S-OIL Corporation and Subsidiary

Consolidated Financial Statements

December 31, 2011 and 2010

S-OIL Corporation and Subsidiary
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December 31, 2011 and 2010

Report of Independent Auditors

To the Shareholders and Board of Directors of
S-OIL Corporation

We have audited the accompanying consolidated statements of financial position of S-OIL Corporation and its subsidiary ("the Group") as of December 31, 2011 and 2010, and January 1, 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010, expressed in Korean won. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated 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, present fairly, in all material respects, the financial position of S-OIL Corporation and its subsidiary as of December 31, 2011 and 2010, and January 1, 2010, and their financial performance and cash flows for the years ended December 31, 2011 and 2010, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

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

Seoul, Korea
March 13, 2012

This report is effective as of March 13, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

S-OIL Corporation and Subsidiary
Consolidated Statements of Financial Position
December 31, 2011 and 2010, and January 1, 2010

(in millions of Korean won)

	Notes		December 31, 2011		December 31 2010		January 1, 2010
Assets							
Current assets							
Cash and cash equivalents	7,11	₩	876,954	₩	853,864	₩	822,533
Trade receivables	8,11		2,639,085		1,769,708		1,432,364
Other receivables	8,11		400,075		387,394		505,577
Other financial assets	9,11		278,928		42,237		408,275
Derivative financial instruments	10,11		2,643		272		957
Inventories	12		4,617,119		2,934,764		2,649,769
Other current assets			9,549		5,207		11,509
			8,824,353		5,993,446		5,830,984
Non-current assets							
Other receivables	8,11		86,503		99,626		104,305
Other financial assets	9,11		77,816		96,394		108,887
Investments in jointly controlled entities	13		290,192		24,839		24,226
Property, plant and equipment	14		3,882,460		3,752,354		2,993,472
Intangible assets	15		37,000		30,464		27,398
Other non-current assets			4,417		6,958		8,332
			4,378,388		4,010,635		3,266,620
Total assets		₩	13,202,741	₩	10,004,081	₩	9,097,604
Liabilities							
Current liabilities							
Trade payables	11,17	₩	2,617,848	₩	1,798,131	₩	1,085,047
Other payables	11,17		901,160		591,907		1,040,017
Borrowings	11,18		3,255,606		1,937,420		2,371,903
Derivative financial instruments	10,11		4,662		2,137		570
Current income tax liabilities			316,506		139,435		306
Provisions for other liabilities and charges	19		8,094		2,711		2,310
Deferred revenues			28,885		30,475		31,230
Other current liabilities	17		103,227		71,200		41,472
			7,235,988		4,573,416		4,572,855

S-OIL Corporation and Subsidiary
Consolidated Statements of Financial Position
December 31, 2011 and 2010, and January 1, 2010

(in millions of Korean won)	Notes	December 31, 2011	December 31, 2010	January 1, 2010
Non-current liabilities				
Borrowings	11,18	487,515	681,792	362,112
Retirement benefit obligations	20	24,165	16,812	13,843
Deferred income tax liabilities		210,961	204,709	191,812
Other payables	11,17	17,859	17,747	17,713
Other non-current liabilities	17	660	788	1,113
Derivative financial instruments	10,11	269	3,767	-
		741,429	925,615	586,593
Total liabilities		7,977,417	5,499,031	5,159,448
Equity				
Capital stock	22	291,512	291,512	291,512
Capital surplus	22	379,190	379,190	379,190
Reserves	25	993,865	1,008,113	1,021,544
Treasury stock	23	(1,876)	(1,876)	(1,876)
Retained earnings	24	3,562,633	2,828,111	2,247,786
Total equity		5,225,324	4,505,050	3,938,156
Total liabilities and equity		₩ 13,202,741	₩ 10,004,081	₩ 9,097,604

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

S-OIL Corporation and Subsidiary
Consolidated Statements of Comprehensive Income
Years ended December 31, 2011 and 2010

(in millions of Korean won, except per share data)	Notes	2011	2010
Revenue	6	₩ 31,913,863	₩ 20,511,068
Cost of sales	26	(29,695,742)	(19,252,374)
Gross profit		2,218,121	1,258,694
Selling expenses	27	(437,007)	(365,832)
Administrative expenses	27	(83,611)	(69,623)
Other income	28	697,852	512,272
Other expenses	28	(761,617)	(476,126)
Operating income		1,633,738	859,385
Financial income	29	326,405	241,762
Financial expenses	29	(379,443)	(230,423)
Share of profit of jointly controlled entities	13	3,000	5,846
Profit before income tax		1,583,700	876,570
Income tax expense	30	(392,724)	(166,038)
Profit for the year		₩ 1,190,976	₩ 710,532
Other comprehensive income (loss), net of tax			
Change in value of available-for-sale financial assets	25	(15,877)	(9,710)
Cash flow hedges	25	1,664	(3,710)
Currency translation differences	25	12	(24)
Share of other comprehensive income in jointly controlled entities	25	(47)	13
Actuarial loss on post employment benefit obligations	20	(13,960)	(7,869)
Total comprehensive income for the year		₩ 1,162,768	₩ 689,232
Earnings per share			
Basic and diluted earnings per common share	33	₩ 10,229	₩ 6,102
Basic and diluted earnings per preferred share	33	₩ 10,254	₩ 6,127

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

S-OIL Corporation and Subsidiary
Consolidated Statements of Changes in Equity
Years ended December 31, 2011 and 2010

