boost margins and profitability. Innovation that was key in the 1990's slowed in the early 2000's and has almost reached a standstill in the last few years. The focus has changed to manufacturing process speed and cost.

8.2 RISKS

As with all business risks, often these offer a reflected opportunity. The global economy presents the greatest risk. Consumer demand for products, housing, mobility and welfare, drives the need for plastic applications that are made from polymers that, more often than not, require additives to boost properties and performance. The key risk in the western hemisphere is the absolute unpredictability of the economic environment. Economic growth has slowed to the point that recession is an extreme danger. Though not inevitable, this will have an effect on the overall global economy such that demand for goods will decline. Pressure will continue to be put on suppliers, margins will be squeezed further and only the strongest will survive.

The next decade will see the landscape for the polymer industry change dramatically as Western companies meet new challenges and value chains displace eastwards. How they will react will define how their suppliers can and must support them.

Competitive risk in the polymer additives sector will also come from consolidation defined by economics. Technology will be driven by cost; innovation will be focused on system cost for the customer; value will be driven by performance and cost parameters.

Songwon's risk exposure is alleviated to a large extent by its already established economic advantages of proprietary technology, economies of scale, backward integration and geography.

8.3 OPPORTUNITIES

With the weighted influence on polymer demand in Asia, Songwon is ideally positioned to capitalize on the growth potential in the region. It has also taken steps to prepare the ground for eventual developments in the Middle East, as petrochemical companies expand their activities based on their feedstock advantage. As Western companies define their business structure, possibly moving capacity to the Middle East and Asia, Songwon can continue to be a powerful supply partner, strengthening its relationships even further. One Pack Systems play an important role in this scenario as it reduces the need for capital investment where process equipment is not yet in place. Innovation and cost control are key opportunities as polymer producers seek improved productivity and compounders need to meet greater diversification at lower cost. Songwon has become renowned for delivering innovative and cost effective solutions and is continuing to invest in new product forms and formulations.

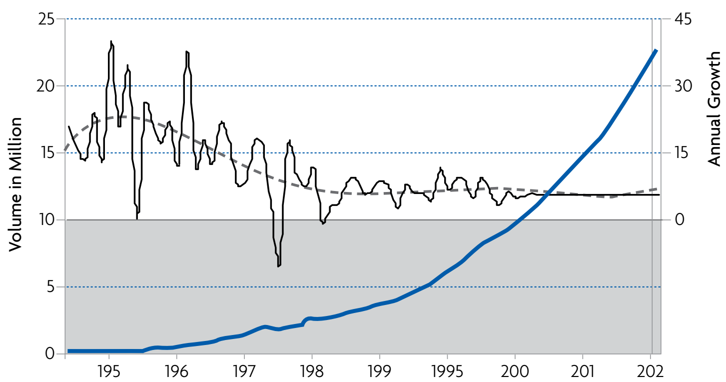


Fig. 8.2
Volume development and annual growth

SALES AND MARKETING

CHAPTER 9

The main focus of Songwon's sales strategy has been globalization, a process that was put in place in 2005 and has progressed with major steps being taken through to the present day. Today's global structure is centered on three regional businesses.

Songwon International is the most extensive, having responsibility for Europe, the Americas, India, South East Asia and the Middle East.

Songwon Japan is dedicated to the world's third largest market and benefits from being geographically close to Korea.

Songwon China is a demonstration of the level of commitment necessary for this key growth market. A joint venture with Tangshan Baifu Chemical Co. Ltd. is under completion which will provide a production capacity of 6.000 MT of antioxidants.

Customer contact is handled on a regional basis and at the heart of the polymer producing communities. Customer Service centers in Ulsan, Seoul, Tokyo, Shanghai, Frauenfeld, Houston, Manama and Mumbai, translate global and regional best practices to meet local needs. Warehousing is also located around the regional centers and is supported by a network of experienced and dedicated distributors globally. In total Songwon has sales and distribution capabilities in 36 countries and warehouse capacity in 30 of those.

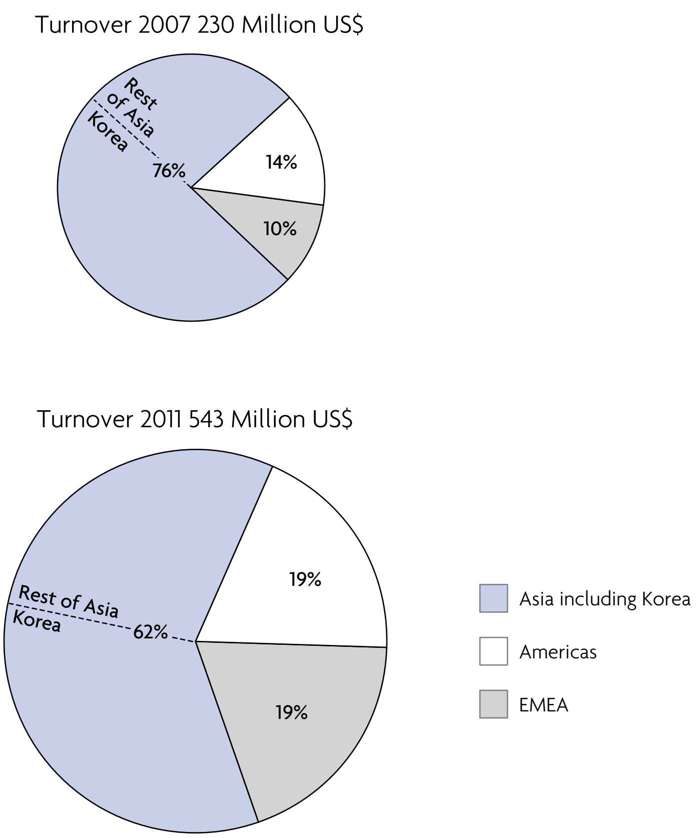


Fig. 9.1
Today Songwon is a true global player

Headquarters/Affiliates

Ulsan, Korea
Frauenfeld, Switzerland
Mumbai, India
Manama, Kingdom of Bahrain
Shanghai, China
Tokyo, Japan
Houston, USA

Technical service

Ulsan, Korea
Frauenfeld, Switzerland
Mumbai, India
Houston, USA

Manufacturing

Ulsan, Korea
Greiz, Germany
Shanghai, China
Tianjin, China

Applications

Ulsan, Korea
Brussels, Belgium
Washington (PA), USA

R&D

Ulsan, Korea

Sales / Distribution

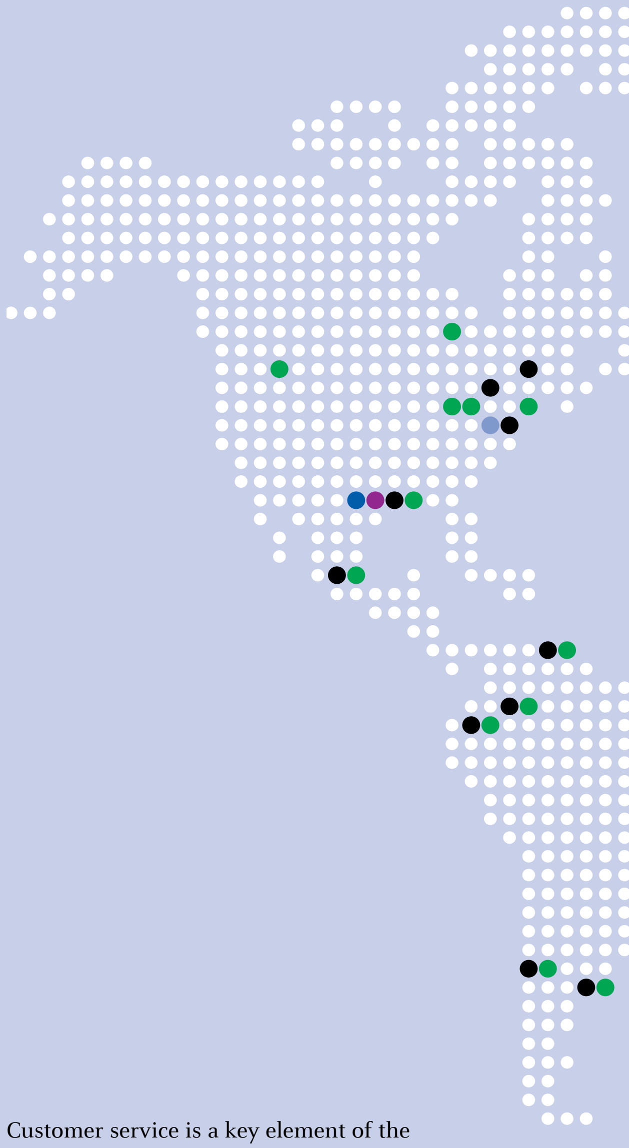
Ulsan, Korea
Frauenfeld, Switzerland
Mumbai, India
Manama, Kingdom of Bahrain
Shanghai, China
Tokyo, Japan
Houston, USA

Bangkok, Thailand
Barcelona, Spain
Bogor, Indonesia
Bogotá, Colombia
Brussels, Belgium
Bucharest, Romania
Buenos Aires, Argentina
Cairo, Egypt
Caracas, Venezuela
Cheshire, United Kingdom
Hamburg, Germany
Helsingborg, Sweden
Ho Chi Min City, Vietnam
Istanbul, Turkey
Jerusalem, Israel
Johannesburg, South Africa
Kuala Lumpur Malaysia
Manila, Philippines
Melbourne, Australia
Mexico City, Mexico
Milano, Italy
Montreal, Canada
Moscow, Russia
Norwalk, USA
Quito, Ecuador
Riyadh, Saudi Arabia
Santiago, Chile
Sao Paulo, Brazil
Singapore, Republic of Singapore
Toronto, Canada
Warsaw, Poland

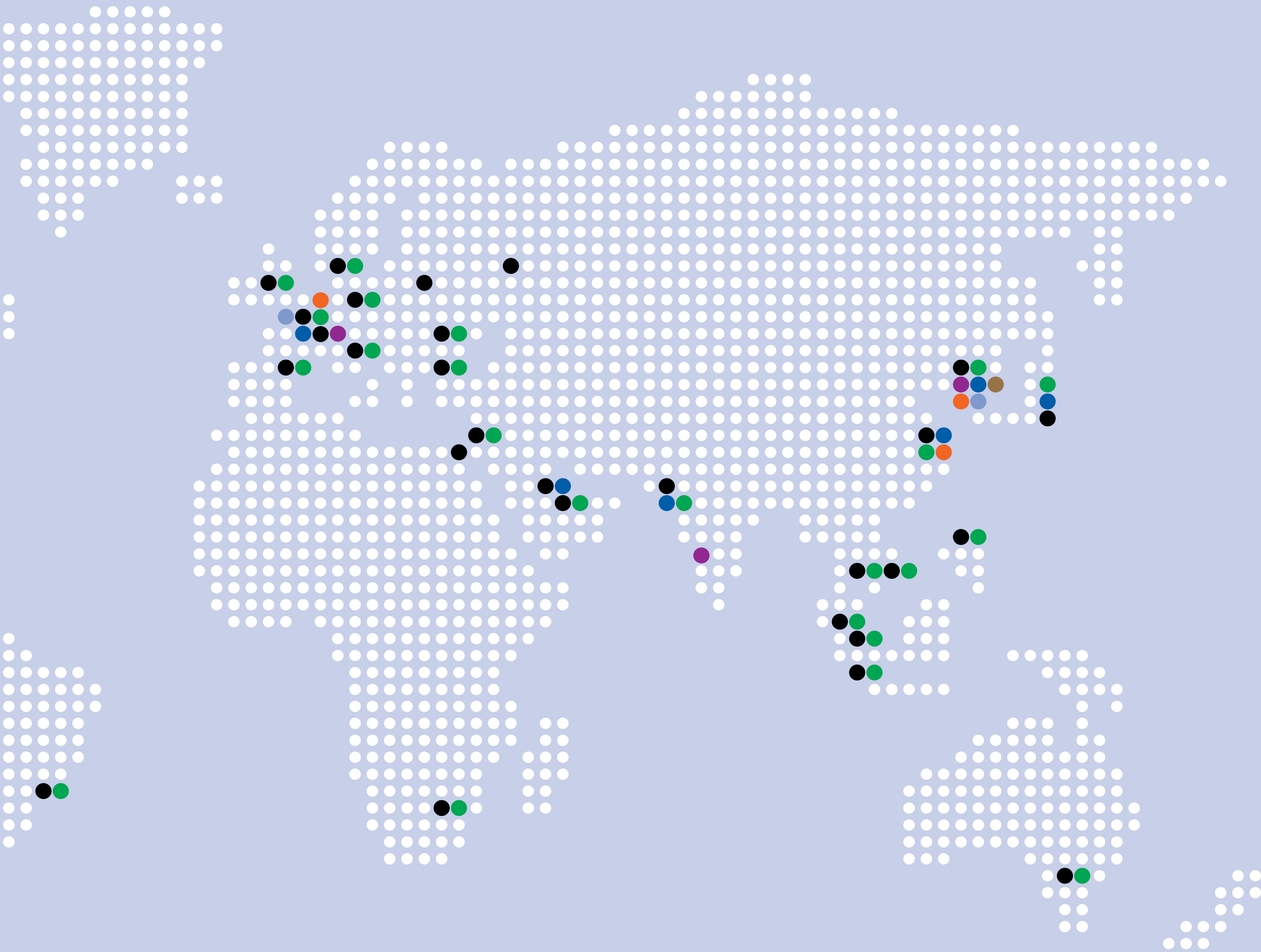
Warehouses

Ulsan, Korea
Antwerp, Belgium
Mumbai, India
Manama, Kingdom of Bahrain
Shanghai, China
Tokyo, Japan
Houston, USA
Akron, USA
Columbus, USA
Newark, USA

Bangkok, Thailand
Barcelona, Spain
Bogor, Indonesia
Bogotá, Colombia
Bucharest, Romania
Buenos Aires, Argentina
Caracas, Venezuela
Edmonton, Canada
Hamburg, Germany
Helsingborg, Sweden
Ho Chi Min City, Vietnam
Istanbul, Turkey
Jerusalem, Israel
Johannesburg, South Africa
Kuala Lumpur Malaysia
Manila, Philippines
Melbourne, Australia
Mexico City, Mexico
Milano, Italy
Mississauga, Canada
Quito, Ecuador
Sao Paulo, Brazil
Singapore, Republic of Singapore



Customer service is a key element of the value that Songwon delivers and has proudly achieved the recognition of having the best in class technical documentation. Technical support is based on the Centre of Excellence model. Fundamental product development is centered in the Ulsan R&D facility, which also provides key analytical support to a second line of technical and R&D groups. Technical service engineers provide the first line of contact to the customer from local service centers and an established network of external laboratories with first-class expertise and facilities is available to provide fast local response.



Quality and reliability are essential to maintain service excellence. Product quality is of paramount importance to Songwon and the company is committed to providing customers with products that exceed standards set by the industry. Songwon has invested heavily in ensuring that capacity is available as and when the customers need it. By backward integrating into raw materials, Songwon has been able to provide some insulation to the customers from the market volatility.

One hundred percent self-sufficiency is impossible in any manufacturing business and, for certain products, Songwon is reliant on outside supply. 2011 has been a turbulent year and the cost of almost all raw materials has reached unprecedented levels. Maintaining a healthy investment grade business has unfortunately resulted in the need to pass along increased product pricing. However, most of the cost increases Songwon has experienced have been counterbalanced through prudent volume control and production efficiency. Through managing cost, Songwon has remained strong and has been able to focus on the introduction of more than thirty new products over the last four years.


CAP

INNOVATION AND TECHNOLOGY

CHAPTER 10

Songwon in its position as a market leader, and the world's second largest supplier of plastic antioxidants, is dedicated to innovation based on technical expertise and a fundamental technological understanding of the polymer industry and the other markets it serves. The key goal is to deliver solutions that create value for the customers.

Innovation and Technology at Songwon starts at home. Being able to produce market leading products in volumes that meet demand, and are commercially attractive, at the levels of quality and reliability that customers require, has been a key factor in Songwon's success.

The Maeam plant is a prime example and is unique in being able to produce 40.000 MT of Songnox antioxidants based on fully backward integrated, proprietary processes. Antioxidant production in Maeam is today fully back-integrated on the production of alkylphenols, a key intermediate. In addition Maeam produces 40.000 MT of TBA (t-butanol) based isobutylene, a backbone product in antioxidants. This protects Songwon from volatile market supply and cost variations and allows to reach a high level of consistency and quality.

Three groups in Songwon are actively involved in innovation: Research & Development, the Global Application Group and the Global Tech Service and New Product Introduction group.

Research & Development Center in Ulsan

10. 1 RESEARCH & DEVELOPMENT (R&D)

R&D strategically supports all functions of Songwon with solutions that maintain its leadership position in product and process innovation and technology. A key function is to improve the overall cost structure by increasing asset utilization through process development, resulting in better productivity.

Managing new technologies through to commercialization and expanding revenue opportunity is a key proficiency of Songwon and is a mainstay of its sustainable growth and value creation. From the customer perspective, R&D contributes to maintaining competitive pricing, continuously improving quality and providing a best in class level of technical service for all products. All R&D activities are fulfilled with the customer's needs in mind which has resulted in thirty new products being launched in the last four years.

Songwon R&D supports all areas of internal innovation and technology. The four main areas are; product development, process development, analysis development and regulatory affairs.

New product development is currently focused on a range of new phosphite antioxidants and specialty monomers that are destined for the electronics and other related markets and are positioned to deliver high value.

Process improvement remains a fundamental challenge and is key to maintaining Songwon's competitiveness towards its customers and for its customers. Delivering attractive economics must be executed in parallel with products that remain best in class and can be produced sustainably.

Analysis development provides new analytical methods for both new and existing products, as well as developing de-formulation methods of resins. A key goal is to provide reliability and accuracy to customers.

Regulatory Affairs ensures the compliance of a product with all existing global as well as emerging regional chemical regulations. This leads to data generation and the creation of relevant documentation including MSDS (Material Safety Data Sheet), Labels and RDS (Regulatory Data Sheet) of Songwon products.

10.2 GLOBAL APPLICATION GROUP

The global application group focus is on the development of new solutions that meet the needs of the polymer industry and over the past four years Songwon has introduced a range of new products. Polyolefins can be found in increasing volumes in applications ranging from white goods to building materials, and from cars to solar panels. These end-use applications benefit from specific additives and stabilizers that improve compounding and production processes as well as boosting performance properties.

2010 saw the introduction of a number of key products and initiatives which are currently undergoing test programs at key customers:

- A new Sonlight® range of products based on a 100% UV active system consisting of synergistic blends of several additives. These innovative new combinations deliver superior UV protection for thermoplastics when compared with standard UV formulations and are particularly suitable for thick wall sections, where surface and color protection are key to the customer's end-use applications.
- A new solution for PP (polypropylene) fiber stabilization was also introduced for color critical applications, and is designed to maintain excellent color stability yet, at the same time, address the issues of strong antagonistic chemical interactions which are induced by additives that improve processing and fiber spinning.

Songnox OPS (One Pack Systems) have grown continuously in demand for a number of very sound reasons. Nearly no dust is released during processing which is a significant Environmental Health and Safety (EH&S) benefit. OPS are also compositionally controlled and certified. The feeding and formulation accuracy during processing is significantly improved which contributes to their cost effectiveness.

Significant growth of OPS is expected especially where assets are not in place to handle powder alternatives and investment is critical.

End-use application demands are being driven to new levels and regulation has become more stringent than ever. Total service life requirements and the durability of applications are paramount to consumer satisfaction while EH&S regulations are dictating lower emissions. Songwon has launched a newly developed range of high heat, low color and low emission additive solutions for thermoplastics that out-perform industry standards by 50%. The second benefit of these new systems is that improved properties are achieved at lower concentration levels making them more robust and efficient.

Recycling has become an issue for consumers and manufacturers of applications made from plastics which has led to the emergence of a value chain that reworks waste streams. Songwon is a technology leader in this field and has introduced a range of products and solutions that stabilize waste processing and can boost properties to similar levels of durability as in prime materials.

Research & Development
Laboratory in Ulsan

10.3 GLOBAL TECHNICAL SERVICE AND NEW PRODUCT INTRODUCTION (NPI) GROUP

The NPI group has a proud record of successful new product delivery and is the interface between Songwon's development activities and its customers. It is responsible for the identification of new and emerging requirements of the markets Songwon serves and to feed this information back to R&D and the Application group. Songwon will continue to strive to deliver solutions on time and in line with customer demands. A well executed NPI process is essential to a new product's acceptance in the market and to its translation and proliferation.

BUSINESS AND CORPORATE DEVELOPMENT

CHAPTER 11

2011 has been a year of uncertainties. Demand was very strong in the first half of the year, however the instabilities of global economies and the risks of recession took its toll and demand cooled significantly in the third and fourth quarters.

Global capacity utilization in the additives and stabilizers segment dropped in 2008/9 to levels below 75%, since which time recovery has been strong, driven by Asian market demand. Utilization returned to a healthy 90-95% in the first half of 2011 with some products being put under pressure and supply issues arising. Despite a reduction of demand in the second half of 2011, the medium term growth perspectives of the polymer industry are still very healthy with an expected AAGR% of 5%. As economies stabilize and markets return to the pre-recession levels, it is expected that demand in additives will exceed capacity if investment is not forthcoming. As part of its strategic plan, Songwon has made the commitment to support the expected market growth through investment in capacity. During 2011 capacity of Songnox® 1076 was expanded by 15.000 MT and in the short term Songwon has already approved investment for an additional 10.000 MT of antioxidant volume which will be available by the end of 2012, bringing the total Songwon antioxidant capacity to 80.000 MT.

2010 and 2011 has seen the most dramatic increase of raw material prices in recent history. This was due to a combination of strong demand, rising oil and gas prices and plant outages. Songwon has been forced to raise prices in 2011 to offset the raw material cost increases however, this has not fully compensated for the additional costs incurred. Every effort is now being made at Songwon to maintain and strengthen its financial resources which will justify the significant investments necessary to meet the growth demands of the polymer industry.

The decision to invest in technology and capacity has been vindicated by the customers' response. Maeam can now produce 40.000 MT of Songnox® antioxidants and is fully back integrated in Alkylphenols and Isobutylene, helping Songwon to overcome supply issues and costs. Songwon is becoming the global supplier of choice based on value, quality and reliability. Building a global business has forced Songwon to develop a regional strategy and a local presence. Songwon International, Songwon Americas and Songwon Japan were put in place in 2006/7. Songwon International India Pvt., Ltd has been established in 2008 to serve the rapidly growing Indian market.

Maeam Plant

Songwon China Ltd., based in Hong Kong was added in 2010 to lead all of Songwon's activities in that extremely demanding market. Songwon China Ltd., Songwon Trading Co. Ltd. and Songwon Chemicals Co. Ltd. have been put in place on mainland China to manage the sales and service of dry and liquid products. As announced in October 2010, Songwon Baifu Chemical Co., Ltd. will add 6.000 MT of thioester antioxidant manufacturing capacity and sales support for local and international markets. The acquisition of the major independent European producer of OPS products, ATG (Additive Technology Greiz GmbH) was completed at the end of 2011. This gives Songwon access to the rapidly growing OPS market and to key technologies, and at the same time expanding its manufacturing footprint into Europe.

Late in 2011 a MOU was signed by Songwon, Pan Gulf Holdings of Bahrain and Polysys Industries of of Abu Dhabi; Pan Gulf and Polysys will take a share in Songwon Additive Technologies AG, the parent company of ATG, which will become the vehicle for a series of manufacturing and commercial JV's in the Middle East.

In addition, Songwon has installed a new extruder for the production of TPU in 2011, thereby expanding its capacity significantly.

Despite the sensitive nature of investment in the currently uncertain global economic climate, and with margins that have been squeezed and are slow to recover, Songwon remains absolutely dedicated to supporting market growth and delivering value to its rapidly growing global customer base.

PEOPLE AND ORGANIZATION

CHAPTER 12

12.1 PEOPLE

Songwon considers its people to be the most important contributor to the success of the group. Their qualifications, commitment and motivation are fundamental to our competitiveness going forward. Songwon makes a concerted effort to recruit those people most suited to particular positions and strives to retain and develop valued employees. Songwon is particularly focused on the recruitment of young, talented graduates, providing them with an opportunity to achieve their personal goals in a dynamic, growing, ethical and multicultural environment. Songwon has developed into a global group, with a wide variety of facilities in many parts of the world. It is developing a broad and intercultural mix of employees in order to build a better understanding of the varying needs of customers in every region.

The number of Full Time Employees increased from 452 in 2010 to 534 in 2011.

Songwon's growth strategy provides its employees with opportunities for development, and we firmly believe that a key factor in our success is a shared understanding or our values, vision and targets throughout all levels of the organization. Feedback on individual performance is measured against contribution to this strategy and is communicated candidly and openly.

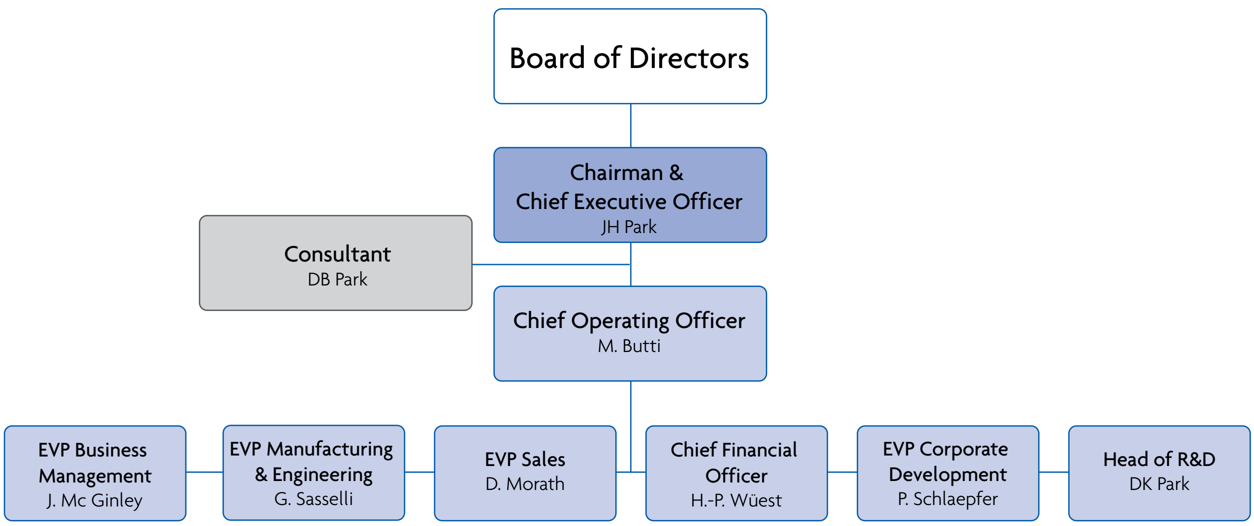
Control room in
Maeam Plant

12.2 ORGANIZATION

Songwon has emerged as a clear number two supplier of polymer stabilizers globally and has restructured its organization to capitalize on this responsibility and to maintain its position as the supplier of preference. The key executive leadership roles are challenging and demanding. Songwon has recruited and positioned its leaders based on international experience and proven results.

The leadership team's remit is the creation of value for customers globally and supporting growth. At the same time, and with equal importance, is their responsibility to create an environment that encourages personal growth within their organizations. The next step in Songwon's development is to become the market co-leader; to do this Songwon has to demonstrate its potential to deliver results as an investment grade business. The future of Songwon is in the hands of the leaders named below and the people they empower and motivate to take ownership and responsibility for the business.

Songwon will continue to recruit first class people globally, regionally and locally and will provide a platform for personal achievement, rewarding the best with key opportunities. Songwon is not only a supplier of preference to its customers, but also the employer of choice in the chemical additives industry.



SONGWON INDUSTRIAL GROUP EXECUTIVE COMMITTEE

Jongho Park
Chairman & CEO

Nationality: Korean
Function: Chairman and CEO and Head of the Songwon Industrial Group Executive Committee.
Date in Function: January 1st, 2011
Career / Experience: President of Songwon Industrial Co.Ltd, since 2006. Jongho has a wealth of experience in the chemical industry having held leadership positions with Sumitomo Chemical Co., Ltd with their Overseas & Marketing Department in Japan, as well as, Shanghai Grace Fabric Co. Ltd.

Dieter Morath
EVP Global Sales

Nationality: German
Function: Executive Vice President Sales and Member of the Songwon Industrial Group Executive Committee.
Date in Function: January 1st, 2011
Career / Experience: President Sales of Songwon International AG in Europe the Middle East and Asia since 2006. Prior to that Dieter held a number of commercial leadership positions at Great Lakes Chemicals and GE Plastics (now SABIC).

Maurizio Butti
COO

Nationality: Italian
Function: Chief Operating Officer and Member of the Songwon Industrial Group Executive Committee.
Date in Function: January 1st, 2011
Career / Experience: President and CEO of Songwon International AG, since July 2006. Before joining Songwon, Maurizio was Executive Vice President Polymer Stabilizers and member of the Chief Executive Council of Great Lakes Chemical Corporation. Prior to that he held various marketing, business, strategic planning and corporate development management positions at Great Lakes, Enichem and SOL Industries.

Philippe Schlaepfer
EVP Corporate Development

Nationality: Swiss
Function: Executive Vice President Corporate Development and Member of the Songwon Industrial Group Executive Committee.
Date in Function: January 1st, 2011
Career / Experience: Before joining Songwon, Philippe spent more than twenty years as a key contributor to the Ciba Polymer Additives business. With 15 years' experience in Asia Pacific, he headed up their global antioxidant product portfolio to serve the Polymer producing industry.

Hans-Peter Wüest

CFO

Nationality: Swiss
Function: Chief Financial Officer and Member of the Songwon Industrial Group Executive Committee.
Date in Function: January 1st, 2011
Career / Experience: Hans-Peter has held a wide variety of financial positions giving him a broad international experience in the manufacturing and service industries. Prior to Songwon he held leadership finance positions with DHL/Deutsche Post and Great Lakes Chemicals.

Dong Bek Park

Consultant

Nationality: Korean
Function: Management Consultant and Member of the Songwon Industrial Group Executive Committee.
Date in Function: January 1st, 2011
Career / Experience: Dong Bek started his career in 1976 with Songwon Industrial Co., Ltd. when he assumed responsibility as Manager of Overseas Business. In 1997 he was appointed as CEO & Representative Director of the company. In 2004 he retired from his position. Since then he continued to work for Songwon as a consultant, taking on a general advisory role regarding the overall company policy.

James McGinley

EVP Business Management

Nationality: American
Function: Executive Vice President Business Management and Member of the Songwon Industrial Group Executive Committee.
Date in Function: January 1st, 2011
Career / Experience: President of Songwon International – Americas, Inc, since July 2006. Prior to that Jim was the VP Business Management for the Polymer Stabilizer business unit of Great Lakes Corporation and has held various business, sales, and technical management positions at Great Lakes, Polymer Products Co. Inc., and PPG Industries.

Giacomo Sasselli

EVP Manufacturing & Engineering

Nationality: Italian
Function: Executive Vice President Manufacturing and Engineering and Member of the Songwon Industrial Group Executive Committee.
Date in Function: July 1st, 2011
Career / Experience: Giacomo started his career with the Italian Enichem group in a number of key technology positions finally broadening his experience as a site manager. Following this he joined Great Lakes Chemical Corporation where he expanded this role, taking responsibility for operations of a worldwide network of polymer additives production sites.

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COMPLIANCE AND REACH

CHAPTER 13

Chemistry and the chemical industry have always played a central role in the progress made by humanity to create the world as we know it today and will continue to have a pivotal role in the development of new technologies in the future.

The progress we have experienced is very often not recognized by the public and the Chemical Industry is often under attack on the grounds that chemicals are pollutants, toxic or not safe. To counter this, the Chemical Industry needs to take a collective role to put in place the resources needed to make and develop chemical substances that are safe to manufacture, handle, and transport as well as in their end-use applications. Clearly, this is a process that has to gain momentum and become even more central to the strategy of chemical companies. At Songwon, compliance with all existing regulations and supporting the development of new regulations is one of strategic business values.

Songwon has committed significant resources to ensure that its products are 100% compliant with all known regional and country specific regulations. The Korean Chemicals Industry is the 8th largest in the world and is dependent on exporting its chemical products and substances throughout the key regions globally. The European Union introduced REACH (Regulation, Evaluation and Authorization of Chemicals) in 2007, with the key objective of minimizing environmental and health risks connected to chemical substances. It is without doubt the most comprehensive new initiative of its kind in recent times. It is complex and the process is lengthy; entailing in-depth detail as each substance must be registered by an extensive dossier.

In February 2010 Songwon entered into a partnership with Chemservice S.A. based in Luxemburg, a company with outstanding experience in regulatory affairs and international chemical control legislation, based on a substantial network and knowledge of the chemical industry and its related value chain. REACH pre-registration was given a deadline of the end of 2008 which Songwon achieved for all its products imported directly or indirectly into Europe. Since that time, Songwon has also become a member of CEFIC (European Industry Chemical Association), ELiSANA (European Light Stabilizers and Antioxidants Association) and ORTEP (the International Organotin Producers Association).

December 2010 was a critical deadline for REACH product registration and Songwon has ensured that all the contributing elements, such as CLP (Classification, Labeling and Packaging of substances and mixtures) have been put in place. This Regulation aligns previous

Automatic palletizer in Maeam plant

EU legislation on classification, labeling and packaging of chemicals to the GHS (Globally Harmonized System of Classification and Labeling of Chemicals). The GHS is a United Nations system to identify hazardous chemicals and to inform users about these hazards through standard symbols and phrases on packaging labels and through safety data sheets (SDS).

Chemical control legislation, such as REACH, is rapidly translating to other regions; most recently Asia, which is driving growing demand for regulatory affairs competence in the region. Due to the excellent cooperation between Songwon and Chemservice S.A. both partners committed to the formation of a joint venture, Chemservice Asia Co. Ltd., registered in Seoul, Korea.

Chemservice Asia combines global regulatory affairs expertise together with EHS skills and chemical process competence. The goal is to be a strategic partner for the chemical and polymer related industry in the Asian region by identifying opportunities to gain competitive advantage through regulatory processes. Songwon provides extensive information on the REACH process via its website. Regular updates are given on the product registration process and customers can proceed with their business, safe in the knowledge that Songwon's products will be 100% compliant on or before the given deadlines.

EH&S AND SUSTAINABILITY

CHAPTER 14

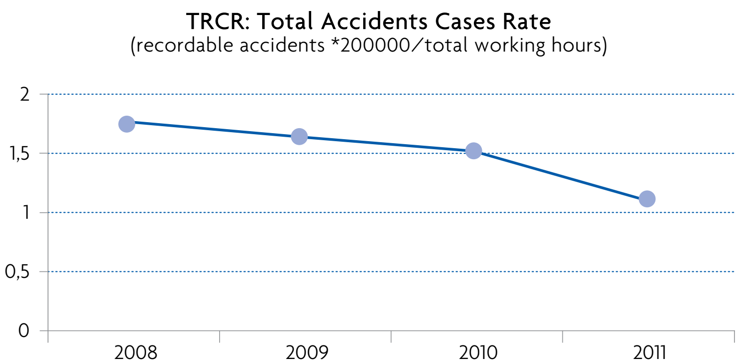
Songwon believes that sustainability is the key to the long term growth of the company: there is no economic success without a responsible social and environmental business ethic.

14.1 HEALTH & SAFETY

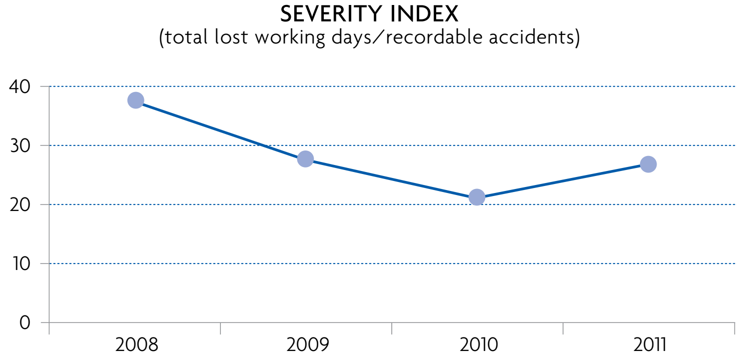
Songwon is committed to maintaining and promoting safe working conditions. Our aim is to protect our stakeholders (employees, contractors and neighbors) and be trusted by the public as a company with high safety awareness and clear safety processes. Economic success has its foundation in trouble-free production processes, which can only be achieved in safe production plants and by qualified and committed employees.

The total recordable accidents have steadily decreased in 2011 to reach a value of 1.1 TRCR. This is the result of the outstanding performance of two of the plants which had zero TRCR in 2011. A third plant had recordable accidents of 1.7 TRCR which is not considered acceptable and the target is to take the TRCR of this plant to 1.3 in 2012 with continuous reductions going forward.

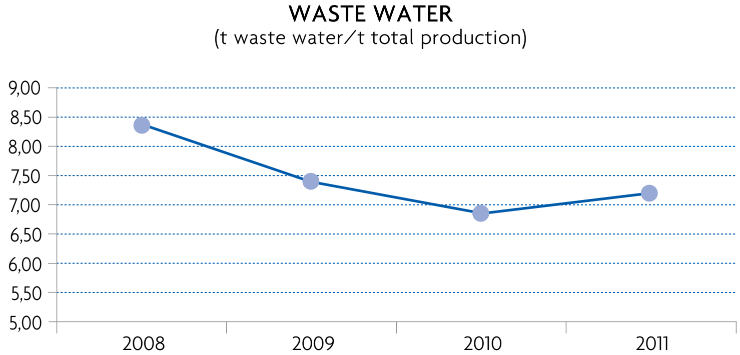
Despite the fact that this result is aligned with the best in class chemical companies globally, Songwon continues to be committed to on-going improvements of Health and Safety performance. Songwon has introduced an accurate monitoring system for all near-miss accidents and incidents and is focused on corrective actions; an annual plan for reviewing and updating the risk assessment of our technologies, equipment and safety devices has been established. Stringent procedures to continuously investigate and assess all possible risks have been put in place to improve the existing operating procedures. 30% of the annual capital budget is dedicated to improve the safety and environmental protection of our plants and facilities.



Graph 14.1:
Recordable accidents case rate from 2008 to 2011



Graph 14.2:
The 2011 severity index increased compared to 2010



Graph 14.3:
50% of the liquid organic waste generated was incinerated on site and was also reduced by about 5 % in volume between 2008 and 2011

14.2 ENVIRONMENTAL

Songwon is proud to be a leader in developing processes that reduce its overall carbon footprint, saving energy and reducing emissions. It has long been a commitment of the leadership team to make use of every opportunity to demonstrate to its customers, and to the chemical industry, of the potential our industry has to contribute to a better world.

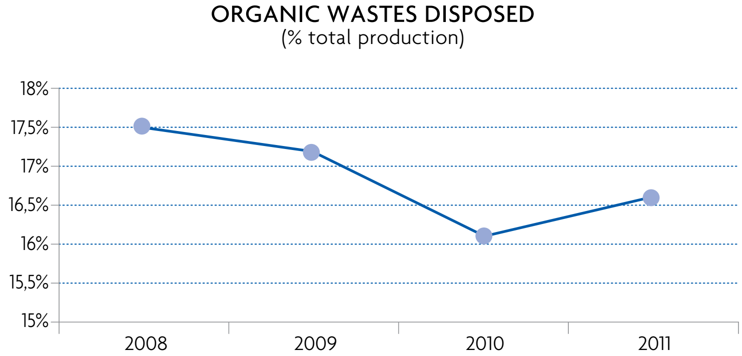
The manufacture of chemicals, like many other production processes, results in unwanted waste. In particular from our processes we obtain waste water, liquid organic waste and VOC's. The production of waste water per ton of product was reduced by as much as 15% between 2008 and 2010. In 2011 the amount of waste water remained stable, however Songwon is fully engaged in finding solutions to reduce this further.

Songwon has, for some years, worked diligently to understand this issue and has continuously developed solutions that add value to its processes, resulting in a cleaner and safer environment. All VOC's are incinerated in-house to produce steam that is used in the production process, thus reducing the overall energy consumption.

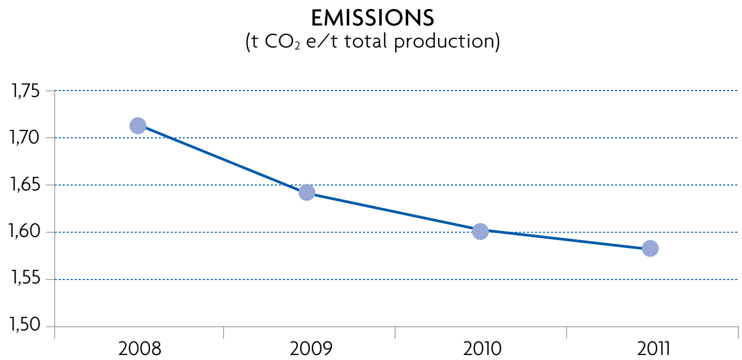
Two incinerators have been operating at the Ulsan plant for a number of years, burning VOC's and other residue products to generate steam required by the plant. A third incinerator went into operation in 2010 which is based on a patented technology jointly developed by Songwon and eTEC, the incinerator supplier. A key feature of the latest installation is the drastic reduction of the risk of explosion which is always present in any high temperature chemical process.

14.3 SUSTAINABILITY

Sustainability comes in many forms and at Songwon the application of innovative processes and products based on proprietary technology is paramount to ensuring that the products it supplies to customers have a number of inherent sustainable features. Backward integration reduces the overall carbon footprint by eliminating waste and transport - the Maeam plant is now capable of producing 40.000 MT of isobutylene that would under normal circumstances have to be delivered from an outside source. Songwon is engaged in an aggressive program to improve manufacturing processes, with the aim of increasing competitiveness through cost reductions by significantly reducing energy consumption as well as reducing the level of waste and CO_2 emissions. In addition Songwon is investing in renewable energy resources and has now installed Photovoltaic (PV) panels at its Ulsan plant.



Graph 14.4
Emissions in the form of Volatile Organic Compounds (VOC's) are unavoidable and are stringently controlled to avoid potential health issues



Graph 14.5:
CO_2 Emissions per ton of product has been greatly reduced over the years; a reduction of more than 5 % has been achieved between 2008 and 2011

15

TARGET AND RESULTS

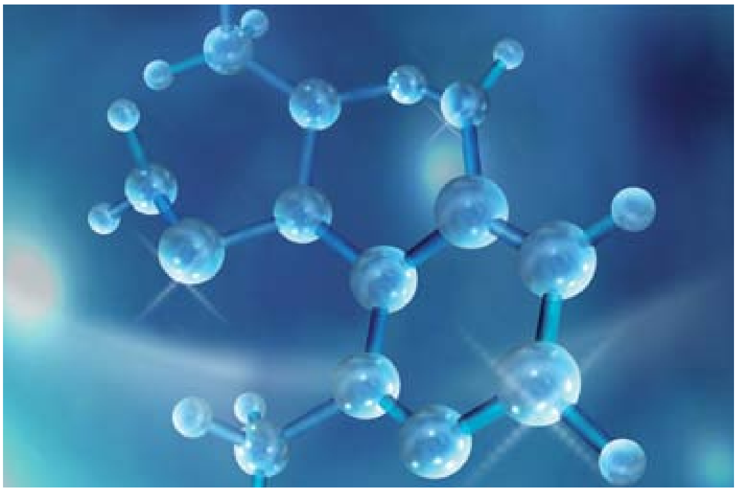
CHAPTER 15

In 2005 Jongho Park, Chairman of the Board and CEO, together with his leadership team, developed the vision to transform Songwon from a medium sized producer of chemical additives in Korea into a major global player in the specialty chemicals market.