(in millions of Korean won)	Capital Stock	Share Premium	Reserves	Treasury Stock	Retained Earnings	Total Equity
Balance as of January 1, 2010	₩ 291,512	₩ 379,190	₩ 1,021,544	₩ (1,876)	₩ 2,247,786	₩ 3,938,156
Profit for the year	-	-	-	-	710,532	710,532
Other comprehensive income (loss)						
Change in value of available-for-sale financial assets	-	-	(9,710)	-	-	(9,710)
Cash flow hedges	-	-	(3,710)	-	-	(3,710)
Currency translation differences	-	-	(24)	-	-	(24)
Share of other comprehensive income of jointly controlled entities	-	-	13	-	-	13
Actuarial loss on post employment benefit obligations	-	-	-	-	(7,869)	(7,869)
Total comprehensive income (loss)	-	-	(13,431)	-	702,663	689,232
Total distributions to owners of the Company, recognized directly in equity						
Cash dividends for 2009	-	-	-	-	(87,412)	(87,412)
Interim dividends for 2010	-	-	-	-	(34,926)	(34,926)
Balance as of December 31, 2010	₩ 291,512	₩ 379,190	₩ 1,008,113	₩ (1,876)	₩ 2,828,111	₩ 4,505,050

S-OIL Corporation and Subsidiary
Consolidated Statements of Changes in Equity
Years ended December 31, 2011 and 2010

(in millions of Korean won)	Capital Stock	Share Premium	Reserves	Treasury Stock	Retained Earnings	Total Equity
Balance as of January 1, 2011	₩ 291,512	₩ 379,190	₩ 1,008,113	₩ (1,876)	₩ 2,828,111	₩ 4,505,050
Profit for the year					1,190,976	1,190,976
Other comprehensive income (loss)						
Change in value of available-for-sale financial assets	-	-	(15,877)	-	-	(15,877)
Cash flow hedges	-	-	1,664	-	-	1,664
Currency translation difference	-	-	12	-	-	12
Share of other comprehensive income of jointly controlled entities	-	-	(47)	-	-	(47)
Actuarial loss on post employment benefit obligations	-	-	-	-	(13,960)	(13,960)
Total comprehensive income (loss)	-	-	(14,248)	-	1,177,016	1,162,768
Total distributions to owners of the Company, recognized directly in equity						
Cash dividends for 2010	-	-	-	-	(256,221)	(256,221)
Interim dividends for 2011	-	-	-	-	(186,273)	(186,273)
Balance as of December 31, 2011	₩ 291,512	₩ 379,190	₩ 993,865	₩ (1,876)	₩ 3,562,633	₩ 5,225,324

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

S-OIL Corporation and Subsidiary
Consolidated Statements of Cash Flows
Years ended December 31, 2011 and 2010

(in millions of Korean won)	Notes	2011	2010
Cash flows from operating activities			
Cash generated from operations	35	₩ 657,948	₩ 829,829
Interest received		39,577	35,706
Interest paid		(57,192)	(32,540)
Income tax paid		(201,874)	(8,004)
Dividend received		1,584	1,584
Net cash generated from operating activities		440,043	826,575
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	35	468	5,072
Proceeds from sale of intangible assets		1,539	1,093
Decrease in other receivables		44,896	102,138
Decrease in other financial assets		-	366,083
Decrease in other assets		5,273	15,672
Purchases of property, plant and equipment	14	(511,079)	(1,041,285)
Purchases of intangible assets	15	(4,890)	(3,467)
Increase in other receivables		(30,662)	(20,640)
Settlement of derivative financial instruments		3,121	(2,740)
Acquisition of jointly controlled entities	13	(267,315)	-
Increase in financial assets		(217,393)	-
Increase in other assets		(4,085)	(11,533)
Net cash used in investing activities		(980,127)	(589,607)
Cash flows from financing activities			
Proceeds from borrowings		1,006,955	319,380
Repayment of borrowings		(1,304)	(402,667)
Dividends paid		(442,493)	(122,319)
Net cash generated from (used in) financing activities		563,158	(205,606)
Net increase in cash and cash equivalents		23,074	31,362
Cash and cash equivalents at the beginning of year	7	853,864	822,533
Exchange gain(loss)on cash and cash equivalents		16	(31)
Cash and cash equivalents at the end of year	7	₩ 876,954	₩ 853,864

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

1. The Company

The general information of S-OIL Corporation ("the Company"), and its subsidiary, S-International Ltd., (collectively referred to as "the Group") under Korean-IFRS 1027, are as follows:

The Company

S-OIL Corporation was established in 1976, under the commercial laws of the Republic of Korea to import and export crude oil, manufacture and sell oil refining products, lube products and petrochemical products and explore, extract and dispose of energy resources. The Company's headquarters are located in 471 Gongduk-dong, Mapo-gu, Seoul 121-805, Korea.

On May 8, 1987, the Company's shares of stock were listed in the Korean Stock Exchange.

As of December 31, 2011, the major shareholders of the Company and their respective shareholdings are as follows:

Name of shareholder	Number of Common stocks	Percentage of Ownership (%)
Aramco Overseas Co., B.V.	39,403,974	35.00
Hanjin Energy Co., Ltd.	31,983,586	28.41
Institutional and individual investors	41,195,232	36.59
Total	112,582,792	100.00

Subsidiary

Details of the subsidiary are as follows:

	Number of Shares	Percentage of Ownership(%)	Industry	Location	Statement of Financial Position Date
S-International Ltd.	10	100	Purchasing and sales of petroleum goods	Samoa	December, 31

The summary of financial informaion of S-International Ltd. as of December 31, 2011 and 2010, are as follows:

	2011					
(in millions of Korean won)	Total Assets	Total Liabilities	Equity	Revenue	Profit for the year	Comprehensive income
S-International Ltd.	1,253	-	1,253	-	3	3

	2010					
(in millions of Korean won)	Total Assets	Total Liabilities	Equity	Revenue	Profit For the year	Comprehensive income
S-International Ltd.	1,235	-	1,235	-	2	2

2. Significant accounting policies

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

2.1 Basis of preparation

The Group's financial statements beginning January 1, 2011, are prepared in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The consolidated financial statements of the Group were prepared in accordance with Korean-IFRS and are subject to Korean IFRS1101, 'First-time Adoption of Korean IFRS'.