The key objectives were to build a global business with a turnover of 700 Million US$ by 2015, with an EBITDA of at least 15% based on a sound balance sheet structure. The resultant strategy which was developed can be divided into two phases. The first from 2006 to 2010 was strongly focused on organic growth and strategically aimed at the polymer stabilizer market with the overriding goal of becoming the global number two supplier.

To meet this goal a series of strategic investments were made that would support the accelerated growth target aimed at the mainstream polymer markets and its customers. The decision was taken to establish a new high capacity, state of the art antioxidants plant at Maeam, Korea, fully back integrated on acryl phenols. To ensure that the plant would meet all the needs of quality, consistency and economics, the decision was taken to invest further to backward integrate in isobutylene. Investments have continued with the expansion of antioxidant capacity at Maeam of a further 15.000 MT. The technology developed for Maeam will be translated in 2012 to the Ulsan plant to increase capacity and reduce production costs.

In 2011 Songwon embarked on a new chapter of strategic development. The cornerstones of accelerated profitable growth and a key focus on polymer stabilizers, remain the same. This second phase of growth will be aimed at developing a more balanced and comprehensive business portfolio based on extending geographical coverage and an emphasis on capacity growth outside of Korea.



15.1 KEY MEGATRENDS

The following megatrends will shape Songwon's business and the businesses of our customers in the future. A clear understanding of the influence these trends will have will govern how Songwon approaches the market in the years to come and the investments to be made to support that:

- Population growth from 6.8 billion people today to more than 9 billion in 2050 is a strong driver for global demand.
- The growth will take place mainly in the developing countries, driving a global shift in regional demand.
- Quality of life will improve for a new middle class of around 3 billion people emerging over the next 20 years.
- Climate change will increase the need for energy efficiency and for low carbon and renewable energy resources.
- The depletion of non renewable resources will drive innovation. Today we use the replenishment capacity of 1.4 planets.

Our reference market, the polymer industry, is perfectly aligned to these megatrends. The market for polymer additives must change accordingly to support this growth opportunity.

15.2 KEY ELEMENTS OF THE NEW STRATEGIC APPROACH

Accelerated profitable growth

Songwon's new strategic agenda is firmly focused on delivering growth.

Polymer Stabilizers will continue to play a key role: the reference market, polymers, and in particular polyolefins, are expected to continue to grow at an AAGR of 5%, making this one of the few business opportunities which is growing above global GDP. At the same time a start has been made to look in-depth at other market segments and businesses in Songwon's portfolio. The first key action, which was initiated in 2011, was to use Songwon's established global network to expand sales of other products outside the traditional core market of North East Asia. At the same time a strategic analysis of all Songwon's businesses was initiated to identify the next rising star in the product portfolio and balance this by eliminating those businesses which do not have a potential profitable future within Songwon.

External growth

In 2011, for the first time in Songwon's history, growth was achieved through targeted acquisitions. This critical step has been taken to support the accelerated growth targets that have been set. Our approach is, and will be for the foreseeable future, to focus on potential targets which will expand the product portfolio, or geographical coverage or, alternatively, will bring new key technologies to Songwon. The first step to be taken in early 2011 has been the acquisition of 40% of Songwon International AG, owned by other shareholders. At the end of 2011 the acquisition of 100% of Additive Technology Greiz GmbH was completed. This strategic investment has given Songwon access to the OPS (One Pack Systems) production technology, expanding our customer base, as well as extending the total product offering. The production plant, located in Germany, also expands Songwon's manufacturing footprint into a key European country. Songwon will continue to focus on targeted acquisitions opening up access to emerging markets. In China, Songwon Baifu Chemical Co., Ltd. will bring 6.000 MT of thioester antioxidant manufacturing capacity, adding a new technology in a new location to the Songwon portfolio.

Architectural rendering of Maeam Plant

Geographical emphasis

Greater focus will be placed on emerging markets whilst, at the same time, mature markets will receive attention to maximize their growth potential by providing tailored products and solutions. The acquisition of 30% shares in Songwon Baifu Chemical Co., Ltd. is the first step for Songwon to establish a significant production presence in China. Similar business structures are under discussion and will be put in place in India during the course of 2012. The Acquisition of ATG and of the OPS technology will open the doors to extend this product form to other key markets and regions. One of the first opportunities under evaluation is to establish an OPS production facility in the Middle East, one of the fastest growing markets for polyolefins and already a major market for OPS.

Effective Organization and People

It is a common understanding in any business that a successful strategy has to be clear, simple, understood and shared by its most valuable asset, its people. The organizational structure is of equal importance in order to align these valuable resources with the strategic targets, therefore the company organization has to evolve in line with its strategy. As the global expansion of Songwon has evolved in line with the set strategy it has become necessary to create a global, functional group organization. This new organization has been in place since the beginning of 2011, and is constantly monitored and adjusted to the business needs. The key responsibilities have been assigned to a group of executives with proven track records and experience in an international environment. In addition emphasis was placed on functional excellence, introducing and developing key unified business processes across the organization (Quote to Cash, SOIP and Stage and Gate).

Our people are a key asset for the future, successful growth of the company and for the seamless implementation of our strategy. Identification of leaders from within the organization will be balanced with external recruitment of the best talent available that can continue to grow to fulfill key roles now and in the future.

Innovate more

The identified megatrends are defining the framework for future innovation efforts. The combination of population growth and improved quality of life will mean that the world's population grows and wealth increases, with significant mid-market development in high growth economies.

To meet the significant increase in demand, the constant delivery of innovative technology will provide customers with affordable, high quality products that are economically sustainable. Songwon has achieved recognition for successful delivery of innovative technology through understanding where knowledge can be mined. Songwon achieves this by remaining open to creativity from all corners of the organization as well as benefiting from a structured approach to external parties who can complement and extend our knowledge. Songwon has established a number of strategic partnerships in specific areas of mutual interest with key partners and will continue to extend this process in the future.

Sustainability

Sustainability and safety are embedded into our innovation programs and operational effectiveness, and are interrelated with other key performance metrics.

Songwon has a proud heritage of leadership based on ethical business values that deliver value to everyone it touches. As Songwon grows globally it recognizes that neither can be achieved in separation and achieving the company's goals and aspirations will demand products and processes that have less and less impact on the Earth's resources; our goal is to implement this ethic at all points throughout the value chain.

SONGWON
CONSOLIDATED
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER

		2011	2010	January 1, 2010
	Notes	Million KRW	Million KRW	Million KRW
ASSETS				
Non-current assets		503,421	458,119	458,374
Property, plant and equipment	8	421,945	411,606	418,295
Investment properties	9	28,120	28,288	28,453
Intangible assets	10	47,996	4,529	3,011
Invest. accounted for using the equity method	6	-	9,844	4,994
Available-for-sale financial investments	11	1,983	1,983	1,508
Other non-current financial assets	12	1,700	1,552	2,039
Deferred tax assets	24	1,677	317	74
Current assets		366,745	295,141	207,130
Inventories	13	182,605	97,877	73,467
Trade and other receivables	14	105,339	161,061	120,009
Income tax receivables		363	78	59
Other current assets	15	3,312	1,401	1,415
Other current financial assets	12	2,231	4,680	1,060
Cash and cash equivalent	16	72,895	30,044	11,120
Total assets		870,166	753,260	665,504
EQUITY AND LIABILITIES				
Equity		275,019	268,904	250,902
Equity attributable to owners of the parent		*275,019*	*268,904*	*250,902*
Non-controlling interests		-	-	-
Share capital	17	12,000	12,000	12,000
Capital surplus	17	24,361	24,361	24,361
Reserves	17	26,103	25,959	25,815
Retained earnings	17	212,556	206,796	188,719
Accumulated other comprehensive income	17	-1	-212	7
Non-current liabilities		114,800	100,449	103,390
Interest-bearing loans and borrowings	18	37,230	48,005	49,334
Pension liability	20	10,003	6,836	6,168
Other long-term employee benefits	21	1,421	1,386	802
Other non-current financial liabilities	19	19,390	2,553	2,034
Deferred tax liabilities	24	46,756	41,669	45,052
Current liabilities		480,347	383,907	311,212
Interest-bearing loans and borrowings	18	412,749	314,475	269,047
Trade and other payables	22	53,698	67,113	40,661
Other current financial liabilities	19	11,107	1,773	1,307
Other current liabilities		1,611	263	171
Income tax payable		1,182	283	26
Total liabilities		595,147	484,356	414,602
Total equity and liabilities		870,166	753,260	665,504

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER (SEE NOTE 2.4)

		2011	2010	January 1, 2010
	Notes	Thousands USD	Thousands USD	Thousands USD
ASSETS				
Non-current assets		434,475	395,378	395,598
Property, plant and equipment	8	364,158	355,235	361,008
Investment properties	9	24,269	24,414	24,556
Intangible assets	10	41,423	3,909	2,599
Invest. accounted for using the equity method	6	-	8,496	4,310
Available-for-sale financial investments	11	1,711	1,711	1,301
Other non-current financial assets	12	1,467	1,339	1,760
Deferred tax assets	24	1,447	274	64
Current assets		316,518	254,720	178,762
Inventories	13	157,596	84,472	63,404
Trade and other receivables	14	90,914	139,004	103,574
Income tax receivables		313	67	51
Other current assets	15	2,858	1,209	1,221
Other current financial assets	12	1,925	4,039	915
Cash and cash equivalent	16	62,912	25,929	9,597
Total assets		750,993	650,098	574,360
EQUITY AND LIABILITIES				
Equity		237,354	232,076	216,540
Equity attributable to owners of the parent		*237,354*	*232,076*	*216,540*
Non-controlling interests		*-*	*-*	*-*
Share capital	17	10,357	10,357	10,357
Capital surplus	17	21,025	21,025	21,025
Reserves	17	22,528	22,404	22,280
Retained earnings	17	183,445	178,473	162,872
Accumulated other comprehensive income	17	-1	-183	6
Non-current liabilities		99,078	86,693	89,230
Interest-bearing loans and borrowings	18	32,132	41,432	42,578
Pension liability	20	8,633	5,900	5,323
Other long-term employee benefits	21	1,226	1,196	692
Other non-current financial liabilities	19	16,734	2,203	1,755
Deferred tax liabilities	24	40,353	35,962	38,882
Current liabilities		414,561	331,329	268,590
Interest-bearing loans and borrowings	18	356,221	271,406	232,200
Trade and other payables	22	46,344	57,922	35,092
Other current financial liabilities	19	9,586	1,530	1,128
Other current liabilities		1,390	227	148
Income tax payable		1,020	244	22
Total liabilities		513,639	418,022	357,820
Total equity and liabilities		750,993	650,098	574,360

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	Notes	2011 Million KRW	2010 Million KRW
Sales of goods		628,972	557,016
Cost of sales		-536,853	-476,692
Gross profit		**92,119**	**80,324**
Other operating income	23.1	17,128	10,681
Selling and administration costs	23.5	-66,962	-45,740
Other operating expenses	23.2	-19,513	-13,541
Operating profit		**22,772**	**31,724**
Revaluation gain due to step acquisition	5	40,045	-
Goodwill impairment	5	-29,657	-
Share of result from investments accounted using the equity method	5	207	6,116
Finance costs	23.6	-44,052	-22,575
Finance income	23.7	19,554	3,661
Profit before tax		**8,869**	**18,926**
Income tax expense	24	1,164	2,662
Profit for the year		**10,033**	**21,588**
OTHER COMPREHENSIVE INCOME, NET OF TAXES			
Gain / (loss) on valuation of available-for-sale financial invest.	17.4	-1	25
Gain / (loss) on valuation of interest rate swap	17.4	230	-330
Exchange differences on translation of foreign operation	17.4	-18	86
Actuarial gains and losses on defined benefit plans	17.4	-2,689	-1,927
Total other comprehensive income, net of taxes		**-2,478**	**-2,146**
Total comprehensive income		**7,555**	**19,442**
Profit of the year attributable to:			
Owners of the parent		10,033	21,588
Non-controlling interests		-	-
Profit for the year		**10,033**	**21,588**
Total comprehensive income attributable to:			
Owners of the parent		7,555	19,442
Non-controlling interests		-	-
Total comprehensive income		**7,555**	**19,442**
Earnings per share		KRW	KRW
▶ Basic / Diluted, profit for the year attributable to ordinary equity holders of the parent	25	418	899

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER (SEE NOTE 2.4)

		2011	2010
	Notes	Thousands USD	Thousands USD
Sales of goods		542,832	480,730
Cost of sales		-463,329	-411,407
Gross profit		79,503	69,323
Other operating income	23.1	14,782	9,218
Selling and administration costs	23.5	-57,791	-39,475
Other operating expenses	23.2	-16,841	-11,687
Operating profit		19,653	27,379
Revaluation gain due to step acquisition	5	34,561	-
Goodwill impairment	5	-25,595	-
Share of result from investments accounted using the equity method	5	179	5,278
Finance costs	23.6	-38,020	-19,483
Finance income	23.7	16,876	3,160
Profit before tax		7,654	16,334
Income tax expense	24	1,005	2,297
Profit for the year		8,659	18,631
OTHER COMPREHENSIVE INCOME, NET OF TAXES			
Gain / (loss) on valuation of available-for-sale financial invest.	17.4	-1	22
Gain / (loss) on valuation of interest rate swap	17.4	199	-285
Exchange differences on translation of foreign operation	17.4	-16	74
Actuarial gains and losses on defined benefit plans	17.4	-2,320	-1,663
Total other comprehensive income, net of taxes		-2,138	-1,852
Total comprehensive income		6,521	16,779
Profit of the year attributable to:			
Owners of the parent		8,659	18,631
Non-controlling interests		-	-
Profit for the year		8,659	18,631
Total comprehensive income attributable to:			
Owners of the parent		6,521	16,779
Non-controlling interests		-	-
Total comprehensive income		6,521	16,799
Earnings per share		USD	USD
▶ Basic / Diluted, profit for the year attributable to ordinary equity holders of the parent	25	0.36	0.78

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010 AND 31 DECEMBER 2011

	Attributable to owners of the Parent							
	Issued capital	Capital Surplus	Reserves	Retained earnings	Accumulated OCI	Total	Non-controlling interests	Total Equity
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
As at January 1, 2010	12,000	24,361	25,815	188,719	7	250,902	-	250,902
Profit for the period	-	-	-	21,588	-	21,588	-	21,588
Gain / (loss) on available for sale financial instruments, net of tax	-	-	-	-	25	25	-	25
Gain / (loss) on valuation of interest rate swap, net of tax	-	-	-	-	-330	-330	-	-330
Foreign currency translation, net of tax	-	-	-	-	86	86	-	86
Actarial gain / (loss) on pension, net of tax	-	-	-	-1,927	-	-1,927	-	1,927
Total comprehensive income	-	-	-	19,661	-219	19,442	-	19,442
Dividends	-	-	-	-1,440	-	-1,440	-	-1,440
Appropriation to reserves	-	-	144	-144	-	-	-	-
As at December 31, 2010	12,000	24,361	25,959	206,796	-212	268,904	-	268,904

	Attributable to owners of the Parent							
	Issued capital	Capital Surplus	Reserves	Retained earnings	Accumulated OCI	Total	Non-controlling interests	Total Equity
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
As at January 1, 2011	12,000	24,361	25,959	206,796	-212	268,904	-	268,904
Profit for the period	-	-	-	10,033	-	10,033	-	10,033
Gain / (loss) on available for sale financial instruments, net of tax	-	-	-	-	-1	-1	-	-1
Gain / (loss) on valuation of interest rate swap, net of tax	-	-	-	-	230	230	-	230
Foreign currency translation, net of tax	-	-	-	-	-18	-18	-	-18
Actarial gain / (loss) on pension, net of tax	-	-	-	-2,689	-	-2,689	-	-2,689
Total comprehensive income	-	-	-	7,344	211	7,555	-	7,555
Dividends	-	-	-	-1,440	-	-1,440	-	-1,440
Appropriation to reserves	-	-	144	-144	-	-	-	-
As at December 31, 2011	12,000	24,361	26,103	212,556	-1	275,019	-	275,019

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010 AND 31 DECEMBER 2011 (SEE NOTE 2.4)

	Attributable to owners of the Parent							
	Issued capital	**Capital Surplus**	**Reserves**	**Retained earnings**	**Accumulated OCI**	**Total**	**Non-controlling interests**	**Total Equity**
	Thousands USD	Thousands USD	Thousands USD	Thousands USD	Thousands USD	Thousands USD	Thousands USD	Thousands USD
As at January 1, 2010	10,357	21,025	22,280	162,872	6	216,540	-	216,540
Profit for the period	-	-	-	18,631	-	18,631	-	18,631
Gain / (loss) on available for sale financial instruments, net of tax	-	-	-	-	22	22	-	22
Gain / (loss) on valuation of interest rate swap, net of tax	-	-	-	-	-285	-285	-	-285
Foreign currency translation, net of tax	-	-	-	-	74	74	-	74
Actarial gain / (loss) on pension, net of tax	-	-	-	-1,663	-	-1,663	-	-1,663
Total comprehensive income	-	-	-	16,968	-189	16,779	-	16,779
Dividends	-	-	-	-1,243	-	-1,243	-	-1,243
Appropriation to reserves	-	-	124	-124	-	-	-	-
As at December 31, 2010	10,357	21,025	22,404	178,473	-183	232,076	-	232,076

	Attributable to owners of the Parent							
	Issued capital	**Capital Surplus**	**Reserves**	**Retained earnings**	**Accumulated OCI**	**Total**	**Non-controlling interests**	**Total Equity**
	Thousands USD	Thousands USD	Thousands USD	Thousands USD	Thousands USD	Thousands USD	Thousands USD	Thousands USD
As at January 1, 2011	10,357	21,025	22,404	178,473	-183	232,076	-	232,076
Profit for the period	-	-	-	8,659	-	8,659	-	8,659
Gain / (loss) on available for sale financial instruments, net of tax	-	-	-	-	-1	-1	-	-1
Gain / (loss) on valuation of interest rate swap, net of tax	-	-	-	-	199	199	-	199
Foreign currency translation, net of tax	-	-	-	-	-16	-16	-	-16
Actarial gain / (loss) on pension, net of tax	-	-	-	-2,320	-	-2,320	-	-2,320
Total comprehensive income	-	-	-	6,339	182	6,521	-	6,521
Dividends	-	-	-	-1,243	-	-1,243	-	-1,243
Appropriation to reserves	-	-	124	-124	-	-	-	-
As at December 31, 2011	10,357	21,025	22,528	183,445	-1	237,354	-	237,354

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

	Notes	2011 Million KRW	2010 Million KRW
Profit for the year		10,033	21,588
Adjustments total	33	46,554	37,842
Changes in operating assets and liabilities	33	-35,349	-39,659
Interest received		665	493
Receipt of dividends		-	1,302
Payment of income tax		-2,178	-78
Net cash flow from operating activities		19,725	21,488
Proceeds from sale of property, plant and equipment		1,028	303
Proceeds from sale of intangible assets		221	-
Proceeds from sale of available for sale financial assets		-	243
Purchase of property, plant and equipment	8	-33,700	-22,596
Purchase of investment properties	9	-2	-2
Purchase of intangible assets	10	-288	-14
Purchase of of available for sale financial instruments		-	-484
Acquisition of a subsidiary, net of cash acquired		-4,460	-
Decrease of other financial assets		3,096	-2,959
Net cash flow from investing activities		-34,105	-25,509
Proceeds from borrowings (current)		1,728,926	1,435,293
Repayment of borrowings (current)		-1,686,657	-1,413,816
Proceeds from interest bearing borrowings (non-current)		41,824	23,722
Decrease in other financial liabilities		-1,015	328
Interest paid		-22,907	-19,824
Dividends paid	17.3	-1,440	-1,440
Net cash flow from financing activities		58,731	24,263
Increase in cash and cash equivalent		44,351	20,242
Net foreign exchange difference		-1,500	-1,318
Cash and cash equivalent at January 1	16	30,044	11,120
Cash and cash equivalent at December 31	16	72,895	30,044

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER (SEE NOTE 2.4)

	Notes	2011 Thousands USD	2010 Thousands USD
Profit for the year		8,659	18,631
Adjustments total	33	40,179	32,660
Changes in operating assets and liabilities	33	-30,508	-34,228
Interest received		574	425
Receipt of dividends		-	1,124
Payment of income tax		-1,880	-67
Net cash flow from operating activities		17,024	18,545
Proceeds from sale of property, plant and equipment		887	262
Proceeds from sale of intangible assets		191	-
Proceeds from sale of available for sale financial assets		-	210
Purchase of property, plant and equipment	8	-29,084	-19,501
Purchase of investment properties	9	-2	-2
Purchase of intangible assets	10	-249	-12
Purchase of of available for sale financial instruments		-	-418
Acquisition of a subsidiary, net of cash acquired		-3,849	-
Decrease of other financial assets		2,672	-2,554
Net cash flow from investing activities		-29,434	-22,015
Proceeds from borrowings (current)		1,492,142	1,238,723
Repayment of borrowings (current)		-1,455,661	-1,220,187
Proceeds from interest bearing borrowings (non-current)		36,096	20,473
Decrease in other financial liabilities		-876	283
Interest paid		-19,770	-17,109
Dividends paid	17.3	-1,243	-1,243
Net cash flow from financing activities		50,688	20,940
Increase in cash and cash equivalent		38,278	17,470
Net foreign exchange difference		-1,295	-1,138
Cash and cash equivalent at January 1	16	25,929	9,597
Cash and cash equivalent at December 31	16	62,912	25,929

1. CORPORATE INFORMATION

The organization and business of SONGWON INDUSTRIAL CO. LTD (the "company") and its consolidated subsidiaries (collectively, the "Group") are described below.