The transition date from the former accounting principles generally accepted in the Republic of Korea ("K-GAAP") to Korean IFRS is January 1, 2010. Note 4 describes the effect of the transition from K-GAAP to Korean IFRS on the Company's equity, comprehensive income and cash flows.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011, and not early adopted are as follows:

- Amendments to Korean IFRS 1101, '*Hyperinflation and Removal of Fixed Dates for first-time adopters'*

As an exception to retrospective application requirements, Korean IFRS 1101 allows a prospective application of derecognition of financial assets. Following the amendment to Korean IFRS 1101, the Group changed the date of prospective application of derecognition of financial assets to the Korean IFRS transition date. Accordingly, the Group is not required to restate transactions in relation to derecognition of financial assets for the period prior to January 1, 2011. The Group is required to adopt the amended Korean IFRS 1101 for periods beginning July 1, 2011.

- Amendments to Korean IFRS 1012, *'Income Taxes*'

According to the amendments to Korean IFRS 1012, '*Income Taxes'*, the measurement of deferred tax liability and deferred tax asset should reflect the tax consequences of amount recovered upon disposal of the investment property unless evidences support otherwise. The Group is required to adopt the amended Korean IFRS 1012 for periods beginning January 1, 2012.

- Amendments to Korean IFRS 1019, *'Employee benefits*

In accordance with Korean IFRS 1019, '*Employee benefits'*, the impact on the Group will be as follows: to eliminate the corridor approach and recognize all actuarial gains and losses in other comprehensive income as they occur; to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group expects to adopt the amended Korean IFRS 1019 for periods beginning January 1, 2013.

- Amendments of Korean IFRS 1107, *'Financial Instruments: Disclosures'*

Amendments to Korean IFRS 1107, *'Financial Instruments: Disclosures'* require disclosure of nature, carrying amount, risk and rewards associated with financial instruments that are transferred to others but remain on the entity's financial statements. In addition, the entity is required to disclose additional information for those financial instruments that have been removed from its financial statements but for which the entity is still exposed to risk and rewards. The Group expects to adopt the amended Korean IFRS 1107 for periods beginning January 1, 2012.

- Enactment to Korean IFRS 1113, '*Fair value measurement'*

Korean IFRS 1113, '*Fair value measurement'* aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRSs. Korean IFRS 1101 does not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within Korean IFRSs. This enactment will be effective for the Group as of January 1, 2013.

The Group expects the adoption of the amended Korean IFRS requirement would not have a material impact on its financial statements.

2.2 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS1027, '*Consolidated and Separate Financial Statements'*.

(a) Subsidiary

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

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is measured as the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of 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 recognized in profit or loss.

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Unrealized losses are also eliminated after recognizing impairment of transferred assets.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

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

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as 'impairment loss on investment in an associate' in the income statement.

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

(c) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties (venturers) exercise joint control. As with associates, investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in jointly controlled entities includes goodwill identified on acquisition, net of accumulated impairment loss.

The Group's share of post-acquisition profit or loss is recognized in the consolidated comprehensive income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in jointly controlled entities equals or exceeds its interest in the jointly controlled entities, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entities.

Unrealized gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint venture have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group does not recognize its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

2.3 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

(c) *Translation to presentation currency*

The results and financial position of subsidiary that have a functional currency different from the presentation currency of the Group are translated into the presentation currency of the Group as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognized in other comprehensive income.

2.4 Cash and cash equivalents

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

2.5 Trade receivables

Trade receivables are amounts due from customers for merchandise sold performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.6 Financial instruments

2.6.1 Classification

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

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

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

b) Loans and receivables

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

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in 'other financial assets' as non-current assets unless maturities are less than 12 months or management intends to dispose of it within 12 months after the end of the reporting period.

d) Financial liabilities carried at amortized cost

The Group classifies non-derivative financial liabilities as financial liabilities carried at amortized cost, except for financial liabilities at fair value through profit or loss or financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition. Financial liabilities measured at amortized cost are included in non-current liabilities, except for maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

2.6.2 Recognition and Measurement

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

Gains or losses arising from changes in the fair value of the financial assets carried at fair value through profit or loss are presented in the consolidated statement of comprehensive income within ‘other income or expenses’ and ‘financial income and costs’ in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are reported in the comprehensive income statement as ‘other income or expenses’. Interest on available-for-sale securities calculated using the effective interest method is recognized in the comprehensive income statement as part of ‘financial income’. Dividends on available-for-sale equity instruments are recognized in the consolidated comprehensive income statement as part of ‘other income’ when the Group’s right to receive payments is established.

2.6.3 Offsetting financial instruments

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

2.6.4 Derecognition

A financial asset is considered for derecognition when the contractual rights to the cash flows from the financial asset expire, or the Group has substantially transferred the contractual right to receive the cash flows from that asset. If the risk and rewards of ownership of a financial asset have not been substantially transferred, the Group must examine the level of control retained over that asset. The Group derecognizes the transferred asset if control over that asset is relinquished.

2.6.5 Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired.

If there is objective evidence that available-for-sale financial assets is impaired, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is not reversed through the consolidated comprehensive income statement.

2.7 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

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

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

2.8 Inventories

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

2.9 Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss. Historical cost includes expenditures directly attribute to the acquisition of the items.

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

Depreciation on property, plant and equipment is calculated using the straight-line method (except for catalysts using the-unit-of-productions method) to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Buildings	20 - 40 years
Structures	20 - 40 years
Machinery	15 years
Vehicles	5 years
Other property, plant and equipment	3 – 5 years

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other income or expenses' in the consolidated comprehensive income statement. Catalysts, substances that deplete as they accelerate or decelerate the chemical reaction, are classified as other property, plant and equipment and depreciated using units-of-production method.

2.10 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.11 Intangible assets

Intangible assets are shown at historical cost less accumulated amortization and accumulated impairment losses. Intangible assets are comprised of facility usage rights and other intangible assets. Amortization is calculated using the straight-line over their estimated useful lives with zero residual value. Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to be utilized.

	Estimated useful lives
Facility usage rights	contract periods
Other intangible assets	5 years
Membership rights	indefinite

2.12 Impairment of non-financial assets

Membership rights or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

2.13 Trade payables

Trade payables are obligations to pay for goods that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.14 Borrowings

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

2.15 Current and deferred income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group operates and generates taxable income.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiary and jointly controlled entities, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Regarding temporary differences arising from the assets, deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity.

2.16 Retirement benefit obligations

The Group has defined benefit plan as its pension scheme. Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

2.17 Provisions for other liabilities and charges

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions in relation to environmental restoration are recognized within the consolidated statement of financial position.

2.18 Share capital

Ordinary shares and preferred shares that are not mandatorily redeemable are classified as equity.

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the subsequently reissued, any consideration received is included in equity attributable to the Company’s equity holders.

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts, returns and value added taxes.

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

a. Sales of goods

The Group recognizes revenue when the significant risks and rewards of ownership of goods are transferred to the buyer.

b. Interest income

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

c. Dividend income

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

2.20 Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated comprehensive income statement on a straight-line basis over the period of the lease.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

2.22 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

2.23 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's management. The Group's management is responsible for allocating resources and assessing performance of the operating segments.

2.24 Approval of issuance of the financial statements

The issuance of December 31, 2011 consolidated financial statements of the Company was approved by the Board of Directors on February 24, 2012.

3. Financial risk management

3.1 Financial risk factors

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

Risk management is carried out by each relevant department under policies approved by the Board of Directors. The Group identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

The Group uses derivative financial instruments to hedge foreign exchange risk, product margin risk and interest rate risk. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions

(1) Market risk

a. Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognized as assets and liabilities, which are not denominated in the functional currency.

The purpose of foreign exchange risk management is to maximize the Group's value by minimizing the uncertainty and volatility of foreign exchange gains and losses from foreign exchange rate fluctuations.

The Group maintains foreign exchange risk management system to offset foreign exchange effects arising from recognized income/expense and assets/liabilities.

As of December 31, 2011, if the Korean won had weakened/strengthened by 10% against the foreign currencies with all other variables held constant, profit before income tax for the year would have been decreased/ increased by ₩ 345,902 million (2010: ₩ 244,762 million) in relation to foreign currency-denominated trade receivables, trade payables, and usance borrowing. However, the Group's foreign exchange risk is controlled effectively as the above foreign exchange risk has offsetting effect with other foreign exchange effects affecting profit before income tax for the year.

The Group's financial instruments denominated in Korean won and in major foreign currencies (translated into Korean won) are as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
Trade receivables						
KRW	₩	375,748	₩	372,061	₩	290,988
USD		2,263,255		1,394,681		1,139,647
EUR		82		2,966		1,729
		2,639,085		1,769,708		1,432,364
Trade payables						
KRW		18,566		45,295		34,687
USD		2,599,282		1,752,836		1,050,360
		2,617,848		1,798,131		1,085,047
Borrowings						
KRW		572,822		568,453		362,879
USD		3,170,299		2,050,759		2,371,136
	₩	3,743,121	₩	2,619,212	₩	2,734,015

b. Product margin risk

The Group is exposed to product margin risk arising from difference in timing of purchase and sale.

The purpose of product margin risk management is to maximize the Group's value by minimizing the uncertainty of volatility of product margin.

In order to minimize the product margin risk, the Group tries to sell products in the month produced. For the products that need to be stored for a longer period, the Group secures the product margin by executing product swap.

c. Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk through changes in interest-bearing liabilities or assets. The risk mainly arises from borrowings and financial deposits with variable interest rates linked to market interest rate changes in the future.

The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty caused by fluctuations in interest rates and minimizing net interest expense.

To mitigate interest rate risk, the Group used interest rate swap to convert to fixed interest.

As of December 31, 2011, if interest rates are increased/decreased by 100bp (1%) with all other variables held constant, profit before income tax for the year would have been ₩ 1,386 million (2010: ₩ 1,339 million) decreased/increased, mainly as a result of interest expense on loans for facilities from energy usage rationalization fund and foreign currency debentures.

d. Price risk of available-for-sale financial assets

The Group's investments in equity of other entities that are publicly traded are exposed to price risk and if stock price increase/decrease by 10%, before tax effects on other comprehensive income (change in value of available-for-sale financial assets) would increase/decrease by ₩ 2,966 million (2010: ₩ 5,089 million).

(2) Credit risk

Credit risk arises from receivables, cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with high ratings are accepted. If customers are independently rated, these ratings are used. If there is no independent rating, the credit quality of the customer is evaluated taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilization of credit limits is strictly monitored.

(3) Liquidity risk

Liquidity risk is defined as the risk that the Group is unable to meet its short-term payment obligations on time due to deterioration of its business performance or inability to access financing.