1.1 COMPANY

SONGWON INDUSTRIAL CO. LTD was incorporated on December 15, 1965 under the law of the Republic of Korea to engage in the manufacture and commercial sale of antioxidants, stabilizers and polyester diols. The company's three manufacturing plants are located in Ulsan (two plants) and Suwon (one plant), Korea.

The company listed its common shares on the Korea Exchange in June 1977 pursuant to the provisions of the Korean Securities and Exchange Act.

1.2 SUBSIDIARIES AND JOINT VENTURES

The financial statements include the financial statements of the Group and the subsidiaries listed in the following table. The table includes also Joint Ventures which are accounted using the equity method.

		December 31, 2011		December 31, 2010		January 1, 2010	
Name	Location	Status	Equity interest	Status	Equity interest	Status	Equity interest
Songwon Industrial Co. Ltd.	Korea	Parent		Parent		Parent	
Chemservice Asia Ltd.	Korea	JV	50%	JV	50%	-	-
Songwon International-Japan KK	Japan	Subsidiary	100%	Subsidiary	100%	Subsidiary	100%
Songwon China Ltd.	Hong Kong	Subsidiary	100%	Subsidiary	100%	-	-
Songwon Trading Co. Ltd.	China	Subsidiary	100%	Subsidiary	100%	-	-
Songwon Chemicals Co. Ltd.	China	Subsidiary	100%	JV	60%	JV	60%
Songwon International-India Pvt. Ltd.	India	Subsidiary	100%	JV	60%	-	-
Songwon International-Americas Inc.	USA	Subsidiary	100%	JV	60%	JV	60%
Songwon Holdings AG	Switzerland	Subsidiary	100%	-	-	-	-
Songwon International AG	Switzerland	Subsidiary	100%	JV	60%	JV	60%
Songwon Additive Technologies AG	Switzerland	Subsidiary	100%	-	-	-	-
ATG Additive Technology Greiz GmbH	Germany	Subsidiary	100%	-	-	-	-

The summarized statements of financial position and the summarized statements of comprehensive income of the consolidated subsidiaries are as follows (Korean won in millions):

	Total assets	Total liabilities	Total equity	Sales revenue	Net income	Total Comprehensive income
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
AS AT DECEMBER 31, 2011						
Songwon International-Japan KK	27,424	25,909	1,515	86,372	505	505
Songwon China Ltd.	5,981	6,134	-153	3,672	136	136
Songwon Trading Co. Ltd.	3,295	2,296	999	9,329	710	710
Songwon Chemicals Co. Ltd.	2,501	306	2,194	429	37	37
Songwon International-India Pvt. Ltd.	2,286	2,023	262	3,575	119	119
Songwon International-Americas Inc.	68,294	67,610	684	126,940	-412	-412
Songwon Holdings AG	12,700	9,876	2,824	-	2,413	2,413
Songwon International AG	74,170	61,522	12,649	149,815	3,247	3,118
Songwon Additive Technologies AG	12,467	9,267	3,200	-	212	212
ATG Additive Technology Greiz GmbH	6,802	4,541	2,262	3,166	-67	-67
AS AT DECEMBER 31, 2010						
Songwon International-Japan KK	10,071	9,176	895	26,114	255	255
Songwon China Ltd.	2,027	2,304	-276	-	-309	-309
Songwon Trading Co. Ltd.	587	368	219	-	-107	-107
AS AT JANUARY 1, 2010						
Songwon International-Japan KK	4,025	3,456	569	-	-	-

Information on its ultimate Parent is presented in Note 29.1.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS") established adopting International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) in accordance with the Item 1 of the 1st Clause of the Article 13 of External Audit Law.

The financial statements have been prepared on a historical cost basis, except for certain items, such as financial instruments, which are mentioned separately in the following accounting principles. The financial statements are presented in Korean won and all values are rounded to the nearest million (000,000), except when otherwise indicated.

The Group maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with Korea International Financial Reporting Standards ("K-IFRS"). In the event of any differences in interpreting the financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements consolidate the parent company and the other companies in which the parent company has a controlling influence.

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

2.3 FIRST ADOPTION OF K-IFRS

These consolidated financial statements have been prepared in accordance with K-IFRS. These consolidated financial statements have been prepared for the first period belonging to the first K-IFRS financial statements with the date of transition to K-IFRS as of January 1, 2010. The accounting policies applied to these financial statements are based on the K-IFRS effective as of December 31, 2011. Accounting policies chosen to prepare the opening K-IFRS statement of financial position and the impacts to financial position, financial performance and cash flows arising from the transition to K-IFRS are explained in the Note 34.

2.4 CONVENIENCE TRANSLATION INTOUNITED STATES DOLLAR AMOUNTS

The company operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. dollar amounts provided in the financial statements represent supplementary information solely for the convenience of the reader. All Won amounts are expressed in U.S. dollars at the rate of KRW 1,158.69 to US $1, the exchange rate in effect on December 31, 2011. Such presentation is not in accordance with generally accepted accounting principles, and should not be construed as a representation that the Won amounts shown could be readily converted, realized or settled in U.S. dollars at this or at any other rate.

2.5 BUSINESS COMBINATIONS AND GOODWILL

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

In business combinations achieved in stages, any previously held equity interest in the acquiree is remeasured to its acquisition date fair value.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in profit or loss.

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

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

2.6 INTEREST IN A JOINT VENTURE

Joint ventures are defined as companies over which Songwon, through partnership agreements with one or more parties, exercises a joint controlling influence over the operational and financial control. Songwon recognises its interest in the joint venture using the equity method. The financial statements of the joint venture are prepared for the same reporting period as the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealised gains and losses on such transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is recognized using the equity method until the date on which the Group ceases to have joint control over the joint venture.

2.7 FOREIGN CURRENCY TRANSLATION

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

Transactions in foreign currencies are initially recorded by the Group companies at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets including goodwill and liabilities of foreign subsidiaries, where the functional currency is other than the Korean Won, are translated using the exchange rate at the end of the reporting period, while the statements of income are translated using average exchange rates during the period. Differences arising from such translations are recognized within equity and reclassified to net income when the gain or loss on disposal of the foreign subsidiary is recognized.

2.8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is valued at cost, less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Other repair and maintenance costs are recognized in the income statement as incurred. If the costs of certain components of an item of property, plant and equipment are significant in relation to the total cost of the item, they are accounted for and depreciated separately.

Depreciation expense is recognized using the straight-line method. The following useful lives are assumed:

Land	no depreciation
Buildings	18 to 54 years
Structures	6 to 39 years
Machinery	10 to 20 years
Other	1 to 10 years

Residual values and useful lives are reviewed annually and, if expectations differ from previous estimates, adjusted accordingly.

The gain or loss arising from derecognition of a property, plant or equipment shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset. It shall be recognised in the income statement when the asset is derecognised.

2.9 INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

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

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

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

Intangible assets with finite useful lives are amortized using straight-line method with the following useful lives:

Software	3 to 10 years
Industrial rights	10 years
Useful lives of Items recognized during the PPA	Over its useful life between 6 to 9 years

2.10 INVESTMENT PROPERTY

Songwon classifies the property to earn rentals or for capital appreciation or both as investment properties. As investment properties are accounted for using cost model, the same accounting policies applied to property, plant and equipment are used for other accounting treatment except for their classification and presentation.

2.11 LEASES

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

For arrangements entered into prior to January 1, 2010, the date of inception is deemed to be January 1, 2010 in accordance with the transitional requirements of K-IFRS 2014 by electing the exception allowed by K-IFRS 1101.

Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

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

The Group is not entered into finance lease as a lessor.

2.12 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group reviews non-financial assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any indication exists, or when annual impairment testing for assets such as membership is required, the Group estimates the asset's recoverable amount. Recoverability of assets is measured by the comparison of the carrying amount of the asset to the recoverable amount, which is the higher of the asset's value in use and its fair value less costs to sell. If assets do not generate cash inflows that are largely independent of those from other assets or groups of assets, the impairment test is not performed at an individual asset level, instead, it is performed at the level of the cash-generating unit the asset belongs to.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

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

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

Goodwill

Goodwill is tested for impairment annually, as well as whenever there are events or changes in circumstances (triggering events) which suggest that the carrying amount may not be recoverable. Goodwill is carried at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the (groups of) cash generating unit(s) that are expected to benefit from the synergies of the business combination. If the carrying amount of the cash generating unit(s), to which the goodwill is allocated, exceeds its recoverable amount, an impairment loss on goodwill is recognised. The recoverable amount is the higher of cash generating unit(s) fair value less costs to sell and its value in use.

Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives

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

2.13 BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. Songwon capitalizes borrowing costs for all eligible assets where construction was commenced on or after January 1, 2010.

2.14 INVENTORIES

Inventory is valued at the lower of acquisition or production cost and net realizable value, cost being generally determined on the basis of a weighted average. Production costs comprise direct material and labour and applicable manufacturing overheads, including depreciation charges based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.15 CASH AND CASH-EQUIVALENT

Cash and cash-equivalent in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

2.16 PROVISIONS

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are recognized at present value by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

2.17 PENSIONS AND OTHER LONG-TERM EMPLOYMENT BENEFITS

Pension

The Group measures the entitlements of the defined benefit plans by applying the projected unit credit method. The approach reflects an actuarially calculated net present value of the future benefit entitlement for services already rendered. Actuarial gains and losses for the defined benefit plans are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to profit or loss in subsequent periods.

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

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

Other long term employment benefits

The parent company also implements a bonus plan designed to present prescribed quantity of gold and entitle compensated vacation to long term service employees. Accounting policies to the bonus plan are mostly the same with the defined benefit plan except for that all the past service cost and actuarial variances is recognized immediately in profit or loss.

2.18 TAXES

Current income tax

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

Deferred tax

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

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

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

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

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

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

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

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

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

2.19 REVENUE RECOGNITION

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Interest income

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

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature.

Dividends

Revenue is recognized when the Group's right to receive the payment is established.

2.20 FINANCIAL INSTRUMENTS

Financial assets

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The subsequent measurement of financial assets depends on their classification as follows:

- At fair value through profit or loss;
- Held to maturity;
- Loans and receivables; or
- All other financial assets are classified as "available for sale".

The Group determines the classification of its financial assets at initial recognition.

– **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by K-IFRS 1039. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance costs in the income statement.

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

– **Loans and receivables**

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

– **Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment.

As for loans and receivables above the EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

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

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

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

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

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

Impairment of financial assets
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

– **Available-for-sale financial investments**
In the case of equity investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

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

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

The measurement of financial liabilities depends on their classification as follows:
- Financial liabilities at fair value through profit or loss; and
- Loans and borrowings

The Group determines the classification of its financial liabilities at initial recognition.

– **Financial liabilities at fair value through profit or loss**
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships.

Gains or losses on liabilities held for trading are recognized in the income statement.

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

– **Loans and borrowings**
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

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

– **Derecognition**

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

Offsetting of financial instruments

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

Fair value of financial instruments

When determining the fair value, quoted market prices on the balance-sheet date are used. If no such quoted market prices are available, the fair value is determined using appropriate valuation techniques.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

– **Cash Flow Hedges**

  Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income. Amounts recognised as other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised.

  If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

  The Group applies Cash Flow Hedge accounting for interest rate swap contracts.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Note	Description	Nature of estimation
8, 9, 10	Impairment of non-financial assets	An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount based on the value in use is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The recoverable amount based on the fair value less cost to sell is most sensitive to the market prices, premiums and the estimate of cost to sell. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any goodwill impairment.
10	Customer relations	Customer relations are depreciated over their estimated useful life. The estimated useful life is based on estimates of the time period during which this intangible asset generates cash flows, as well as historic empirical data concerning customer loyalty. Calculation of the present value of estimated future cash flows includes essential assumptions, especially of future sales. Discounting is in addition also based on assumptions and estimations concerning business-specific capital costs, which are themselves dependent on national risks, and additional risks resulting from the volatility of the respective business.
20, 21	Pension and other employment benefits	The cost of defined benefit pension plans and other similar long term employee benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.
24.2	Deferred Tax Assets	Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.
27	Fair value of financial instruments	Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards, interpretations, and amendments published but not yet applied.
Standards, interpretations, and amendments published but not yet applied up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt these standards when they become effective.

K-IFRS 1107 Financial Instruments: Disclosures (Amendment).
The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when: a) financial assets are derecognized in their entirety, but when the entity has continuing involvement in them (e.g., options or guarantees on the transferred assets) or when b) financial assets are not derecognized in their entirety. The amendment becomes effective for annual periods beginning on or after July 1, 2011.

K-IFRS 1012 Income Taxes: Recovery of Underlying Assets (Amendment).
The amendment introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognized on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business; if consumed, an own use basis must be adopted. The amendment also introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in K-IFRS 1016 should always be measured on a sale basis. The amendment is not expected to impact significantly the financial position of the Group and becomes effective for annual periods beginning on or after January 1, 2012.

K-IFRS 1019 Employee Benefits (Amendment).
The amendments in K-IFRS 1019 include fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The Group has been already recognizing actuarial gains and losses directly in other comprehensive income. The Group is currently assessing the full impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

K-IFRS 1113 Fair Value Measurement.
K-IFRS 1113 establishes a single source of guidance under K-IFRS for all fair value measurements. K-IFRS 1113 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under K-IFRS when fair value is required or permitted.

The Group is currently assessing that the impacts from the aforementioned standards on the Group's consolidated financial statements will be not significant for the years the Group applies those standards for the first time.

5. BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTERESTS

5.1 ACQUISITIONS IN 2011

5.1.1 ACQUISITION OF SONGWON HOLDINGS AG, SWITZERLAND

On January 3, 2011, the Group acquired 100% of the voting shares of Songwon Holdings AG (former Mantenere Holding AG), an unlisted company based in Switzerland and holding the remaining 40% interest in Songwon International AG. Accordingly, Songwon International AG became a subsidiary of the parent company while it was accounted for as a joint venture until December 31, 2010.

Besides the purchase price, the selling shareholders are engaged within the Group and receive a salary. The amounts paid to the former shareholders for the services rendered in the future are considered to be renumeration and are not part of the purchase price.

The assets, liabilities and contingent liabilities of acquired companies are valued at fair value on the date of acquisition. If the cost exceeds the fair value of the acquired identifiable assets, liabilities and contingent liabilities, the balance is reported as goodwill.

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Songwon Holdings AG as well as Songwon International AG at the date of acquisition were (figures represent a 100% interest):

	Fair value recognised on acquisition
	Million KRW
ASSETS	
Property, plant and equipment	126
Intangible assets	39,829
Other non-current financial assets	297
Deferred tax assets	135
Inventories	50,450
Trade and other receivables	58,692
Cash and cash equivalent	18,169
Total assets	167,698
LIABILITIES	
Pension liability	675
Deferred tax liabilities	6,365
Income tax payable	1,673
Trade and other payables	99,412
Other current financial liabilities	1,581
Other current liabilities	3,520
Total liabilities	113,226
Identifiable net assets at fair value	54,472
Goodwill arising on acquisition	31,604
Fair value of net liabilties acquired and goodwill arising	86,076
Consideration satisfied by:	
Cash paid on acquisition of remaining 40% shareholding in 2011	12,427
Deferred consideration	25,310
Cash consideration	37,737
Fair value of 60% in Songwon Holdings AG	48,339
Total cost of acquisition	86,076

The fair value of the trade and other receivables amounts to 58,692 Million KRW. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill of 31,604 Million KRW comprises the value of expected synergies arising from the acquisition and a customer list, which is not separately recognised. Goodwill is allocated entirely to the parent company and acquired entities.

None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition as of January 3, 2011, the acquired companies have contributed 260,316 Million KRW of revenue and 2,846 Million KRW to the net profit before tax of the Group. If the business combination had taken place at January 1, 2011, revenue from continuing operations would have not been material different.

Revaluation of previously held interest

The Group held an equity interest immediately before the acquisition date of Songwon International AG of 60%. In this business acquisition achieved in stages, the Group re-measured its previously held equity interest in the acquired entity. The resulting gain of 39,589 Million KRW is included in the statement of comprehensive income.

5.1.2 ACQUISITION OF SONGWON CHEMICALS CO. LTD., CHINA

The remaining 40% of the voting shares of Songwon Chemicals Co. Ltd. have been acquired on October 1, 2011. Accordingly, Songwon Chemicals Co. Ltd. (former Shanghai Songwon Brilliant Chemicals Co. Ltd.) became a subsidiary of the parent company while it was accounted for as a joint venture until September 30, 2011.

The assets, liabilities and contingent liabilities of acquired companies are valued at fair value on the date of acquisition. If the cost exceeds the fair value of the acquired identifiable assets, liabilities and contingent liabilities, the balance is reported as goodwill.

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Songwon Chemicals Co. Ltd. as at the date of acquisition were (figures represent a 100% interest):

	Fair value recognised on acquisition
	Million KRW
ASSETS	
Property, plant and equipment	319
Intangible Assets	687
Deferred tax assets	16
Inventories	247
Trade and other receivables	880
Cash and cash equivalent	918
Total assets	3,067
LIABILITIES	
Deferred tax liabilities	180
Trade and other payables	154
Other current financial liabilities	23
Other current liabilities	1
Total liabilities	358
Identifiable net assets at fair value	2,709
Goodwill arising on acquisition	215
Fair value of net liabilties acquired and goodwill arising	2,924
Consideration satisfied by:	
Cash paid on acquisition of remaining 40% shareholding	1,167
Cash consideration	1,167
Fair value of 60% interest in Songwon Chemicals Co. Ltd.	1,757
Total cost of acquisition	2,924

The fair value of the trade and other receivables amounts to 880 Million KRW. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill of 215 Million KRW comprises the value of expected synergies arising from the acquisition and specific process technology knowledge, which is not separately recognised. Goodwill is allocated entirely to the group of CGU's in China.

None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition, Songwon Chemicals Co. Ltd. has contributed 429 Million KRW of revenue and 37 Million KRW to the net profit before tax of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been 630,394 Million KRW and the profit from continuing operations for the Group would have been 10,227 Million KRW.

Revaluation of previously held interest

The Group held an equity interest immediately before the acquisition date of Songwon Chemicals Co. Ltd. of 60%. In this business acquisition achieved in stages, the Group re-measured its previously held equity interest in the acquired entity. The resulting gain is 456 Million KRW and is included in the statement of comprehensive income.

5.1.3 ACQUISITION OF ATG ADDITIVE TECHNOLOGY GREIZ GMBH, GERMANY

On December 1, 2011 the Group acquired 100% of the German company Additives Technology Greiz GmbH to expand its offerings in the 'one pack systems' market. The Group plans to scale up its won offerings in OPS products, which combine several additives into an integrated, dust free pellet for compounders and polymer producers.

Assets acquired and liabilities assumed

Due to the size and complexity of the acquisition, the acquired company can only be included in the annual consolidated financial statements of the Group at a provisional figure of the book values of the net assets acquired. At acquisition date the company have provisional figures for the purchase price allocation in accordance with IFRS 3, which are disclosed below. The results of the purchase price allocation should be seen as provisional, as there could be subsequent adjustments, especially to the figure for "intangible assets" and "property, plant and equipment" comprising of a manufacturing facilities.

The fair value of the identifiable assets and liabilities of Additives Technology Greiz GmbH as at the date of acquisition had the following effect on the Group's assets and liabilities. The figures in the table below represent a 100% interest:

	Fair value recognised on acquisition
	Million KRW
ASSETS	
Property, plant and equipment	5,851
Intangible assets	7
Inventories	2,874
Trade and other receivables	676
Other current assets	749
Cash and cash equivalent	860
Total assets	11,017
LIABILITIES	
Deferred tax liabilities	1,171
Interest-bearing loans and borrowings	483
Other non-current financial liabilities	2
Income tax payable	438
Trade and other payables	3,632
Other current financial liabilities	192
Total liabilties	5,918
Identifiable net assets at fair value	5,099
Goodwill arising on acquisition	5,714
Fair value of net liabilties acquired and goodwill arising = Cost of acquisition	10,813

The fair value of the trade and other receivables amounts to 676 Million KRW. None of the trade and other receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill of 5,714 Million KRW (provisional purchase price allocation) comprises the value of expected synergies arising from the acquisition. Goodwill is allocated entirely to the parent company and to the CGU's of the previous Songwon International AG Group, which has been acquired during 2011.

None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition, Additives Technology Greiz GmbH has contributed 3,166 Million KRW of revenue and a loss of 60 Million KRW to the net profit before tax of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations of the Group would have been 663,625 Million KRW and the profit from continuing operations for the Group would have been 10,828 Million KRW.

5.2 ACQUISITIONS IN 2010

There have been no acquisitions during the financial year 2010, just establishments of new companies.

6. INTEREST IN A JOINT VENTURE

The Group has jointly control over the following entities:

Company name	December 31, 2011	December 31, 2010	January 1, 2010	Purpose of the entity
Songwon International AG, Switzerland	100%	60%	60%	Distributor
Songwon Chemicals Co. Ltd.	100%	60%	60%	Manufacturing
Chemservice Asia Ltd.	50%	50%	-	Compliance services

The Group had in 2010 and prior periods no full control over Songwon International AG, (including its subsidiaries comprising Songwon International-Americas Inc. and Songwon International-India Pvt. Ltd.), Songwon Chemicals Co. Ltd. (former Shanghai Songwon Brilliant Chemicals Co. Ltd.) and Chemservice Asia Ltd. and therefore the investments were accounted using the equity method because the Group entered into a joint venture agreement sharing the control of the joint venure's operations. In 2011 only Chemservice Asia Ltd. is account using the equity method.

The joint venture has no contingent liabilities or capital commitments as at 31 December 2011 and 2010 and 1 January 2010.