The Group monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and if applicable, external regulatory or legal requirements.

The below table analyzes the Group's liquidity risk.

(in millions of Korean won)	Less than 1 year	2 years	Over 2 years	Total
December 31, 2011				
Trade payables	₩ 2,617,848	₩ -	₩ -	₩ 2,617,848
Other payables	901,160	12,946	5,616	919,722
Borrowings	3,284,326	331,640	176,055	3,792,021
Derivative instruments	4,662	269	-	4,931
	₩ 6,807,996	₩ 344,855	₩ 181,671	₩ 7,334,522
December 31, 2010				
Trade payables	₩ 1,798,131	₩ -	₩ -	₩ 1,798,131
Other payables	591,907	13,807	4,770	610,484
Borrowings	1,968,721	230,485	501,774	2,700,980
Derivative instruments	2,137	-	3,767	5,904
	₩ 4,360,896	₩ 244,292	₩ 510,311	₩ 5,115,499
January 1, 2010				
Trade payables	₩ 1,085,047	₩ -	₩ -	₩ 1,085,047
Other payables	1,040,017	13,200	5,670	1,058,887
Borrowings	2,390,238	19,639	392,359	2,802,236
Derivative instruments	570	-	-	570
	₩ 4,515,872	₩ 32,839	₩ 398,029	₩ 4,946,740

The amounts disclosed in the table are undiscounted cash flows.

3.2 Capital management

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

The Group monitors financial ratios, such as debt/equity ratio and net borrowing/equity ratio each month and implements required action plan to maintain or adjust the capital structure.

Debt/equity ratio and net borrowings ratio are as follows:

(in millions of Korean won, except for ratios)	December 31, 2011	December 31, 2010	January 1, 2010
Interest bearing liability (A)	₩ 3,743,121	₩ 2,619,212	₩ 2,734,015
Cash and cash equivalents and current financial deposits (B)	1,154,746	895,864	1,230,519
Net Borrowings (C=A-B)	2,588,375	1,723,348	1,503,496
Equity (D)	5,225,324	4,505,050	3,938,156
Debt/equity ratio (A/D)	72%	58%	69%
Net borrowings/equity ratio (C/D)	50%	38%	38%

3.3 Fair value estimation

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2: inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly. The Group uses various valuation techniques and makes judgments based on current market conditions. For long-term liabilities, quoted market prices or dealer quotes for similar instruments are used, and other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves and the fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date.

- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

(1) The following table presents the Group's financial assets and financial liabilities that are measured at fair value at December 31, 2011:

	December 31, 2011			
(in millions of Korean won)	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
- Equity securities	₩ 29,660	₩ -	₩ 42,979	₩ 72,639
- Debt securities	-	-	6,300	6,300
Financial assets at fair value through profit or loss				
- Trading derivatives	-	2,643	-	2,643
Total Assets	₩ 29,660	₩ 2,643	₩ 49,279	₩ 81,582
Financial liabilities at fair value through profit or loss				
- Trading derivatives	₩ -	₩ 4,662	₩ -	₩ 4,662
Derivatives used for hedging	-	269	-	269
Total Liabilities	₩ -	₩ 4,931	₩ -	₩ 4,931

(2) The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2010:

	December 31, 2010			
(in millions of Korean won)	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
- Equity securities	₩ 50,889	₩ -	₩ 42,979	₩ 93,868
- Debt securities	-	-	2,750	2,750
Financial assets at fair value through profit or loss				
- Trading derivatives	-	272	-	272
Total Assets	₩ 50,889	₩ 272	₩ 45,729	₩ 96,890
Financial liabilities at fair value through profit or loss				
- Trading derivatives	₩ -	₩ 2,137	₩ -	₩ 2,137
Derivatives used for hedging	-	3,767	-	3,767
Total Liabilities	₩ -	₩ 5,904	₩ -	₩ 5,904

(3) The following table presents the Group's assets and liabilities that are measured at fair value at January 1, 2010:

	January 1, 2010			
(in millions of Korean won)	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
- Equity securities	₩ 63,338	₩ -	₩ 42,979	₩ 106,317
- Debt securities	-	-	2,846	2,846
Financial assets at fair value through profit or loss				
- Trading derivatives	-	957	-	957
Total Assets	₩ 63,338	₩ 957	₩ 45,825	₩ 110,120
Financial liabilities at fair value through profit or loss				
- Trading derivatives	₩ -	₩ 570	₩ -	₩ 570
Total Liabilities	₩ -	₩ 570	₩ -	₩ 570

4. Transition to Korean-IFRS

4.1 First-time adoption of Korean-IFRS

The Group's transition date to Korean-IFRS is January 1, 2010, and adoption date is January 1, 2011.

In preparing consolidated financial statements in accordance with Korean-IFRS 1101(First-time Adoption of Korean International Financial Reporting Standards), the Group has applied the mandatory exceptions and certain optional exemptions allowed by Korean-IFRS.

4.2 Exemption options under Korean-IFRS 1101

The Group elected to apply the following optional exemptions from full retrospective application.

(1) Business combination

The Group elected to apply exemptions for business combinations allowed under Korean-IFRS 1101 and has not retrospectively applied Korean-IFRS 1103 to past business combinations that occurred before the transition date.

(2) Fair value as deemed cost

The Group elected to use the revaluations of certain property, plant and equipment prior to the date of transition to Korean-IFRS as deemed cost at the date of transition.

4.3 Reconciliations previous GAAP to Korean-IFRS

(1) Changes in scope of financial statements

As of the date of transition to Korean-IFRSs, changes in scope of the consolidation are as follows:

Under K-GAAP	Under Korean -IFRS	Difference
S-OIL TOTAL Lubricants Co., Ltd.	-	Included in the financial statements under the Act of External Audit of Corporations and the Enforcement Decree of the Act as the Group has more than 50% of shares having voting rights, whereas excluded under Korean-IFRS since the entity is classified as jointly controlled entity.
-	S-International Ltd.	Excluded from the consolidation under the Act of External Audit of Corporations and the Enforcement Decree of the Act as its total assets in the prior year amounted to less than KRW 10 billion, but included under Korean-IFRS.

(2) Measurement of financial instruments at amortized cost

Under previous GAAP loans and receivables are measured at nominal amount. The Group measured loans and receivables at fair value initially and at amortized cost thereafter using the effective interest method in accordance with the Korean-IFRS.

(3) Actuarial valuation gain/loss on defined benefit plans

Under previous GAAP severance benefits are recorded vested benefit obligation at the date of the statement of financial position based on the assumption that all employees are terminated at the date of the statement of financial position. Under Korean-IFRS actuarial methodology using Projected Unit Credit (PUC) method is used to determine defined benefit obligation.

(4) Recognition of compensated absences

In accordance with Korean-IFRS, the Group recognized the expected cost and liabilities for compensated absences in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absence.

(5) Recognition of deferred income tax liability on revaluation asset

The Group did not recognize deferred income tax liability on advance depreciation provision for land previously revaluated under previous GAAP. However in accordance with Korean-IFRS the Group recognized deferred income tax liability on the differentials arising from revaluation.

(6) Reclassification of membership rights

Membership rights, which were classified as other non-current assets, are reclassified as intangible assets with indefinite lives in accordance with Korean-IFRS.

(7) Reclassification of provision for sales points & mileages accrued

Provision for sales points & mileages accrued, previously recognized as other payables, is reclassified to deferred revenue in accordance with Korean-IFRS.

(8) Deferred tax effects

Under previous GAAP, deferred tax effects are classified as current or non-current but as under Korean -IFRS the Group classified current deferred tax as non-current. The tax effect arising from the reconciliation of previous GAAP and Korean-IFRS are adequately reflected.

4.4 Effects on financial position and financial performance

Effects of Korean IFRS adoption on the Group's financial position as of January 1, 2010, the date of Korean- IFRS transition, are as follows:

(in millions of Korean won)	Total assets	Total liabilities	Total equity
Reported amount under K-GAAP	₩ 9,137,431	₩ 5,159,046	₩ 3,978,385
Adjustments			
Changes in scope of consolidation	(42,294)	(17,468)	(24,826)
Measurement of financial instruments at amortized cost	2,282	(44)	2,326
Recognition of compensated absences	185	11,897	(11,712)
Actuarial valuation on defined benefit plans	-	(17,173)	17,173
Recognition of deferred income tax liability on revaluation asset	-	21,305	(21,305)
Deferred income tax effect on reconciliation adjustments	-	1,885	(1,885)
Total	(39,827)	402	(40,229)
Adjusted amount under Korean-IFRS	₩ 9,097,604	₩ 5,159,448	₩ 3,938,156

Effects of Korean IFRS adoption on the financial position and financial performance as December 31, 2010, and for the year then ended are as follows:

(in millions of Korean won)	Total assets	Total liabilities	Total equity	Profit	Comprehen-sive income
Reported amount under K-GAAP	₩10,049,703	₩ 5,501,172	₩ 4,548,531	₩ 711,148	₩ 697,734
Adjustments					
Changes in scope of consolidation	(48,183)	(22,508)	(25,675)	(6,080)	(6,098)
Measurement of financial instruments at amortized cost	2,644	(43)	2,687	361	361
Recognition of compensated absences	477	12,840	(12,363)	(651)	(651)
Actuarial valuation on defined benefit plans	(560)	(15,144)	14,584	7,498	(2,589)
Recognition of deferred income tax liability on revaluation asset	-	21,305	(21,305)	-	-
Deferred income tax effect on reconciliation adjustments	-	1,409	(1,409)	(1,744)	475
Total	(45,622)	(2,141)	(43,481)	(616)	(8,502)
Adjusted amount under Korean-IFRS	₩ 10,004,081	₩ 5,499,031	₩ 4,505,050	₩ 710,532	₩ 689,232

According to Korean-IFRS, cash flows of the related income (expenses) and assets (liabilities) are adjusted to separately disclose the cash flows from interest received, interest paid and cash payments of income tax expense that were not presented separately under previous GAAP. And the effects of the change in exchange rate on cash and cash equivalents held or due in a foreign currency are presented separately from cash flows from operating, investing and financing activities.

4.5 Classification of operating income (loss)

(1) Material items of operating income and expense

Operating income (loss) is calculated as gross profit net of selling and administrative expenses and other income and expenses (Notes 27 and 28).

(2) Distinctions between K-GAAP and Korean-IFRS

Under the former accounting standards, operating income (loss) was calculated as gross profit net of selling and administrative expenses. Under Korean-IFRS, operating income (loss) was calculated as gross profit net of selling and administrative expenses, and other income and expenses. Therefore, operating income (loss) amount differs between K-GAAP to Korean-IFRS by the amount of other income and expenses (Notes 27 and 28).

(3) Adjustments for operating income

Changes in composition of operating income for prior year caused by the Group's Korean-IFRS adoption are as follows:

(in millions of Korean won)

Reported amount under K-GAAP	₩	833,121
Adjustments		
Change in scope of consolidation		(19,804)
Measurement of financial instruments at amortized cost		3,075
Recognition of compensated absences		(651)
Actuarial valuation on defined benefit plans		7,498
Reclassification		
Other income (Note 28)		512,272
Other expenses (Note 28)		(476,126)
Adjusted amount under Korean-IFRS	₩	859,385

Operating income is calculated as gross profit net of selling and administrative expenses and other income and expenses (Notes 27 and 28).

5. Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimations and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a. Defined benefit liability

The present value of the defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for defined benefit liability are based in part on current market conditions.

b. Fair value of derivative instruments and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using discounted cash flow analysis.

c. Income taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group operates and generates taxable income.

d. Provisions for other liabilities and charges

As of December 31, 2011, the Group records environmental restoration provisions. Assumptions used for the provisions are based on the Group’s experiences.

6. Segment information

The reportable operating segments of the Group are oil refining business, lube oil business and petrochemical business.

Financial information by business segment as of and for the years ended December 31, 2011 and 2010, are as follows:

	2011			
(in millions of Korean won)	**OIL Refining Business**	**Lube OIL Business**	**Petrochemical Business**	**Total**
Gross sales	₩ 25,960,201	₩ 2,462,592	₩ 3,491,070	₩ 31,913,863
Inter-segment sales	9,901,213	1,129,669	3,687,718	14,718,600
Total sales	₩ 35,861,414	₩ 3,592,261	₩ 7,178,788	₩ 46,632,463
Operating income	₩ 472,348	₩ 714,650	₩ 446,740	₩ 1,633,738
Property, plant, equipment and intangible assets	₩ 1,964,076	₩ 57,753	₩ 1,897,631	₩ 3,919,460
Depreciation and amortization	₩ 267,909	₩ 12,059	₩ 95,811	₩ 375,779

	2010			
(in millions of Korean won)	**OIL Refining Business**	**Lube OIL Business**	**Petrochemical Business**	**Total**
Gross sales	₩ 17,331,819	₩ 1,638,819	₩ 1,540,430	₩ 20,511,068
Inter-segment sales	5,875,026	778,542	2,023,441	8,677,009
Total sales	₩ 23,206,845	₩ 2,417,361	₩ 3,563,871	₩ 29,188,077
Operating income	₩ 441,470	₩ 353,763	₩ 64,152	₩ 859,385
Property, plant, equipment and intangible assets	₩ 3,306,556	₩ 80,002	₩ 396,260	₩ 3,782,818
Depreciation and amortization	₩ 235,052	₩ 9,216	₩ 31,855	₩ 276,123

Net sales by geographic region are as follows:

(in millions of Korean won)	2011	2010
Korea	₩ 11,476,391	₩ 8,659,892
Southeast Asia	4,779,378	2,558,407
China	5,777,440	2,184,660
Japan	3,556,051	1,827,176
Australia	1,123,567	1,024,335
USA	1,089,886	1,198,136
Europe	1,290,130	704,281
Others	2,821,020	2,354,181
Total	₩ 31,913,863	₩ 20,511,068

7. Cash and cash equivalents

Cash and cash equivalents as of December 31, 2011 ad 2010, and January 1, 2010, consist of the following:

(In millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents			
Cash on hand	₩ 44	₩ 69	₩ 31
Checking accounts	15	10	10
Passbook accounts	30,855	18,224	3,383
Foreign currency deposits	99,130	47,511	46,029
Time deposits	428,000	398,000	666,000
MMDA and others	318,910	390,050	107,080
	₩ 876,954	₩ 853,864	₩ 822,533

Cash and cash equivalents include short-term highly liquid investments with variable interest rate conveying market interest rate. Therefore, the differences in fair value and carrying amount of cash equivalents are immaterial.

Cash and cash equivalents recognized in the consolidated statement of financial position and cash flows are identical.

8. Trade and other receivables

Trade and other receivables are as follows:

(in millions of Korean won)	December 31, 2011 Current	December 31, 2011 Non-Current	December 31, 2010 Current	December 31, 2010 Non-Current	January 1, 2010 Current	January 1, 2010 Non-Current
Trade receivables	₩ 2,649,083	₩ -	₩ 1,774,078	₩ -	₩ 1,448,689	₩ -
Less : allowance for doubtful accounts	(9,998)	-	(4,370)	-	(16,325)	-
	2,639,085	-	1,769,708	-	1,432,364	-
Non-trade receivables	383,153	-	371,557	-	404,820	-
Accrued revenues	3,474	-	2,018	-	9,043	-
Less : allowance for doubtful accounts	-	-	(68)	-	(85)	-
Loans	13,448	58,054	14,281	64,364	92,329	67,764
Less : allowance for doubtful accounts	-	-	(394)	-	(530)	(620)
Deposits received	-	28,449	-	35,262	-	37,161
	400,075	86,503	387,394	99,626	505,577	104,305
Net book amount	₩ 3,039,160	₩ 86,503	₩ 2,157,102	₩ 99,626	₩ 1,937,941	₩ 104,305

The aging analysis of these trade receivables follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Receivables not past due	₩ 2,639,048	₩ 1,762,168	₩ 1,437,709
Up to 1 month	4,860	5,009	5,168
1 to 3 months	673	665	295
3 to 6 months	123	323	142
6 to 12 months	1,383	27	1,506
Over one year	2,996	5,886	3,869
	₩ 2,649,083	₩ 1,774,078	₩ 1,448,689

As of December 31, 2011, trade receivables of ₩ 623,602 million are pledged as collateral. Among the trade receivables pledged, ₩ 4,716 million were past due but not impaired.