Summarized statement of financial position and summarized statement of comprehensive income of the Group which are prepared using equity method on the above joint ventures are as follows:

Share of the JV's statement of financial position:	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Carrying amount of the Joint Ventures
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Songwon International AG	47,024	252	42,821	284	4,171	4,171
Songwon Chemicals Co. Ltd.	775	307	259	-	823	823
January 1, 2010	47,799	559	43,080	284	4,994	4,994
Songwon International AG	73,787	393	64,836	594	8,750	8,750
Songwon Chemicals Co. Ltd.	1,391	236	533	-	1,094	1,094
Chemservice Asia Ltd.	50	87	5	135	-3	-
December 31, 2010	75,228	716	65,374	729	9,841	9,844
Chemservice Asia Ltd.	17	2	18	3	-2	-
December 31, 2011	17	2	18	3	-2	-

Share of the JV's revenue and profit:	Revenue	Profit before tax	Income tax expenses	Profit of the year	Other comp. Income	Total comp. income
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Songwon International AG	134,390	7,340	-972	6,368	-514	5,854
Songwon Chemicals Co. Ltd.	2,896	360	-89	271	-	271
Chemservice Asia Ltd.	20	-12	-	-12	-	-12
FY2010	137,306	7,688	-1,061	6,627	-514	6,113
Chemservice Asia Ltd.	47	-	-	-	-	-
FY2011	47	-	-	-	-	-

	As of January 1, 2011	Share of result from equity method revaluation	Business combination	Dividends	As of December 31, 2011
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Chemservice Asia Ltd.	-	-	-	-	-
Songwon Chemicals Co. Ltd.	1,094	207	-1,301	-	-
Songwon International AG	8,750	-	-8,750	-	-
	9,844	207	-10,051	-	-

	As of January 1, 2010	Addition	Share of result from equity method revaluation	Dividends	As of December 31, 2010
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Chemservice Asia Ltd.	-	9	-9	-	-
Songwon Chemicals Co. Ltd.	823	-	271	-	1,094
Songwon International AG	4,171	-	5,854	-1,275	8,750
	4,994	9	6,116	-1,275	9,844

7. SEGMENT INFORMATION

For management purposes, Songwon Group is organised into one main operating Segment. All of the Group's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment.

The results from this operating segment are equivalent to the financial statements of the Group as a whole. Songwon Group is active in particular as a manufacturer of polyurethane resins and additives including, stabilizers, plasticizers and lubricants.

The Group is acting worldwide and discloses therefore geographic segment.

7.1 PRODUCT INFORMATION

	2011	2010
	Million KRW	Million KRW
Alkyl - phenol and Intermediates	28,698	29,981
Others	12,378	17,558
Plasticizers	9,375	5,712
POLYESTER DIOL	13,153	14,781
Polymer Stabilizers (AOX and Uvs)	333,674	286,133
Polyurethanes	43,493	38,506
PVC Stabilizers	57,308	48,914
SAP and Flocculants	26,651	25,243
Tin Intermediates	104,242	90,188
Total	628,972	557,016

7.2 GEOGRAPHIC INFORMATION

Revenue from external customers

	2011	2010
	Million KRW	Million KRW
Korea	208,198	189,368
Rest of Asia	180,713	121,473
Europe	97,671	120,382
North and South America	117,297	115,617
Australia	1,763	203
Middle East and Africa	23,330	9,973
Total revenue per consolidated income statement	628,972	557,016

The revenue information above is based on the location of the customer. Despite the material Korean home market all other countries have been summarized to regions. Therefore no country revenues are disclosed separately.

The Group is not recognizing more revenue than 10% of total revenue with one client during the reporting periods.

Non-current assets

	December 31, 2011	December 31, 2010	January 1, 2010
	Million KRW	Million KRW	Million KRW
Korea	450,490	444,307	449,664
Rest of Asia	1,362	116	95
Europe	42,312	-	-
North and South America	3,897	-	-
Total	498,061	444,423	449,759

Non-current assets for this purpose consist of property, plant and equipment, investment properties and intangible assets.

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Structures	Machinery	Other	Construction-in-progress	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
COST OR VALUATION							
At January 1, 2010	151,328	53,623	55,537	345,332	11,183	2,130	619,132
Additions	-	1	-	46	378	22,172	22,596
Disposals	-124	-99	-	-	-276	-	-499
Reclassification	-	90	5,824	4,033	145	-16,339	-6,247
Net exchange differences	-	-	-	-	1	-	1
At December 31, 2010	151,203	53,615	61,361	349,411	11,431	7,963	634,984
Additions	1,003	302	-	81	585	31,728	33,700
Acquisition of a subsidiary	-	48	-	5,539	546	163	6,296
Disposals	-712	-	-51	-1,305	-657	-	-2,724
Reclassification	-	3,151	1,953	24,135	205	-35,061	-5,617
Net exchange differences	-	-1	-	10	10	-1	18
At December 31, 2011	151,495	57,115	63,263	377,871	12,120	4,792	666,657
DEPRECIATION AND IMPAIRMENT							
At January 1, 2010	-	-8,984	-12,832	-170,998	-8,023	-	-200,837
Depreciation charge for the year	-	-1,372	-2,904	-17,568	-967	-	-22,811
Disposals	-	24	-	-	253	-	276
Net exchange differences	-	-	-	-	-7	-	-7
At December 31, 2010	-	-10,332	-15,736	-188,565	-8,745	-	-223,378
Depreciation charge for the year	-	-1,413	-3,055	-17,630	-1,103	-	-23,201
Disposals	-	-	12	1,217	646	-	1,874
Net exchange differences	-	-	-	4	-10	-	-6
At December 31, 2011	-	-11,745	-18,780	-204,974	-9,212	-	-244,711
NET BOOK VALUE							
At December 31, 2011	151,495	45,370	44,484	172,897	2,908	4,792	421,945
At December 31, 2010	151,203	43,283	45,625	160,846	2,686	7,963	411,606
At January 1, 2010	151,328	44,639	42,705	174,334	3,160	2,130	418,295

There was no impairment in the reported financial years.

In 2011, 4,905 Million KRW has been expensed as maintenance (repair) cost and 712 million KRW has been capitalized as construction in progress as an intangible assets (REACH) (See Note 10).

In 2010, 4,605 Million KRW has been expensed as maintenance (repair) cost and 1,642 million KRW has been capitalized as industrial rights as an intangible assets (REACH) (See Note 10).

Capitalised borrowing costs

Borrowing costs which are directly attributable to the acquisition or production of a qualified asset are capitalized as part of the cost of that asset. No borrowing costs have been capitalized during financial years 2011 and 2010.

Finance leases

There are no assets held under leasing agreements which may be considered as an asset purchase in economic terms (finance lease) in the Group. Payment on leased assets defined as "operating lease" and having a rental character are expensed over the lease period.

Contractual commitments and pledged assets

An asset that is transferred to a lender for the purpose of securing debt. The lender of the debt maintains possession of the pledged asset, but does not have ownership unless default occurs (see 12.2 and 16).

9. INVESTMENT PROPERTIES

	Land	Buildings	Structures	Total
	Million KRW	Million KRW	Million KRW	Million KRW
COST				
At January 1, 2010	21,317	8,675	349	30,341
Net exchange differences	-	11	-	11
Additions	2	-	-	2
At December 31, 2010	21,319	8,686	349	30,354
Net exchange differences	-	9	-	9
Additions	2	-	-	2
At December 31, 2011	21,321	8,696	349	30,365
DEPRECIATION				
At January 1, 2010	-	-1,796	-91	-1,887
Net exchange differences	-	-47	-	-47
Depreciation	-	-121	-10	-131
At December 31, 2010	-	-1,965	-101	-2,066
Net exchange differences	-	-4	-	-4
Depreciation	-	-164	-10	-175
At December 31, 2011	-	-2,133	-112	-2,245
NET BOOK VALUE				
At December 31, 2011	21,321	6,562	237	28,120
At December 31, 2010	21,319	6,722	247	28,288
At January 31, 2010	21,317	6,879	258	28,453

Investment properties are stated at cost less any accumulated depreciation and impairment losses, if any. The same useful lives have been used as for property, plant and equipment.

	2011	2010
	Million KRW	Million KRW
Rental income	1,738	1,591
Operational expenses	826	792

The Group's major investment property is a building named Songwon Building located in Seocho-gu, Seoul, which is held for the purpose of leasing without a plan to sell, thus the Group currently does not have it assessed of fair value by an independent appraiser. Meanwhile, the fair value of the building is estimated to 38,000 million KRW based on the reference to the cases of deals on similar buildings nearby. Further Songwon Japan KK owns an object which is partially subleased. The fair value of the building is 95 million KRW.

10. INTANGIBLE ASSETS

	Industrial rights	Software	Membership	Customer relationship	Non-compete contracts	Capitalisation Process Technology	Goodwill	Construction-in-progress	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
COST									
At January 1, 2010	163	1,848	1,881	-	-	-	-	-	3,892
Additions	-	-	14	-	-	-	-	-	14
Disposals	-2	-	-	-	-	-	-	-	-2
Reclassification	1,642	87	-	-	-	-	-	-	1,729
At December 31, 2010	1,803	1,935	1,895	-	-	-	-	-	5,633
Additions	9	39	-				-	240	288
Acquisition of a subsidiary	-	45	-	25,639	14,152	687	37,532	-	78,056
Disposals	-221	-	-	-	-	-	-	-	-221
Reclassification	-	-	-	-	-	-	-	712	712
Net exchange differences	-	7	-	-	-	-	-	-	7
At December 31, 2011	1,591	2,027	1,895	25,639	14,152	687	37,532	952	84,475
DEPRECIATION									
At January 1, 2010	-24	-857	-	-	-	-	-	-	-881
Additions	-30	-194	-	-	-	-	-	-	-223
Disposals	1	-	-	-	-	-	-	-	1
At December 31, 2010	-53	-1,051	-	-	-	-	-	-	-1,104
Additions	-159	-237	-	-2,965	-2,322	-29	-	-	-5,712
Net exchange differences	-	-7	-	-	-	-	-	-	-7
Impairment	-	-	-	-	-	-	-29,657	-	-29,657
At December 31, 2011	-212	-1,294	-	-2,965	-2,322	-29	-29,657	-	-36,479
NET BOOK VALUE									
At December 31, 2011	1,379	733	1,895	22,674	11,830	658	7,875	952	47,996
At December 31, 2010	1,750	884	1,895	-	-	-	-	-	4,529
At January 1, 2010	139	991	1,881	-	-	-	-	-	3,011

The intangible assets (except Goodwill and Memberships) are amortized over a finite useful life. The Goodwill items consist of items acquired in a business combination. An impairment test was carried out for Goodwill items on the basis of fair value less cost to sale. For further details of the impairment test please see note 28.

The intangible asset with indefinite useful lives are tested for impairement on an annual basis. No impairment was identified.

10.1 ACQUISITION DURING THE YEAR

In 2011 Songwon acquired a majority stake in Songwon International AG, Songwon International-India Pvt. Ltd. and Songwon International-Americas Inc.. Due to the purchase price allocation intangible assets customer relationship with a gross value of 25,639 million KRW and non-compete contracts with a gross value of 14,152 million KRW has been identified.

The purchase price allocation in respect of the acquisition of Songwon Chemicals Co. Ltd. resulted in capitalisation of process technology with an amount of 687 Million KRW.

10.2 DETAILS OF INDIVIDUALLY SIGNIFICANT INTANGIBLE ASSETS

Description	Remark	December 31, 2011	December 31, 2010	January 1, 2010	Remaining life
		Million KRW	Million KRW	Million KRW	
Industrial rights	REACH	1,265	1,628	-	8.8 years
Software	ERP	645	829	925	2.5 years
Membership	Hanyang Country	389	389	389	Indefinite
Membership	New Seoul Country	778	778	778	Indefinite
Goodwill	Acqu. of SWI Subgroup	1,946	-	-	Indefinite
Goodwill	Acqu. of Songwon Chemicals Co. Ltd.	215	-	-	Indefinite
Goodwill	Acqu. of ATG Additive Technology Greiz GmbH	5,714	-	-	Indefinite
Intangible assets acquired in a business combination	Customer relationship	22,674	-	-	8.0 years
Intangible assets acquired in a business combination	Non-compete contracts	11,830	-	-	5.0 years
Intangible assets acquired in a business combination	Capitalisation Process Technology	658	-	-	5.8 years
Construction in progress	REACH	952	-	-	n/a
Significant intangible assets total		47,066	3,624	2,092	

11. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

	As per December 31, 2011			Book value		
Description	**Number of shares**	**% to equity**	**Cost**	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
			Million KRW	Million KRW	Million KRW	Million KRW
Ulsan Broadcasting Corp.	180,000	3.00%	900	900	900	900
Shilla Country Club	4	0.14%	-	-	-	-
Jin Yang Development	900	-	450	450	450	-
Hybrid Tier 1 (Busan Bank)	-	-	100	100	100	100
Hybrid Tier 1 (Korea Exchange Bank)	-	-	400	433	433	408
Subordinated bonds (Citibank)	-	-	100	100	100	100
Total			1,950	1,983	1,983	1,508

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.

Impairment on available-for-sale financial investments
For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost.

Based on these criteria, the Group did not identify any impairment on available-for-sale investment as of December 31, 2011, December 31, 2010 and January 1, 2010.

12. OTHER FINANCIAL ASSETS

	December 31, 2011		December 31, 2010		January 1, 2010	
	Million KRW		Million KRW		Million KRW	
Description	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**
Bank deposits (> 3 Months)	1,648	2,013	1,239	4,506	1,833	1,060
Loans	2	-	274	-	167	-
Derivative financial assets (Note 26.1)	-	-	-	174	-	-
Guarantee deposits	50	218	39	-	39	-
Total	1,700	2,231	1,552	4,680	2,039	1,060

12.1 LOANS

Details of loans as of December 31, 2011, December 31, 2010 and transition date are as follows:

Description	Annual interes rate (%)	December 31, 2011	December 31, 2010	January 1, 2010
	Million KRW	Million KRW	Million KRW	Million KRW
CHEMSERVICE Asia Co. Ltd.	8.50	-	270	-
ZINK	Eurolibor + 0.50	-	-	167
Loans for employees	6.50	2	4	-
Total		2	274	167

12.2 OTHER FINANCIAL ASSETS PLEDGED AS COLLATERAL

The bank deposits pledged as collateral in connection with interest-bearing loans and borrowings as of December 31, 2011, December 31, 2010 and transition date are as follows:

Description	December 31, 2011	December 31, 2010	January 1, 2010
	Million KRW	Million KRW	Million KRW
Bank deposits - Current	2,969	826	681
Bank deposits - Non-current	-	-	950
Total	2,969	826	1,631

13. INVENTORIES

Description	December 31, 2011	December 31, 2010	January 1, 2010
	Million KRW	Million KRW	Million KRW
Raw materials and supplies	21,301	16,766	12,083
Finished goods	138,034	73,268	57,752
Goods in transit	22,799	7,843	3,632
Consignment Stocks	471	-	-
Total inventories at the lower of cost and net realisable value	182,605	97,877	73,467

As of December 31, 2011 inventory write-off amounted to 2,156 Million KRW for raw material and finished goods (December 31, 2010: 1,590 Million KRW and January 1, 2010: 1,225 Million KRW).

14. TRADE ACCOUNTS RECEIVABLE AND OTHER ACCOUNTS RECEIVABLES

Description	December 31, 2011	December 31, 2010	January 1, 2010
	Million KRW	Million KRW	Million KRW
Trade accounts and notes receivable (net)	104,288	158,858	118,836
Other accounts receivable (net)	960	2,010	1,052
Accrued income	91	193	121
	105,339	161,061	120,009

Other account receivables includes customs mainly rental income receivables and others.
The movements of the allowance for doubtful receivables are as follows:

	Individually impaired	Collectively impaired	Total
	Million KRW	Million KRW	Million KRW
January 1, 2010	-681	-307	-988
Charge for the year	-382	-27	-409
Utilised	-	32	32
Unused amounts reversed	-	-	-
December 31, 2010	-1,063	-302	-1,365
Charge for the year	-	-13	-13
Business acquisition	-21	-	-21
Unused amounts reversed	456	53	509
December 31, 2011	-628	-262	-890

The ageing analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			‹ 30 days	30–90 days	90-120 days	120-180 days	› 180 days
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
December 31, 2011	105,339	94,274	6,119	3,734	182	42	988
December 31, 2010	161,061	155,911	2,544	858	88	203	1,457
January 1, 2010	120,009	115,663	2,107	1,521	234	484	-

15. OTHER CURRENT ASSETS

Other current assets as of December 31, 2011, December 31, 2010 and January 1, 2010 date consist of the following:

Description	December 31, 2011	December 31, 2010	January 1, 2010
	Million KRW	Million KRW	Million KRW
Advance payments	1,649	32	415
Prepaid expenses	1,494	1,330	1,000
VAT refundables	169	39	-
Total	3,312	1,401	1,415

16. CASH AND SHORT-TERM DEPOSITS

Description	December 31, 2011	December 31, 2010	January 1, 2010
	Million KRW	Million KRW	Million KRW
Cash on hand	73	92	74
Bank accounts	72,491	29,952	11,046
Time deposit (‹ 3 months)	331	-	-
Total	72,895	30,044	11,120

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

17. ISSUED CAPITAL AND RESERVES

17.1 SHARE CAPITAL

In accordance with the Articles of Incorporation, the company is authorized to issue 100,000,000 shares of common stock with a par value of 500 per share. As of December 31, 2011, December 31, 2010 and transition date, the company issued 24,000,000 shares of common stock with carrying value of 12,000 Million KRW.

17.2 CAPITAL SURPLUS

As of December 31, 2011, December 31, 2010 and transition date January 1, 2010, capital surplus of the company amounts to 24,361 Million KRW. Thereof comprised paid-in capital in excess of par value is 20,065 Million KRW and gain on disposal of treasury stock 4,296 Million KRW, respectively.

17.3 RESERVES

Description	December 31, 2011	December 31, 2010	January 1, 2010
	Million KRW	Million KRW	Million KRW
Legal reserve	288	144	-
Asset revaluation surplus	25,815	25,815	25,815
Total	26,103	25,959	25,815

Legal Reserves

In accordance with the Korean Commercial Code, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of paid-in capital. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital. Appropriation to legal reserve from retained earnings, pursuant to the approval of the General Meeting of Shareholders during 2011 and 2010, amounted to 144 Million KRW.

Asset revaluation reserve

The Group re-valued certain of its property, plant and equipment in accordance with the Korean Asset Revaluation Act on January 1, 1984 and on January 1, 1999, resulting in a revaluation surplus of 2,884 Million KRW and 64,277 Million KRW, respectively. Asset revaluation surplus amounting to 62,343 Million KRW, net of related revaluation tax, was credited to capital surplus. Asset revaluation surplus as of December 31, 2011, December 31, 2010 and transition date is 25,815 Million KRW as asset revaluation surplus of 23,312 Million KRW and 13,216 Million KRW was utilized in disposition of accumulated deficit pursuant to the approval of the stockholders on March 6, 2009 and March 7, 2008, respectively. The asset revaluation surplus may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

Dividends

Dividends approved by the shareholders are as follows.

Description	December 31, 2011	December 31, 2010
Subject to the year	2010	2009
Dividends on ordinary shares in KRW	1,440,000,000	1,440,000,000
Number of shares	24,000,000	24,000,000
Dividends per share in KRW	60	60

17.4 ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of tax as of December 31, 2011, December 31, 2010 and transition date is composed of the following:

Description	December 31, 2011	December 31, 2010	January 1, 2010
	Million KRW	Million KRW	Million KRW
Available-for-sale financial investments	31	32	7
Exchange differences on translation of foreign operation	68	86	-
Interest rate swap	-99	-330	-
Total	-1	-212	7

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

Description	2011	2010
	Million KRW	Million KRW
PRETAX AMOUNTS		
Gain / (loss) on valuation of AFS financial assets	-1	25
Reclassification adjustment of loss on valuation of interest rate swap	257	228
Gain / (loss) on valuation of interest rate swap	39	-650
Exchange differene on translation of foreign operations	-18	86
Actuarial gains / (losses)	-3,426	-2,470
Pretax amounts total	-3,149	-2,781
TAX EFFECTS:		
Gain / (loss) on valuation of AFS financial assets	-	-
Gain / (loss) on valuation of interest rate swap	-65	93
Exchange differene on translation of foreign operations	-	-
Actuarial gains / (losses)	736	543
Tax effects total	671	636
NET AMOUNTS:		
Gain / (loss) on valuation of AFS financial assets	-1	25
Gain / (loss) on valuation of interest rate swap	230	-330
Exchange differene on translation of foreign operations	-18	86
Actuarial gains / (losses)	-2,689	-1,927
Net amounts total	-2,478	-2,146

18. INTEREST BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings as of December 31, 2011, December 31, 2010 and transition date are as follows:

Description	December 31, 2011	December 31, 2010	January 1, 2010
	Million KRW	Million KRW	Million KRW
Long-term privately placed corporate bonds	5,000	20,000	3,333
Long-term borrowings	32,230	28,005	46,001
Non-current bank loans and bonds	37,230	48,005	49,334
Current portion of borrowings	33,030	21,717	26,717
Current portion of privately placed corporate bonds	20,000	3,333	3,333
Short-term privately placed corporate bonds	35,000	25,000	55,000
Current portion of facilities borrowings	-	10,000	20,000
Short-term borrowings	324,719	254,424	163,997
Current loans and borrowings	412,749	314,475	269,047
Total	449,979	362,480	318,381

Current portion of facilities borrowings as of December 31, 2010, and transition date January 1, 2010, are related to Honam Petrochemical Co., Ltd. in connection with the construction of the IBL manufacturing machinery. The facilities borrowings have been repaid during financial year 2011.

Details of **long-term borrowings** as of December 31, 2011, December 31, 2010 and transition date are as follows:

Bank	Description	Annual interest rate	December 31, 2011	December 31, 2010	January 1, 2010
		(%)	Million KRW	Million KRW	Million KRW
Woori Bank	General Loan	6.94-6.99	22,375	42,875	63,375
Korea Development Bank	General Loan	2.00-5.94	22,454	6,847	9,343
Busan Bank	General Loan	6.56	10,000	-	-
Hana Bank	General Loan	6.06	10,000	-	-
NRW Bank	General Loan	6.03	431	-	-
Sub-total			65,260	49,722	72,718
Less current portion			-33,030	-21,717	-26,717
Non-current portion			32,230	28,005	46,001

Details of **privately placed bonds** as of December 31, 2011, December 31, 2010 and transition date are as follows:

Bank	Issuance date	Maturity date	Annual interest rate	December 31, 2011	December 31, 2010	January 1, 2010
			(%)	Million KRW	Million KRW	Million KRW
Hana Bank	09.29.06	09.29.11	7.33	-	3,333	6,666
Woori Bank	02.20.09	02.20.10	-	-	-	10,000
Woori Bank	05.15.09	05.15.10	-	-	-	30,000
Woori Bank	02.19.10	02.18.12	5.82	25,000	5,000	-
Woori Bank	05.14.10	05.16.11		-	20,000	-
Korea Development Bank	01.27.11	01.27.14	5.89	5,000	-	-
Korea Development Bank	07.17.09	07.19.10	-	-	-	10,000
Korea Development Bank	12.07.09	12.07.10	-	-	-	5,000
Korea Standard Chartered Bank	06.18.10	06.18.12	4.75	20,000	20,000	-
Gyeong Nam Bank	07.07.11	06.07.12	5.82	10,000	-	-
Sub-total				60,000	48,333	61,666
Less short term bonds				-35,000	-25,000	-55,000
Less current portion				-20,000	-3,333	-3,333
Non-current portion				5,000	20,000	3,333

Details for short-term borrowings are as follow:

Bank	Description	Annual interest rate	December 31, 2011	December 31, 2010	January 1, 2010
		(%)	Million KRW	Million KRW	Million KRW
Woori Bank	Trade loans	5.38-6.63	98,362	95,026	77,420
Hana Bank	Trade loans	6.32	26,745	29,144	8,335
Citibank	Gen. & trade loans	6.26-6.57	34,994	26,318	13,709
Korea Development Bank	Gen. & trade loans	5.98-6.35	48,789	31,253	16,727
Busan Bank	Trade loans	6.81	14,085	9,334	10,498
Korea Standard Chartered Bank	Trade loans	5.56	10,000	10,000	-
Suhyup Bank	Trade loans	5.71	10,000	-	-
Gyeong Nam Bank	Trade loans	6.8	12,843	-	-
Korea Exchange Bank	Trade loans	6.23-6.85	64,265	51,084	34,140
Korea Exchange Bank	Trade loans	2.9	4,635	2,265	-
Korea Eximbank	Trade loans	3.83-3.86	-	-	3,168
Total			324,719	254,424	163,997

19. OTHER FINANCIAL LIABILITIES

Other financial liabilities as of December 31, 2011, December 31, 2010 and transition date are as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Non-current	Current	Non-current	Current	Non-current	Current
Description	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Other specific payables (see note 29.3)	17,176	8,581	-	-	-	-
Other withholdings	252	-	178	-	85	-
Long-term deposits received	1,962	-	1,952	-	1,949	-
Derivative liabilities (see note 26.1)	-	802	423	657	-	-
Accrued interest expenses	-	1,722	-	1,115	-	1,306
Unpaid dividends	-	2	-	1	-	1
Total	19,390	11,107	2,553	1,773	2,034	1,307

20. PENSIONS LIABILITY

The Group has two defined benefit pension plans, one salary plan in Korea and one in Switzerland.

20.1 NET BENEFIT EXPENSE

The following tables summarise the components of net benefit expense recognised in the income statement and the funded status and amounts recognised in the statement of financial position for the respective plans:

	Korean plan	Swiss plan	Total
	Million KRW	Million KRW	Million KRW
December 31, 2011			
Current service cost	-1,636	-436	-2,072
Interest cost on benefit obligation	-1,260	-323	-1,584
Expected return on plan assets	606	293	899
Net benefit expense	-2,290	-466	-2,756
Actual return on plan assets	555	149	704
December 31, 2010			
Current service cost	-1,337	-	-1,337
Interest cost on benefit obligation	-1,143	-	-1,143
Expected return on plan assets	616	-	616
Net benefit expense	-1,864	-	-1,864
Actual return on plan assets	498	-	498

20.2 DEFINED BENEFIT OBLIGATION

	Korean plan	Swiss plan	Total
	Million KRW	Million KRW	Million KRW
Defined benefit obligation as of January 1, 2010	17,567	-	17,567
Current service cost	1,337	-	1,337
Interest cost on benefit obligation	1,143	-	1,143
Benefits paid	-1,393	-	-1,393
Employee contributions	-	-	-
Actuarial losses	2,353	-	2,353
Exchange differences	-	-	-
Defined benefit obligation as of December 31, 2010	21,006	-	21,006
Business combination	-	9,855	9,855
Current service cost	1,636	436	2,072
Interest cost on benefit obligation	1,260	323	1,584
Benefits paid / received	-2,557	670	-1,888
Employee contributions	-	344	344
Actuarial losses	3,232	-	3,232
Exchange differences	-	309	309
Defined benefit obligation as of December 31, 2011	24,576	11,937	36,513

20.3 PLAN ASSETS

	Korean plan	Swiss plan	Total
	Million KRW	Million KRW	Million KRW
Fair Value of plan assets as of January 1, 2010	11,044	-	11,044
Expected return on plan assets	616	-	616
Employer contributions	2,851	-	2,851
Employee contributions	-	-	-
Benefits paid	-562	-	-562
Actuarial gains / (losses) on plan assets	-118	-	-118
Exchange differences	-	-	-
Fair Value of plan assets as of December 31, 2010	13,831	-	13,831
Business combination	-	9,181	9,181
Expected return on plan assets	606	293	899
Employer Contributions	2,000	616	2,616
Employee Contributions	-	344	344
Benefits paid / received	-1,436	670	-766
Actuarial gains / (losses) on plan assets	-51	-144	-195
Exchange differences	-	294	294
Fair Value of plan assets as December 31, 2011	14,951	11,254	26,205

20.4 PENSION LIABILITY

	Korean plan	Swiss plan	Total
	Million KRW	Million KRW	Million KRW
Defined Benefit obligation as per January 1, 2010	17,567	-	17,567
Fair Value of Plan assets as per January 1, 2010	-11,044	-	-11,044
Prepayment to the NPS as per January 1, 2010	-355	-	-355
Net Pension obligation as per January 1, 2010	6,168	-	6,168
Defined Benefit obligation as per December 31, 2010	21,006	-	21,006
Fair Value of Plan assets as per December 31, 2010	-13,831	-	-13,831
Prepayment to the NPS as per December 31, 2010	-339	-	-339
Net Pension obligation as per December 31, 2010	6,836	-	6,836
Defined Benefit obligation as per December 31, 2011	24,576	11,937	36,513
Fair Value of Plan assets as per December 31, 2011	-14,951	-11,254	-26,205
Prepayment to the NPS as per December 31, 2011	-305	-	-305
Net Pension obligation as per December 31, 2011	9,320	683	10,003

The acquisition of Songwon Holdings AG resulted in the recognition of the Swiss plan in the consolidated financial statement of the Group as per acquisition date.

The actuarial gains and losses recognized in the statement of comprehensive income were losses of 3,426 million KRW (2010: losses of 2,470 million KRW), pre-tax. The total amount at 31 December 2011 of accumulated loss included in retained earnings are 4,616 million KRW (2010: accumulated loss of 1,927 million KRW), net of tax.

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled. These are reflected in the principal assumptions below.

The principal assumptions used in determining pension benefit obligations for the Group's plans are shown below:

	Determining Net Expense		Determining pension benefit obligation		
	2011	**2010**	**December 31, 2011**	**December 31, 2010***	**January 1, 2010**
	%	%	%	%	%
Discount rate:					
Korean Plan	6.30%	6.90%	5.40%	6.30%	6.90%
Swiss Plan	2.75%	n/a	2.75%	2.75%	n/a
Expected rate of return on assets:					
Korean Plan	4.50%	5.75%	n/a	n/a	n/a
Swiss Plan	2.875%	n/a	n/a	n/a	n/a
Future salary increases:					
Korean Plan	5.00%	5.00%	5.00%	5.00%	5.00%
Swiss Plan	2.00%	n/a	2.00%	2.00%	n/a

** In regards with the Swiss Plan the assumptions listed above should be deemed as of January 3, 2011 (date of business combination).*

21. OTHER LONG TERM EMPLOYEE BENEFITS

	Million KRW
As of January 1, 2010	802
Current service cost	78
Interest cost	52
Actuarial loss	552
Total payment	-98
As of December 31, 2010	1,386
Current service cost	150
Interest cost	88
Actuarial loss	-10
Total payment	-193
As of December 31, 2011	1,421

	December 31, 2011	**December 31, 2010**	**January 1, 2010**
Discount rate	5.4%	6.6%	6.9%
Conmpensation increase	5.0%	5.0%	5.0%
Compensation per day for vacation	KRW 53,000	KRW 53,000	KRW 53,000
Rate of increase in gold price	6.8%	6.3%	n/a
Gold price per 3,75 gram	KRW 218,700	KRW 190,400	KRW 170,500

The parent company also implements a bonus plan designed to present prescribed quantity of gold and entitle compensated vacation to long term service employees. Accounting policies to the bonus plan are mostly the same with the defined benefit plan except for that all the past service cost and actuarial variances is recognized immediately in profit or loss.

22. TRADE AND OTHER PAYABLES

	December 31, 2011	**December 31, 2010**	**January 1, 2010**
	Million KRW	Million KRW	Million KRW
Trade and other payables	29,257	41,221	27,031
Trade and other payables (related parties)	-	4,964	-
Other accounts payables	14,445	17,672	9,777
Other accounts payables (related parties)	7	2	394
Withholdings	419	366	363
Accrued expenses	9,551	2,870	3,079
Guarantee deposits	19	18	17
Total	**53,698**	**67,113**	**40,661**

Trade and other payables do not bear interest and will usually become due within 30 to 60 days.

23. OTHER INCOME/EXPENSES AND ADJUSTMENTS

23.1 OTHER OPERATING INCOME

	2011	2010
	Million KRW	Million KRW
Fee income	10	63
Misc. income	706	889
Gains on foreign exchange transaction	9,588	7,075
Gains on foreign exchange translation	4,669	941
Gain on disposal of property, plant and equipment	304	92
Rendering of services	31	-
Rental income (third parties)	1,818	1,619
Rental income (group companies)	2	2
Total	17,128	10,681

23.2 OTHER OPERATING EXPENSES

	2011	2010
	Million KRW	Million KRW
Loss on capacity variance	-7,564	-4,348
Miscellaneous operating expenses	-871	-226
Loss on disposal of property, plant and equipment	-126	-12
Loss on foreign exchange transaction	-8,347	-6,825
Loss on foreign exchange translation	-2,605	-2,130
Total other operating expenses	-19,513	-13,541

23.3 EXPENSES CLASSIFIED BY NATURE

	2011	2010
	Million KRW	Million KRW
Raw material used	-438,749	-395,750
Personnel expenses	-45,274	-29,729
Depreciation and amortization	-29,009	-23,214
Changes in inventories of finished goods and supplies	34,216	18,799
Other expenses	-144,512	-106,079
Total	-623,328	-535,973

23.4 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of 1,400 million KRW (2010: 1,469 million KRW) are recorded in the income statement. Development expenses are not capitalized because the conditions for capitalization have not been met.

23.5 SELLING AND ADMINISTRATION COST

	2011	2010
	Million KRW	Million KRW
Personnel expenses	-17,756	-5,585
Travelling	-2,679	-836
Depreciation	-6,156	-578
Insurance	-443	-201
Entertainment	-554	-456
Advertising	-727	-2,720
Administration expenses	-35,571	-23,925
Sales commission	-2,698	-10,414
Vehicle expenses	-403	-185
Rental expenses	-464	-158
Bad debt loss	496	-409
Others	7	-273
Total	-66,962	-45,740

23.6 FINANCE COSTS

	2011	2010
	Million KRW	Million KRW
Interest on borrowings	-23,422	-19,390
Total Interest cost	-23,422	-19,390
Loss on foreign exchange	-18,865	-1,809
Available-for-sales financial assets	-	-19
Loss on derivative transaction	-643	-657
Loss on valuation of derivatives	-675	-196
Bank charges	-447	-504
Total finance costs	-44,052	-22,575

23.7 FINANCE INCOME

	2011	2010
	Million KRW	Million KRW
Interest on loans and receivables	562	554
Gain on foreign exchange	17,229	2,684
Gain on derivative transaction	1,099	231
Gains on valuation of derivatives	653	174
Gain on disposal of available for sale securities	-	3
Interest on loans and receivables (related parties)	11	15
Total finance income	19,554	3,661

23.8 NET GAINS AND LOSSOS OF THE CLASSES OF FINANCIAL INSTRUMENTS

Net gains or losses (excluding bank charges) on the classes of the financial instruments for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

Description	2011	2010
	Million KRW	Million KRW
Financial assets measured at fair value through profit or loss	-125	-448
Loans and receivables	3,104	465
Available-for-sales financial assets	41	55
Financial liabilities measured at amortised cost	-27,071	-18,482
Total	-24,051	-18,410

23.9 COMPARISION OF OTHER OPERATING INCOME K-IFRS TO PREVIOUS GAAP

Operating income classified according to the classification rule of the previous GAAP for the years ended December 31, 2011 and 2010 are as follows (Korean won in millions):

	2011	2010
	Million KRW	Million KRW
Operating income under K-IFRS	22,772	31,724
Reconciliation:		
Gain on foreign exchange	-14,256	-8,015
Loss on foreign exchange	10,952	8,955
Loss on capacity variance	7,564	4,348
Rental income	-1,820	-1,621
Others	-366	-806
Operating income classified by previous GAAP	24,846	34,584

The information above depicts the only difference arising from the classification rule between the K-IFRS and the previous GAAP whereas only K-IFRS has been used as measurement basis. The operating income classified by previous GAAP indicated above for the year ended December 31, 2010 is different from the previously reported operating income under previous GAAP amounting to 47,263 million.

24. INCOME TAX

The major components of income tax expense for the years ended 31 December 2011 and 2010 are:

24.1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2011	2010
	Million KRW	Million KRW
Current income tax charge	-1,217	-326
Adjustments in respect of current income tax of previous year	-10	-
Deferred income taxes relating to changes of temporary differences, net	7,859	-681
Deferred income taxes relating to tax loss carry forwards	-5,048	2,896
Deferred income taxes from tax credits	251	1,409
Deferred income taxes recognized directly to other comprehensive income	-671	-636
Income tax expense reported in the income statement	1,164	2,662

	2011	2010
	Million KRW	Million KRW
Accounting profit before income tax	8,869	18,926
At parents company,s statutory income tax rate of 23.95 % (2010: 23.77%)	-2,124	-4,499
Increase /(decrease) in income taxes resulting from:		
Adjustments in respect to current income tax of previous years	-10	-
Non temporary differences	-231	-188
Other (Reassessment of impaired deferred tax assets etc.)	-	7,769
Other non-taxable income due to step acquisition	9,665	-
Non deductible impairment of goodwill	-7,103	-
Other non-deductible expenses - Others	-237	-219
Effect of different tax rates in tax jurisdiction	1,204	-202
At the effective income tax rate -13.12% (2010: -14.07%)	1,164	2,662

24.2 DEFERRED TAX

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated income statement	
	December 31, 2011	December 31, 2010	January 1, 2010	2011	2010
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Pension Obligation	663	-37	-737	847	716
Other long term employment benefits	313	305	177	8	128
Trade accounts receivables	-	248	374	-248	-126
Inventories	1,940	734	348	1,206	386
Fixed Assets	-25,827	-26,808	-26,279	981	-529
Gain on revaluation of land	-24,025	-24,135	-24,159	110	23
Available-for-sale investments	-	-	1	-	-1
Loss on currency forwards	128	159	-	-31	159
Other withholdings (Governmental Grant)	55	37	18	18	18
Accrued income	-35	-54	-29	18	-24
Gain on foreign exchange	-1,227	-168	-124	-1,059	-44
Loss on foreign exchange	1,330	189	365	1,141	-176
Prepaid expenses	-163	-190	-135	27	-56
Other current liabilities	-	-10	-6	10	-4
Other current provisions	-	-14	-6	14	-8
Other non-current provisions	40	-	-	40	-
Gain on valuation of available-for-sale investments	-7	-7	-2	-	-6
Gain on currency forwards	-	-42	-	42	-42
Loss on interest rate swap	28	93	-	-	-
Investments using equity method	-	-2,168	-996	2,168	-1,172
Intangible assets	-4,011	-	-	2,541	-
Losses available for offsetting against future taxable income	4,059	9,106	6,210	-5,048	2,896
Tax credits carry forwards	1,661	1,409	-	-405	773
Deferred tax income/(expense)				2,381	2,912
Net deferred tax assets/(liabilities)	-45,079	-41,352	-44,978		
Reflected in the statement of financial position as follows:					
Deferred tax assets	1,677	317	74		
Deferred tax liabilities	46,756	41,669	45,052		

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Reconciliation of deferred tax liabilities, net:

Description	2011	2010
	Million KRW	Million KRW
Opening balance as of January 1	-41,352	-44,978
Tax income / (expense) during the period recognized in total comprehensive income	3,062	3,626
Deferred taxes acquired in business combination	-7,565	-
Exchange differences	776	-
Closing balance as of December 31	-45,079	-41,352

Expecting sufficient taxable income, the Group recognized deferred income tax assets to the extent of future taxable income. For the following deductible temporary differences, tax loss carry forward and tax credit carry foreard no deferred tax assets as of December 31, 2011, December 31, 2010 and transition date are as follows (Korean won in millions) were regonized:

Description	December 31, 2011	December 31, 2010	January 1, 2010
	Million KRW	Million KRW	Million KRW
Temporary differences	121	121	601
Tax loss carry forwards	-	-	6,306
Tax credit carry forwards	2,245	6,152	11,262
Total	2,366	6,273	18,169

Expected timing of expiration of recognized and unrecognized dedectible temporary differences, tax loss carry forwards and tax credit carry forwards as of December 31, 2011, December 31, 2010 and transition date are as follows:

	Recognized deferred tax assets		Unrecognized deferred tax assets	
	Tax loss carry forwards	**Tax credit carry forwards**	**Tax loss carry forwards**	**Tax credit carry forwards**
December 31, 2011	Million KRW	Million KRW	Million KRW	Million KRW
less 1 year	2,249	565	-	1,680
1-5 years	1,810	1,096	-	565
5 years and later	-	-	-	-
Total	4,059	1,661	-	2,245
December 31, 2010	Million KRW	Million KRW	Million KRW	Million KRW
less 1 year	-	-	-	3,644
1-5 years	9,106	1,409	-	2,509
5 years and later	-	-	-	-
Total	9,106	1,409	-	6,152
January 1, 2010	Million KRW	Million KRW	Million KRW	Million KRW
less 1 year	-	-	6,306	5,110
1-5 years	6,210	-	-	6,152
5 years and later	-	-	-	-
Total	6,210	-	6,306	11,262

25. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the average number of ordinary shares outstanding during the year.

There is no difference between basic and diluted earnings per share in 2010 and 2011.

The following reflects the income and share data used in the basic per share computations:

Description	2011	2010
	KRW	KRW
Net profit attributable to ordinary equity holders of the parent	10,032,758,907	21,587,827,765
Weighted average number of ordinary shares	24,000,000	24,000,000
Earnings per share (basic / diluted)	418	899

26. DERIVATIVES FINANCIAL INSTRUMENTS

	December 31, 2011		December 31, 2010		January 1, 2010	
	Million KRW		Million KRW		Million KRW	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Forward foreign exchange contracts	-	581	174	657	-	-
Interest rate swaps	-	221	-	423	-	-
Total	-	802	174	1,080	-	-
Interest rate swaps (non-current portion)	-	-	-	423	-	-
Current portion	-	802	174	657	-	-

26.1 CURRENCY FORWARDS

Currency forward contracts which the Group has entered into in order to hedge the risk of foreign exchange rate fluctuation of assets denominated in foreign currencies as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows:

AS PER DECEMBER 31, 2011

Contractual party	Contract amount	Maturity dates	Contracted exchange rate (Korean won)
Woori Bank	JPY 700,000,000	2012.01.25 -2012.05.25	1,406.30 - 1,417.20

As per December 31, 2010

Contractual party	Contract amount	Maturity dates	Contracted exchange rate (Korean won)
Korea Development Bank	EUR 3,200,000	2011.01.25 - 2011.02.25	1,545.40 - 1,546.30
Woori Bank	EUR 4,800,000	2011.06.27 - 2011.08.25	1,538.78 - 1,540.14
Citibank	JPY 710,000,000	2011.01.25 - 2011.05.25	1,361.50 - 1,365.00
Korea Standard Chartered Bank	JPY 850,000,000	2011.06.27 - 2011.11.25	1,365.85 - 1,369.65

AS PER JANUARY 1, 2010

Contractual party	Contract amount	Maturity dates	Contracted exchange rate (Korean won)
No currency forwards	-	-	-

26.2 INTEREST RATE SWAP

As of December 31, 2011 Interest rate swap contracts which the Group has entered into in order to hedge the risk of interest rate fluctuation arising from the unsecured privately - placed bonds (Korea Standard Chartered Bank) are as follows:

AS PER DECEMBER 31, 2011

Description	Bonds contract	Interest rate swap contract
a)		
Contract date	June 18, 2010	June 18, 2010
Maturity date	June 18, 2012	June 18, 2012
Contract amount KRW	20,000.00	20,000,000.00
Fixed interest rate	n/a	6.00%
Floating interest rate	3MCD+1.2%	3MCD+1.2%
b)		
Contract date	November 23, 2009	November 23, 2009
Maturity date	November 23, 2014	November 23, 2014
Contract amount Euro	1,000,000.00	1,000,000.00
Fixed interest rate	3.75%	3.75%
Floating interest rate	EURIBOR-3-Month+0.715%	EURIBOR-3-Month+0.715%

As of December 31, 2010 Interest rate swap contracts which the Group has entered into in order to hedge the risk of interest rate fluctuation arising from the unsecured privately - placed bonds (Korea Standard Chartered Bank) are as follows:

AS PER DECEMBER 31, 2010

Description	Bonds contract	Interest rate swap contract
Contract date	June 18, 2010	June 18, 2010
Maturity date	June 18, 2012	June 18, 2012
Contract amount KRW	20,000.00	20,000,000.00
Fixed interest rate	n/a	6.00%
Floating interest rate	3MCD+1.2%	3MCD+1.2%

AS PER JANUARY 1, 2010

Description	Bonds contract	Interest rate swap contract
No interest rate swaps	-	-

The Group applies cash flow hedge accounting on interest rate swap. The balances included in accumulated other comprehensive income are -99 Million KRW and -330 Million KRW as of December 31, 2011 and 2010, respectively (see note 17.4), net of income tax. The income tax effects are 28 Million KRW and 93 Million KRW, respectively.

27. FAIR VALUES

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

	Carrying amount			Fair value		
	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Financial assets at fair value through profit and loss	-	174	-	-	174	-
Other financial assets (Derivatives)	-	174	-	-	174	-
Thereof Current	-	174	-	-	174	-
Thereof Non-Current	-	-	-	-	-	-
Loans and receivables	182,165	197,163	134,228	182,165	197,163	134,228
Other financial assets	3,931	6,058	3,099	3,931	6,058	3,099
Thereof Current	2,231	4,506	1,060	2,231	4,506	1,060
Thereof Non-Current	1,700	1,552	2,039	1,700	1,552	2,039
Trade accounts receivables	105,339	161,061	120,009	105,339	161,061	120,009
Thereof Current	105,339	161,061	120,009	105,339	161,061	120,009
Thereof Non-Current	-	-	-	-	-	-
Cash and short-term deposits	72,895	30,044	11,120	72,895	30,044	11,120
Thereof Current	72,895	30,044	11,120	72,895	30,044	11,120
Thereof Non-Current	-	-	-	-	-	-
Available-for-sale financial assets	1,983	1,983	1,508	1,983	1,983	1,508
Thereof Current	-	-	-	-	-	-
Thereof Non-Current	1,983	1,983	1,508	1,983	1,983	1,508
Total	184,148	199,320	135,736	184,147	199,320	135,736

	Carrying amount			Fair value		
	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Financial liabilities at fair value through profit and loss	581	657	-	581	657	-
Other financial liabilities (Derivatives)	581	657	-	581	657	-
Thereof Current	581	657	-	581	657	-
Thereof Non-Current	-	-	-	-	-	-
Financial liabilities measured at amortized costs	533,372	432,840	362,383	533,372	432,840	362,383
Interest bearing loans and borrowings	449,979	362,480	318,381	449,979	362,480	318,381
Thereof Current	412,749	314,475	269,047	412,749	314,475	269,047
Thereof Non-Current	37,230	48,005	49,334	37,230	48,005	49,334
Other financial liabilities	29,695	3,247	3,341	29,695	3,247	3,341
Thereof Current	10,305	1,116	1,307	10,305	1,116	1,307
Thereof Non-Current	19,390	2,130	2,034	19,390	2,130	2,034
Trade and other payables	53,698	67,113	40,661	53,698	67,113	40,661
Thereof Current	53,698	67,113	40,661	53,698	67,113	40,661
Thereof Non-Current	-	-	-	-	-	-
Deriv. designated as hedge instrument	221	423	-	221	423	-
Other financial liabilities (Derivatives)	221	423	-	221	423	-
Thereof Current	221	-	-	221	-	-
Thereof Non-Current	-	423	-	-	423	-
Total	534,174	433,919	362,383	534,174	433,919	362,383

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Cash and short-term deposits, trade accounts receivables, other accounts receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair value of available-for-sale financial assets is derived from quoted market prices in active markets, if available. Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques (see note 27.1).

27.1 FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Description	Valuation technique
Level 1	Quoted (Unadjusted) prices in active markets for identical assets or liabilities
Level 2	Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3	Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

As at 31 December 2011 and as at 31 December 2010, the Group held the following financial instruments carried at fair value on the statement of financial position:

	December 31, 2011	Level 1	Level 2	Level 3
	Million KRW	Million KRW	Million KRW	Million KRW
ASSETS MEASURED AT FAIR VALUE				
Financial assets at fair value through profit or loss				
Derivatives	-	-	-	-
Available-for-sale financial assets	1,983	-	432	-
Hybrid Tier 1	432	-	432	-
Others (at costs)	1,550	-	-	-
LIABILITIES MEASURED AT FAIR VALUE				
Financial liabilities at fair value through profit or loss				
Derivatives	581	-	581	-
Derivatives designated as hedge instrument				
Derivatives	221	-	221	-

	December 31, 2010	Level 1	Level 2	Level 3
	Million KRW	Million KRW	Million KRW	Million KRW
ASSETS MEASURED AT FAIR VALUE				
Financial assets at fair value through profit or loss				
Derivatives	174	-	174	-
Available-for-sale financial assets	1,983	-	433	-
Hybrid Tier 1	433	-	433	-
Others (at costs)	1,550	-	-	-
LIABILITIES MEASURED AT FAIR VALUE				
Financial liabilities at fair value through profit or loss				
Derivatives	657	-	657	-
Derivatives designated as hedge instrument				
Derivatives	423	-	423	-

	January 1, 2010	Level 1	Level 2	Level 3
	Million KRW	Million KRW	Million KRW	Million KRW
ASSETS MEASURED AT FAIR VALUE				
Financial assets at fair value through profit or loss				
Derivatives	-	-	-	-
Available-for-sale financial assets	1,508	-	407	-
Hybrid Tier 1	407	-	407	-
Others (at costs)	1,100	-	-	-
LIABILITIES MEASURED AT FAIR VALUE				
Financial liabilities at fair value through profit or loss				
Derivatives	-	-	-	-
Derivatives designated as hedge instrument				
Derivatives	-	-	-	-

During the reporting period ending 31 December 2011 and 31 December 2010, there were no transfers between Level 1 and Level 2 fair value measurements.

28. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

28.1 IMPAIRMENT TEST ON INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

There is no impairment loss recognized during 2011 and 2010 according to the impairment test on membership. The recoverable amount of membership is the higher of membership's fair value less costs to sell and its value in use. The Group uses fair value information available at first, otherwise determines fair value less costs to sell or value in use through the best estimation.

28.2 GOODWILL

Goodwill acquired through business combinations has been allocated to Group of Cash Generating Unit expected to benefit from acquisitions. The Goodwill acquired during the acquisition of Songwon Holdings AG and ATG Additive Technology Greiz GmbH are allocated to the Group of CGU's comprising the acquired entities and the parent company, which correspond almost to the entire Group. Insignifiancant Cash Generating Units were not included.

The Group performed its annual impairment test as at December 31, 2011

The recoverable amount of the Group of Cash Generating Units to which goodwill is allocated has been determined based on a fair value less cost to sell calculation. Methods used to determine the fair value less costs to sell include methods that use quoted stock market prices as a basis. Key assumptions on which management has based its determination of fair value less costs to sell include control premium of 30% and the cost to sell. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any goodwill impairment.

As a result of this analysis, management has recognized an impairment charge of 29,657 Million KRW against goodwill previously carried at 37,532 Million KRW, which is recorded within goodwill impairment in the income statement.

28.3 KEY ASSUMPTIONS USED IN CALCULATION OF FAIR VALUE LESS COST TO SELL

The calculation of fair value less cost to sell is most sensitive to the following assumptions:

Share Price
Control Premium
Cost to sell

Share Price
Share Price represents the current quoted market price of the company.

Control Premium
Control Premium is an amount that a buyer is usually willing to pay over the current market price of a publicly traded company. The market price of a single share of common stock and the associated market capitalization of a reporting unit with publicly traded equity securities may not be representative of the fair value of the reporting unit as a whole. Substantial value may arise from the abilitiy to take advantage of synergies and other benefits that result from control over a company.

Cost to sell
The cost to sell has to be taken into consideration when determining the fair falue less cost to sell of a group of cash generating units.

28.4 SENSITIVITY TO CHANGES IN ASSUMPTIONS

With regard to the assessment of fair value less cost to sell, management believes that no reasonably possible change in any of the above key assumptions would a further impairment charge to the carrying amount of the group of CGU's to which goodwill is allocated :

- **Change in Share Price**
  Based on the fact that the share market price has a direct impact to the calculation of the recoverable amount of the Group of CGU's a change in share market price would have a direct impact on the recoverable amount and consequently in the impairment charge recognized.

If the share price decreases by 2% than a further impairment charge of 5,720 Million KRW would be necessary.

- **Change in Control Premium Assumption**
  Determination of control premium has been determined using observable transaction in the market. Changing this assumption would have a direct impact on the recoverable amount and consequently in the impairment expenses recognized.

Would the control premium decrease by 5% a further impairment charge of 11,000 Million KRW would be necessary.

- **Cost to sell**
  Determination of cost to sell is based on observable transaction in the market and the cost arose in such transactions. A change in the assumption of cost to sell would have a direct impact on the recoverable amount and consequently in the impairment expense recognised.

Would the cost to sell be 1% higher than the expected impairment charge would be 8,002 Million KRW higher.

29. RELATED PARTY DISCLOSURES

The financial statements includes those subsidiaries which are disclosed in the "Basis for Consolidation" in Note 2.2.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year and balances as per year-end.

Related party	Description	For the year ending on December 31, 2011	2010
Songwon International AG (Joint venture; Business combination as of January 3, 2011)	Sales	-	103,684
	Purchase	-	439
	Other operating income	-	-
	Other operating expenses	-	6,696
	Finance income	-	-
Songwon International Americas Inc. (Joint venture; Business combination as of January 3, 2011)	Sales	-	103,595
	Purchase	-	7,900
	Other operating income	-	-
	Other operating expenses	-	3,717
	Finance income	-	-
Songwon Chemicals Co. Ltd. (Joint venture; Business combination as of October 1, 2011)	Sales	620	2,120
	Purchase	215	-
	Other operating income	-	-
	Other operating expenses	-	-
	Finance income	-	-
Chemservice Asia Ltd. (Joint venture)	Sales	-	-
	Purchase	-	-
	Other operating income	2	-
	Other operating expenses	92	-
	Finance income	11	15
Total	Sales	620	209,399
	Purchase	215	8,339
	Other operating income	2	-
	Other operating expenses	92	10,414
	Finance income	11	15

Related party	Description	December 31, 2011	December 31, 2010	January 1, 2010
Songwon International AG (Joint venture; Business combination as of January 3, 2011)	Trade receivables	-	46,470	29,954
	Trade payables	-	2,452	-
	Other payables	-	-	394
	Loans	-	-	-
Songwon International Americas Inc. (Joint venture; Business combination as of January 3, 2011)	Trade receivables	-	52,022	35,720
	Trade payables	-	2,505	-
	Other payables	-	-	-
	Loans	-	-	-
Songwon Chemicals Co. Ltd. (Joint venture; Business combination as of October 1, 2011)	Trade receivables	-	796	209
	Trade payables	-	-	-
	Other payables	-	-	-
	Loans	-	-	-
Chemservice Asia Ltd. (Joint venture)	Trade receivables	8	3	-
	Trade payables	-	-	-
	Other payables	7	7	-
	Loans	-	270	-
Total	Trade receivables	8	99,291	65,883
	Trade payables	-	4,957	-
	Other payables	7	7	394
	Loans	-	270	-

29.1 THE ULTIMATE PARENT

Songwon Industrial Ltd. is the ultimate Parent based and listed in Korea.

29.2 TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2011, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2010: None). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

29.3 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Since January 3, 2011, the company holds 100% of Songwon International AG's share both directly (60% equity interest), and indirectly by acquiring 100% share of Songwon Holdings AG (40% Interest).

The former shareholders of Songwon Holdings AG are present members of the Board of directors of its subsidiaries Songwon International AG and Songwon International Americas, Inc.

An amount of 21 Million CHF of the total acquisition cost of Songwon Holdings AG is still outstanding as of December 31, 2011, and scheduled to be paid in portions of 7 Million CHF on January 2012, 2013 and 2014 including an interest earned. The annual interest rate of 2.25% is determined by Swiss Federal Tax Authority.

29.4 COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	2011		2010	
	Million KRW		Million KRW	
	Registered - The parent	Others	Registered - The parent	Others
Short term employee benefits	618	6,952	590	1,219
Post-employment benefits	114	540	55	18
Other long-term benefits	-	794	-	-
Total compensation paid to key management personnel	732	8,286	645	1,237

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Due to the change of Group structure in financial year 2011, the Group management team expanded and therefore compensations to key management personnel increased materially compared to financial year 2010.

29.5 OTHER RELATED PARTIES

Other related parties are Songwon Moolsan Co. Ltd (Korea) which has significant incluence on the Group due to the interest held in the share capital of the parent company of 23.06%. Further Hyun gallery Co., Ltd. and Kyungshin Industrial Co., Ltd. are identified as other related parties of the Group.

30. COMMITMENTS AND CONTINGENCIES

30.1 CONTINGENT LIABILITY

There are no current proceedings of such as lawsuits, claims, investigations and negotiations due to product liability, mercantile law, environmental protection, health and safety etc. which could have significant influence on business operations, on the Group's financial position or income.

30.2 OPERATING LEASE COMMITMENTS

The Group has entered into commercial leases on certain motor vehicles and items of machinery. These leases have an average life of between three and five years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	December 31, 2011	December 31, 2010
	Million KRW	Million KRW
Within one year	-618	-70
After one year but not more than five years	-1,287	-231
More than five years	-695	-
	-2,600	-302

30.3 OTHER COMMITMENTS

As part of the ordinary business, the subsidiaries could enter into various contractual commitments for the purchase of tangible fixed assets and intangible assets as well as investment properties and promotion properties. As at December 31, 2011 no such commitments were entered.

The Group has provided two checks amounting to 22,000 thousand KRW to Honam Petrochemical Co., Ltd. and one blank promissory note to Hanwha Chemical Co., Ltd. as security on the supply contracts and also has provided one blank check to Honam Petrochemical Co., Ltd. as security in connection with borrowings as of December 31, 2011, December 31, 2010 and transition date. The one blank check provided to Honam Petrochemical Co. Ltd. was collected on February 10, 2012 and returned to the relevant bank.

One check and one promissory note which the Group received from Korea Exchange Bank are outstanding as of December 31, 2011 due to bankruptcy declared by the issuers of check.

Details of the Group's available short-term credit line facilities (excluding general loans) as of December 31, 2011 are as follows:

Description	Currency	Credit limit	Used	Unused
USANCE and L/C for import	Thousand USD	15,300	10,600	4,700
	Million KRW	10,000	99	9,901
D/A and D/P	Thousand USD	132,335	80,396	51,939
	Million KRW	24,000	10,626	13,374
Trade loans	Million KRW	171,200	148,833	22,367
B2B etc.	Million KRW	5,300	-	5,300
Overdraft	Million KRW	1,000	-	1,000
L/G for import	Thousand USD	1,000	204	796
Other foreign currency guarantees	Thousand USD	4,000	4,000	-
	Total Million KRW	211,500	159,558	51,942
	Total Thousand USD	152,635	95,200	57,435

The parent company has received payment guarantee provided by Jong-Ho Park, CEO of the Group, in connection with the issuance of unsecured, privately placed bonds to Korea Standard Chartered Bank amounting to 20,000 Million KRW. Other terms of the agreement in connection with the aforementioned bonds are:

The parent company must maintain financial ratio as follows:

Financial measure	Required ratio
DEBT/EBITDA	5.5 or less than 5.5
EBITDA/Interest	More than 2.0

The conditions above were agreed when the parent company applied the previous GAAP and shall be measured using the previous GAAP. Since the parent company does not meet DEBT/EBITDA condition as of December 31, 2011, Korea Standard Chartered Bank could force the parent company to take corrective actions.

The Group is obliged to get an approval from Korea Standard Chartered Bank, the bonds holder, to pledge its assets as collateral to the third parties other than Korea Standard Chartered Bank. Otherwise, Korea Standard Chartered Bank has the right to demand the repayment of bonds before maturity date.

31. ASSETS PLEDGED AS COLLATERAL AND GUARANTEES RECEIVED

Details of property, plant and equipment and investment properties pledged by the Group as collateral for interest-bearing loans and borrowings as of as of December 31, 2011, December 31, 2010 and transition date, expressed in the maximum value registered to Korean court, are as follows:

Pledged to	Pledged assets	December 31, 2011	December 31, 2010	January 1, 2010
		Million KRW	Million KRW	Million KRW
PROPERTY, PLANT AND EQUIPMENT				
Woori Bank	Land, buildings and machinery	210,000	210,000	210,000
Korea Exchange Bank	Land, buildings and machinery	36,200	36,200	36,200
Korea Development Bank	Land, buildings and machinery	57,000	57,000	32,000
Citibank	Land, buildings and machinery	13,000	13,000	13,000
Honam Petrochemical Corp.	Land, buildings and machinery	-	24,000	24,000
INVESTMENT PROPERTIES				
Hana Bank	Land and buildings	25,000	25,000	25,000
Total		341,200	365,200	340,200

Investment properties pledged by the Group as collateral in connection with repayment of leasehold deposits received as of December 31, 2011, December 31, 2010 and transition date amounted to 200 Million KRW.

The Group has received land and buildings as collateral provided by related parties, Songwon Moolsan Co., Ltd. and Kyungshin Ind. Co., Ltd, in connection with the Group's borrowings from Busan Bank, to the extent of 29,000 Million KRW as of as of December 31, 2011. Trade accounts and notes receivables had been provided as collateral to the extent of 16,700 Million KRW as of transition date in connection with long-term facilities borrowings of Honam Petrochemical Co. Ltd

The Group has received payment guarantee amounting to 656,918 Million KRW and 86 Million USD provided by Jongho Park, CEO of the Group, in connection with the Group's borrowings from banks as of December 31, 2011.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables, and other financial liabilities. The main purpose of these financial liabilities is to finance the Group's operations. The Group has trade and other receivables, cash and cash equivalents and other financial assets that arrive directly from its operations. The Group also holds available-for-sale investments and enters into derivative transactions and applies hedge accounting for cash flow hedges.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's management oversees the management of these risks through appropriate risk assessment and monitoring activities to minimize those risks.

32.1 MARKET RISK

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise two types of risk:

- Interest rate risk; and,
- Foreign currency risk.

Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as at 31 December in 2011 and 2010.

32.1.1 INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing loans and borrowings and bank deposits with floating interest rates.

The Group's exposure to the risk of changes in market interest rates relates substantially to the Group's interest-bearing loans and borrowings with floating interest rates, which makes the Group expose to cash flows risk. Responsively, the Group is minimizing the risk partially through interest rate swap contract or choosing the best favorable financing instruments by switching to the loans with more favorable conditions or improving the Group's credit rating.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing loans and borrowings and bank deposits with floating interest rates. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows:

	Increase/decrease in %	Effect on profit before tax
		Million KRW
2011	1.00	-108
	-1.00	108
2010	1.00	-108
	-1.00	108

32.1.2 FOREIGN CURRENCY RISK

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities. The risk of foreign exchange primarily relates to Japanese Yen (JPY), US Dollars (USD), Euro (EUR) and to Swiss Francs (CHF).

Foreign exchange risks arises when commercial transactions, recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The objective of the management of foreign currency risk is to maximize the value of the firm through minimizing the fluctuation of net profit and uncertainty arising from the fluctuation in foreign currency. To accomplish this, the Group uses a strategy to accord the collection terms of receivables and payment terms of payables denominated in USD considering the similar volume of exports and imports. In regard to EUR and JPY, the Group's manages the risk through currency forward contracts.

Foreign currency sensitivity

The Group carries out a sensitivity analysis for the dominant foreign currencies Euro (EUR), Japanes Yen (JPY), Swiss Francs (CHF) and US Dollar (USD). The assumed possible currency fluctuations are based on historical observations and future prognoses. Inocrporated into calculations are the financial instruments. The following table demonstrates the sensitivity of consolidated net profit before tax to a reaonalbly possible shift in exchange rates relatet to financial instruments held in the balance sheet. Assuming that the other variables are constant but only the foreign exchange rate changes by 10%, the impacts on net profit for the year ended on December 31, 2011 and year ended December 31, 2010 are as flows:

	December 31, 2011		December 31, 2010	
	10% increase	10% decrease	10% increase	10% decrease
	Million KRW	Million KRW	Million KRW	Million KRW
USD	-405	405	2,345	-2,345
EUR	699	-699	-91	91
JPY	-2,381	2,381	-891	891
CHF	2,435	-2,435	-96	96
HKD	-	-	-2	2
Total	348	-348	1,265	-1,265

The Group's exposure to foreign currency changes for all other currencies is not material.

32.2 CREDIT RISK

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and investing activities.

The Group maintains a policy to keep trade relationship only with the customers with high credit rating assessed by credit assessment considering their financial position, past experience of defaults and other indicators of default. If a customer became worsen in its credit rating, the Group set an individual credit limit on that customer and intensively manage its credit risk. In addition, the Group minimized the credit risk by maintaining the exposure to the credit risk at insignificant level through ongoing management including periodical reviews on all the customers.

The Group is also exposed to the credit risk in regard to bank deposits and cash and cash equivalents, in which the maximum exposure to credit risk at the reporting date is the carrying value. The exposure to the related credit risk, however, is relatively restricted because the Group maintains relationships with the financial institutions with high credit ratings.

32.3 LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities due to the unfavorable economy of the industry or financial market.

The Group manages its liquidity risk through its own strategy and plans which consider the maturity of financial instruments and expected operating cash flows and include the policy to map out the maturity of financial assets and liabilities.

In addition, the Group maintains credit facilities with the banks including overdraft to respond to unexpected shortage in liquidity. The Group manages funding schedules and ongoing review procedures considering the appropriate mix of long-term and short-term loans and borrowings, to maintain the consistency and flexibility to obtain liquidity and stable financing responding to the expansion of the business.

The details of maturity profile of the Group's financial liabilities, excluding financial derivative instruments, based on contractual undiscounted payments as of December 31, 2011, December 31, 2010 and transition date are as follows (based on contractual undiscounted payments):

As of 31 December 2011	Less than a month	1 to 3 months	3 to 12 months	1 to 5 years	› 5 years	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Interest-bearing loans and borrowings	198,378	50,390	164,067	30,691	6,453	449,979
Other financial liabilities	10,305	-	-	19,390	-	29,695
Trade payables	51,755	1,924	19	-	-	53,698
	260,438	52,314	164,086	50,081	6,453	533,372

As of 31 December 2010	Less than a month	1 to 3 months	3 to 12 months	1 to 5 years	› 5 years	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Interest-bearing loans and borrowings	7,694	147,431	159,350	45,049	2,955	362,480
Other financial liabilities	22	1,083	-	2,130	11	3,246
Trade payables	19,933	47,130	50	-	-	67,113
	27,649	195,644	159,400	47,179	2,966	432,839

As of 1 January 2010	Less than a month	1 to 3 months	3 to 12 months	1 to 5 years	› 5 years	Total
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Interest-bearing loans and borrowings	3,560	95,674	169,813	48,638	696	318,381
Other financial liabilities	1	1,306	-	2,034	-	3,341
Trade payables	4,797	35,864	-	-	-	40,661
	8,358	132,844	169,813	50,672	696	362,383

32.4 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that its continued ability to provided a consistent for its equity shareholders through a combination of capital growth and distribution. In order to achieve this objective, the Group monitors its gearing to balance risk and returns at an acceptable and also maintain a sufficient funding base to enable the company to meet its working capital and strategic investment needs. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares considering not only the short-term position but also its long-term operational and strategic objectives.

On a monthly basis all subsidiaries have to report key performance Indicators which also include capital management information. On Group level the equity / liability ratio is reviewed regulary.

33. CASH FLOW STATEMENT

Cash and cash equivalent in the statement of cash flow are equal to those in the statement of financial position.

The Group's statement of cash flow is prepared using the indirect method. The adjustments, to the net profit for the period, of the non-cash and non-operating items and changes in operating assets and liabilities for the years ended December 31, 2011 and December 31, 2010 are as follow:

	Notes	2011 Million KRW	2010 Million KRW
ADJUSTMENTS			
Depreciation and impairment of property, plant and equipment	8	23,201	22,811
Depreciation and impairment of investment properties	9	175	131
Depreciation and impairment of intangible assets except for goodwill	10	5,712	223
Gain on disposal of property, plant and equipment, net	23	-178	-80
Maintenance expense	8	4,905	4,605
Fair value adjustments due to step acquisition	5	-40,045	-
Loss on disposal of available for sale financial instruments		-	16
Goodwill impairment	10	29,657	-
Share of result from investments accounted using the equity method	6	-207	-6,116
Financial income	23.7	-19,554	-3,661
Financial expenses	23.6	44,052	22,575
Provision for (benefit from) income taxes	24	-1,164	-2,662
Total		46,554	37,842

	2011 Million KRW	2010 Million KRW
CHANGES IN OPERATING ASSETS AND LIABILITIES		
Trade and other receivables	115,967	-41,052
Other current assets	-2,119	-5
Other current financial assets	174	-174
Inventories	-31,157	-24,410
Trade and other payables	-116,613	26,452
Other current financial liabilities	145	657
Other current liabilities	-832	92
Pension liabilities	-949	-1,803
Other long term employment benefits	35	584
Total	-35,349	-39,659

34. FIRST TIME ADOPTION OF K-IFRS

The Group's financial statements for the year started January 1, 2011 has been prepared in accordance with K-IFRS whereas the financial statements for the past were prepared in accordance with accounting principles generally accepted in Republic of Korea ("K-GAAP" or the "previous GAAP"). Thus, the financial statements for the comparative 2010 with the date of transition to K-IFRS as January 1, 2010 ("Transition date") has been restated in accordance with K-IFRS 1101.

The impacts from the transition to K-IFRS from the previous GAAP upon the reported financial position, financial performances and cash flows and the description of the accounting policies in connection with the preparation of the opening K-IFRS statement of financial position are as follows.

34.1 ELECTION OF THE EXCEPTIONAL PROVISION IN K-IFRS 1101

K-IFRS specifies certain exceptions to the retrospective application of other K-IFRS effective as of December 31, 2011 for the first-time adopter in connection with the preparation of K-IFRS statement of financial position. The exceptions elected by the Group are as follows.

The Group used the fair value of all the items in machinery as deemed cost as of the transition date and used revalued amounts of property, plant and equipment other than machinery (including items to be reclassified into investment properties) pursuant to the previous GAAP as deemed costs at those dates.

The Group will disclose the amounts required by paragraph 120A (p) of K-IFRS 1019 as the amounts are determined for each accounting period prospectively from the transition date.

The Group applies the transitional provisions set out in paragraphs 27 and 28 of K-IFRS 1023. In those paragraphs references to the effective date shall be interpreted as 1 July 2009 or the transition date, whichever is later. The Group capitalizes borrowing costs for all eligible assets where construction was commenced on or after January 1, 2010.

Cumulative currency translation differences for all foreign operations are deemed to be zero by electing the exception allowed by K-IFRS 1101 and are recognized in retained earnings at transition date.

For arrangements entered into prior to January 1, 2010, the date of inception is deemed to be January 1, 2010 in accordance with the transitional requirements of K-IFRS 2014 by electing the exception allowed by K-IFRS 1101.

34.2 ESTIMATES

The estimates at 1 January 2010 and 31 December 2010 are consistent with the estimates made for the same dates in accordance with local GAAP, considering the adjustments required to reflect different accounting policies.

34.3 EXPLANATION OF TRANSITION TO K-IFRS

Significant reconciliations in regard to the transition to K-IFRS are summarized as follows:

1. Property, plant and equipment

The Group used the fair value of all the items in machinery as deemed cost as of the transition date and used revalued amounts of property, plant and equipment other than machinery (including items to be reclassified into investment properties) pursuant to the previous GAAP as deemed costs at those dates. Accordingly, the reported accumulated other comprehensive income recognized by the revaluation model under the previous GAAP has been reclassified into retained earnings and the revaluation surplus in capital surplus under the previous GAAP has been reclassified into reserves. In addition, deferred tax liabilities in connection with special provision for taxable gain on revaluation of land have been newly recognized whereas the recognition of that deferred tax liabilities were exempt by the previous GAAP.

The Group has changed the depreciation method from declining balance method to straight-line method for machinery and other property, plant and equipment.

2. Reclassification of investment properties

The Group has reclassified the assets held for lease or capital gain as investment properties and applied cost model.

3. Employee benefits

In the past the Group recognized the provision for severance and retirement benefits to state the amount to be paid assuming that all the employee retire at the reporting date whereas the pension liabilities under K-IFRS shall be measured at present value calculated through actuarial valuation using projected unit credit method. The decrease in pension liabilities has been accounted for as a reduction of retained earnings.

In addition, for the bonus plan for long-term serviced employee, the Group recognized the related expense on payment under the previous GAAP but pursuant to K-IFRS, other long-term employment benefits shall be measured at present value calculated through actuarial valuation using projected unit credit method as well. The increase in other long-term employment benefits has been accounted for as a reduction of retained earnings.

4. Derecognition of financial assets

In regard to the factoring of trade receivables with recourse, the consideration through the factoring was accounted for as a collection or true sales of trade receivable under the previous GAAP. Meanwhile, as this kind of factoring does not qualify the derecognition criteria pursuant to K-IFRS, the Group shall recognize the consideration as short-term borrowings. In addition, prepaid expenses has been newly recognized by accrual basis. Gain or loss resulting from translation of foreign exchange for trade receivable and short-term borrowings have been recognized in other income or expenses and financial income or cost, respectively.

5. Reclassification of membership

Membership classified as other investment assets under the previous GAAP has been reclassified into intangible assets with indefinite useful life.

6. Income taxes

The previous GAAP required the Group to separately present the current and non-current portion of deferred income tax assets or liabilities, but in accordance with K-IFRS the Group classified all the deferred income tax assets or liabilities in non-current item. The Group also recognized all the deferred tax effects arising from the transition to K- IFRS.

7. Change in consolidation scope

The K-IFRS basis of consolidation is different to previous GAAP. As a result, the differences are shown in the column 'Change in consolidation scope. The consolidated K-IFRS figures as of transition date January 1, 2010 and December 31, 2010 are representing different entities compared to the consolidated financial statements in accordance with K-IFRS. The following table shows which companies have been consolidated in the previous GAAP. Further table below shows which companies are included in the K-IFRS consolidated financial statements as of transition date and December 31, 2010.

	The previous GAAP	**K-IFRS**
Transition date	Songwon International AG	Songwon International-Japan KK
	Songwon International-Americas Inc.	
December 31, 2010	Songwon International AG	Songwon International-Japan KK
	Songwon International-Americas Inc.	Songwon China Ltd
		Songwon Trading Co. Ltd.

Excluding from the scope of consolidation pursuant to K-IFRS, Songwon International AG including its subsidiaries comprising Songwon International-Americas Inc. and Songwon International-Idia Pvt Inc. is carried as Joint Ventures using the equity method as of transition date and December 31, 2010.

Songwon Chemicals Co. Ltd and Chemservice Asia Ltd are included in the consolidated financial statements in accordance with K-IFRS using the equity method pursuant to K-IFRS as of transition date and/or December 31, 2010, whereas they were carried at cost under the previous GAAP.

34.4 RECONCILIATIONS OF EQUITY FOR THE TRANSITION TO K-IFRS

Reconciliations of equity as of January 1, 2010 are as flows:

	Previous GAAP Consolidated (K-GAAP) January 1 2010	PP&E and investment properties 1 & 2	Employee benefits 3	Derecognition of financial assets 4	Others 5 & 6	Change in consolidation scope 7	K-IFRS January 1 2010
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
ASSETS							
Property, plant and equipment	349,099	69,431	-	-	-	-235	418,295
Investment properties	-	28,363	-	-	-	90	28,453
Intangible assets	1,130	-	-	-	1,881	-	3,011
Other investment assets	1,881	-	-	-	-1,881	-	-
Invest. accounted for using the equity method	-	-	-	-	-	4,994	4,994
Available-for-sale financial investments	2,577	-	-	-	-	-1,069	1,508
Other non-current financial assets	2,018	-	-	-	-	21	2,039
Deferred tax assets	-	-	-	-	-	74	74
Total non-current assets	356,705	97,794	-	-	-	3,875	458,374
Inventories	105,528	-	-	-	-	-32,061	73,467
Trade and other receivables	81,719	-	-	5,511	-	32,779	120,009
Income tax receivables	66	-	-	-	-	-7	59
Other current assets	995	-	-	612	4	-196	1,415
Other current financial assets	1,060	-	-	-	-	-	1,060
Deferred tax assets	862	-	-	-	-862	-	-
Cash and cash-equivalent	21,298	-	-	-	-	-10,178	11,120
Total current assets	211,529	-	-	6,123	-858	-9,664	207,130
Total assets	568,234	97,794	-	6,123	-858	-5,789	665,504

Description	Previous GAAP Consolidated (K-GAAP) January 1, 2010	PP&E and investment properties 1 & 2	Employee benefits 3	Derecognition of financial assets 4	Others 5 & 6	Change in consolidation scope 7	K-IFRS January 1, 2010
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
EQUITY AND LIABILITIES							
Equity							
Share capital	12,000	-	-	-	-	-	12,000
Capital surplus	50,176	-25,815	-	-	-	-	24,361
Reserves	-	25,815	-	-	-	-	25,815
Retained earnings	25,121	183,447	4,251	612	-28,306	3,594	188,719
Accumulated other comprehensive income	86,467	-85,653	-	-	-	-806	7
Equity attributable to the holders of the parent	173,764	97,794	4,251	612	-28,306	2,788	250,902
Non-controlling Interest	3,698	-	-	-	-	-3,698	-
Total equity	177,462	97,794	4,251	612	-28,306	-910	250,902
LIABILITIES							
Interest-bearing loans and borrowings	49,334	-	-	-	-	-	49,334
Pension liability	11,221	-	-5,053	-	-	-	6,168
Other long-term employment benefits	-	-	802	-	-	-	802
Other non-current financial liabilities	2,034	-	-	-	-	-	2,034
Deferred tax liabilities	16,695	-	-	-	27,448	910	45,052
Total non-current liabilities	79,284	-	-4,251	-	27,448	910	103,390
Income tax payable	-	-	-	-	-	26	26
Trade and other payables	46,098	-	-	-	-	-5,437	40,661
Other current financial liabilities	1,307	-	-	-	-	-	1,307
Other current liabilities	555	-	-	-	-	-384	171
Interest-bearing loans and borrowings	263,529	-	-	5,511	-	7	269,047
Total Current liabilities	311,489	-	-	5,511	-	-5,787	311,212
Total Liabilities	390,772	-	-4,251	5,511	27,448	-4,878	414,602
Total Equity and liabilties	568,234	97,794	-	6,123	-858	-5,789	665,504

Reconciliations of equity as of December 31, 2010 (Transition Date) are as flows (Korean won in millions)

	Previous GAAP Consolidated (K-GAAP) Dec., 31 2010	PP&E and investment properties 1 & 2	Employee benefits 3	Derecognition of financial assets 4	Others 5 & 6	Change in consolidation scope 7	K-IFRS Dec., 31 2010
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
ASSETS							
Property, plant and equipment	340,833	70,953	-	-	-	-180	411,606
Investment properties	-	28,194	-	-	-	94	28,288
Intangible assets	2,634	-	-	-	1,895	-	4,529
Other investment assets	1,895	-	-	-	-1,895	-	-
Invest. accounted for using the equity method	-	-	-	-	-	9,844	9,844
Available-for-sale financial investments	3,063	-	-	-	-	-1,080	1,983
Other non-current financial assets	1,515	-	-	-	-	37	1,552
Deferred tax assets	-	-	-	-	-	317	317
Total non-current assets	349,940	99,147	-	-	-	9,032	458,119
Inventories	142,235	-415	-	-	-	-43,943	97,877
Trade and other receivables	108,745	-	-29	939	-	51,406	161,061
Income tax receivables	85	-	-	-	-	-7	78
Other current assets	542	-	-	865	-	-6	1,401
Other current financial assets	13,572	-	-	-	-	-8,892	4,680
Deferred tax assets	3,361	-	-	-	-3,361	-	-
Cash and cash equivalents	44,292	-	-	-	-	-14,248	30,044
Total current assets	312,832	-415	-29	1,804	-3,361	-15,690	295,141
Total assets	662,772	98,732	-29	1,804	-3,361	-6,658	753,260

Description	Previous GAAP Consolidated (K-GAAP) Dec. 31, 2010	PP&E and investment properties 1 & 2	Employee benefits 3	Derecognition of financial assets 4	Others 5 & 6	Change in consolidation scope 7	K-IFRS Dec. 31, 2010
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
EQUITY AND LIABILITIES							
Equity							
Share capital	12,000	-	-	-	-	-	12,000
Capital surplus	50,176	-25,815	-	-	-	-	24,361
Reserves	144	25,815	-	-	-	-	25,959
Retained earnings	45,707	184,279	2,944	865	-28,247	1,248	206,796
Accumulated other comprehensive income	86,677	-85,571	-	-	-	-1,317	-212
Equity attributable to the holders of the parent	194,704	98,708	2,944	865	-28,247	-69	268,904
Non-controlling Interest	7,648	-	-	-	-	-7,648	-
Total equity	202,352	98,708	2,944	865	-28,247	-7,717	268,904
LIABILITIES							
Interest-bearing loans and borrowings	48,005	-	-	-	-	-	48,005
Pension liability	11,195	-	-4,359	-	-	-	6,836
Other long-term employment benefits	-	-	1,386	-	-	-	1,386
Other non-current financial liabilities	2,543	-	-	-	-	10	2,553
Deferred tax liabilities	16,282	24	-	-	24,886	476	41,669
Total non-current liabilities	78,025	24	-2,973	-	24,886	486	100,449
Income tax payable	-	-	-	-	-	283	283
Trade and other payables	68,880	-	-	-	-	-1,767	67,113
Other current financial liabilities	1,741	-	-	-	-	32	1,773
Other current liabilities	504	-	-	-	-	-241	263
Interest-bearing loans and borrowings	311,270	-	-	939	-	2,266	314,474
Total Current liabilities	382,395	-	-	939	-	573	383,907
Total Liabilities	460,420	24	-2,973	939	24,886	1,059	484,356
Total Equity and liabilties	662,772	98,732	-29	1,804	-3,361	-6,658	753,260

34.5 RECONCILIATIONS OF COMPREHENSIVE INCOME FOR THE TRANSITION TO K-IFRS

econciliations of comprehensive income for the year ended December 31, 2010 are as follows:

Description	**Previous GAAP Consolidated (K-GAAP)** 2010	PP&E and investment properties 1 & 2	Employee benefits 3	Derecognition of financial assets 4	Others 5 & 6	Basis of consolidation change 7	**K-IFRS** 2010
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Sale of goods	565,481	-	-	-	-	-8,465	557,016
Cost of sales	-476,417	883	1,365	-	-	-2,523	-476,692
Gross profit	89,064	883	1,365	-	-	-10,988	80,324
Other operating income	17,422	-111	-	437	-2	-7,066	10,681
Selling and administrative costs	-41,803	66	298	-	-	-4,301	-45,740
Other operating expenses	-20,292	-7	-	-1,389	-2	8,148	-13,541
Operating profit	44,391	832	1,662	-951	-4	-14,207	31,724
Finance costs	-21,781	-	-	-184	-	-610	-22,575
Finance income	2,810	-	-499	1,389	-	-39	3,661
Result from investments account for using equity method	-	-	-	-	-	6,116	6,116
Profit before tax	25,420	832	1,164	253	-4	-8,740	18,926
Income tax expense	1,040	-	-	-	-481	2,103	2,662
Profit for the year	26,460	832	1,164	253	-485	-6,637	21,588
OTHER COMPREHENSIVE INCOME, NET OF TAXES							
Gain on valuation of available-for-sale financial investment	25	-	-	-	-	-	25
Exchange differences on translation of foreign operatoin	1,106	-	-	-	-	-1,020	86
Gain on valuation of interest rate swap	-330	-	-	-	-	-	-330
Actuarial gains and losses on defined benefit plans	-	-	-1,927	-	-	-	-1,927
Gain on revaluation	-82	82	-	-	-	-	-
Total other comprehensive income, net of taxes	720	82	-1,927	-	-	-1,020	-2,146
Total comprehensive income, net of taxes	27,181	914	-763	253	-485	-7,656	19,442

34.6 RECONCILIATIONS OF CASH FLOWS FOR THE TRANSITION TO K-IFRS

Interest paid which were classified as cash flows in operating activities by the previous GAAP is classified as cash flows in financing activities applying K-IFRS (Adjustment 8). Changes in guarantee deposits received which were classified as cash flows in financing activities by the previous GAAP is classified as cash flows in operating activities applying K-IFRS (Adjustment 9). Foreign exchange differences arising from the translation of cash and cash equivalents denominated in foreign exchange is presented separately from cash flows from operating, investing and financing activities where as they were included in the cash flows from operating activities under previous GAAP (Adjustment 10).

Reconciliations of the cash flows for the year ended December 31, 2010 are as follows:

	Previous GAAP	Derecognition of financial assets	Interest paid	Guarantee deposits received	Foreign exchange differnces	Basis of consolidation change	**K-IFRS**
	2010	4	8	9	10	7	**2010**
	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW	Million KRW
Net cash flow from operating activities	11,834	-4,572	19,785	1	301	-5,861	21,488
Net cash flow from investing activities	-34,455	-	-	-	-	8,946	-25,509
Net cash flow from financing activities	44,358	4,572	-19,785	-1	-	-4,881	24,263
Net cash flows total	21,737	-	-	-	301	-1,796	20,242
Net foreign exchange differences	1,257	-	-	-	-301	-2,274	-1,318
Net changes in cash and cash equivalent	22,994	-	-	-	-	-4,070	18,924
Opening balance of cash and cash equivalent	21,298	-	-	-	-	-10,178	11,120
Cash and cash equivalent at December 31, 2010	44,292	-	-	-	-	-14,248	30,044

35. EVENTS AFTER THE REPORTING PERIOD

No significant events occurred during the period from the statement of financial position date up to the date upon which the consolidated financial statements were issued. The consolidated financial statements for the year ended December 31, 2011 were approved by the Board of Directors of the parent company on March 6, 2012.

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Independent auditors' report

The Board of Directors and Stockholders
SONGWON INDUSTRIAL CO., LTD.

We have audited the accompanying consolidated financial statements of SONGWON INDUSTRIAL CO., LTD. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and the opening statement of financial position as at January 1, 2010, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above expressed in Korean won present fairly, in all material respects, the financial position of SONGWON INDUSTRIAL CO., LTD. and its subsidiaries as of December 31, 2011 and 2010, and January 1, 2010, and the results of its financial performance, and its cash flows for the years ended December 31, 2011 and 2010 in accordance with Korea International Financial Reporting Standards (K-IFRS).

We have also reviewed the translation of the financial statements mentioned above into United States dollar amounts on the basis described in Note 2.4 to the accompanying financial statements. In our opinion, such statements have been properly translated on such basis.

The consolidated financial statements of the Company as of, and for the year ended December 31, 2010, which were prepared in accordance with previous local GAAP that the Company used immediately before adopting K-IFRS (not presented herein), were audited by us and we expressed an unqualified opinion on those statements in our report dated on March 30, 2011.

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

Ernst & Young Han Young

March 6, 2012

This audit report is effective as of March 6, 2012, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

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SALIENT IN ADDITIVES