The aging analysis of these other receivables follows:

(in millions of Korean won)		December 31, 2011		December 31, 2010		January 1, 2010
Receivables not past due	₩	486,452	₩	486,331	₩	609,912
Up to 1 month		8		77		35
1 to 3 months		62		20		81
3 to 6 months		56		50		40
6 to 12 months		-		100		38
Over one year		-		904		1,011
	₩	486,578	₩	487,482	₩	611,117

Movements on the provision for impairment of trade receivables are as follows:

(in millions of Korean won)		2011		2010
Beginning balance	₩	4,832	₩	17,560
Unused amounts reversed		(462)		(12,745)
Bad debts expense		7,344		-
Other		(1,716)		17
Ending balance	₩	9,998	₩	4,832

The maximum exposure of trade and other receivables to credit risk at the reporting date as of December 31, 2011 and 2010, and January 1, 2010, is as follows:

	December 31, 2011					
(in millions of Korean won)	Before adjustment		Accumulated impairment		Carrying value (Maximum exposure)	
Trade receivables	₩	2,649,083	₩	(9,998)	₩	2,639,085
Other receivables		486,578		-		486,578
	₩	3,135,661	₩	(9,998)	₩	3,125,663

	December 31, 2010					
(in millions of Korean won)	Before adjustment		Accumulated impairment		Carrying value (Maximum exposure)	
Trade receivables	₩	1,774,078	₩	(4,370)	₩	1,769,708
Other receivables		487,482		(462)		487,020
	₩	2,261,560	₩	(4,832)	₩	2,256,728

	January 1, 2010					
(in millions of Korean won)	Before adjustment		Accumulated impairment		Carrying value (Maximum exposure)	
Trade receivables	₩	1,448,689	₩	(16,325)	₩	1,432,364
Other receivables		611,117		(1,235)		609,882
	₩	2,059,806	₩	(17,560)	₩	2,042,246

The carrying amount is a reasonable approximation of fair value for current trade and other receivables.

9. Other financial assets

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

(in millions of Korean won)	December 31, 2011		December 31, 2010		January 1, 2010	
Current						
Short-term available-for-sale financial assets	₩	1,136	₩	237	₩	289
Short-term financial instruments		277,792		42,000		407,986
Non-Current						
Long-term deposit		13		13		13
Long-term available-for-sale financial assets		77,803		96,381		108,874
Total	₩	356,744	₩	138,631	₩	517,162

None of other financial assets were past due or impaired.

Available-for-sale financial assets as of December 31, 2011 and 2010, and January 1, 2010, consist of the following:

(in millions of Korean won)	December 31, 2011		December 31, 2010		January 1, 2010	
Current						
Government and public bonds	₩	1,136	₩	237	₩	289
Non-Current						
Listed equities		29,660		50,889		63,338
Non-listed equities		42,979		42,979		42,979
Government and public bonds		5,164		2,513		2,557
	₩	78,939	₩	96,618	₩	109,163

The fair value of financial instruments that are not traded in an active market is determined using discounted cash flow analysis based on the risk adjusted yield.

Changes in available-for-sale financial assets are as follows:

(in millions of Korean won)		2011		2010
Balance as of January 1	₩	96,618	₩	109,163
Acquisitions		4,233		245
Dispositions		(21,250)		(342)
Valuations		(662)		(12,448)
Balance as of December 31	₩	78,939	₩	96,618
Less: Current		77,803		96,381
Non-current		1,136		237

In 2011, the Group disposed of certain listed securities and moved gain on valuation of available-for-sales investments amounting to ₩ 18,374 million from equity to the consolidated comprehensive income statement.

The maximum exposure of short-term financial instruments, long-term deposits and debt securities classified as available-for-sale instruments to credit risk at the reporting date is the carrying value of each class. The Group does not hold any collateral as security.

The carrying amount is a reasonable approximation of fair value for short-term financial instruments and long-term deposit, with the effect of the discount being insignificant.

10. Derivative financial instruments

Derivative financial instruments as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
(in millions of Korean won)	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Trading derivative						
Forward foreign exchange	₩ 2,643	₩ 3,624	₩ 272	₩ 1,541	₩ 957	₩ 570
Commodity Swap	-	1,038	-	596	-	-
Hedging derivative						
Currency swap	-	269	-	3,767	-	-
	₩ 2,643	₩ 4,931	₩ 272	₩ 5,904	₩ 957	₩ 570
Current	2,643	4,662	272	2,137	957	570
Non-current	-	269	-	3,767	-	-

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

As of December 31, 2011, the Group has currency swap agreements to hedge the future cash flows arising from the volatility of the interest rates and the foreign currency exchange rates from the Group's USD 100 million floating rates bond. The expected maximum period when the Group is exposed to the cash flow fluctuations is until May 26, 2013, as the cash flow hedge accounting is applied. As of December 31, 2011, the Group records the gain on valuation of ₩ 1,440 million within finance income and the loss on valuation of ₩ 2,058 million including the income tax effect of ₩ 394 million under other comprehensive expense.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative financial instruments.

11. Financial instruments by category

Categorizations of financial assets and liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	December 31, 2011			
(in millions of Korean won)	**Loans and receivables**	**Assets at fair value through the profit and loss**	**Available-for-sale financial assets**	**Total**
Assets				
Cash and cash equivalents	₩ 876,954	₩ -	₩ -	₩ 876,954
Trade receivables	2,639,085	-	-	2,639,085
Other receivables	486,578	-	-	486,578
Other financial assets	277,805	-	78,939	356,744
Derivatives	-	2,643	-	2,643
	₩ 4,280,422	₩ 2,643	₩ 78,939	₩ 4,362,004

(in millions of Korean won)	December 31, 2011			
	Financial liabilities measured at amortized cost	**Liabilities at fair value through the profit and loss**	**Derivatives used for hedging**	**Total**
Liabilities				
Trade payables	₩ 2,617,848	₩ -	₩ -	₩ 2,617,848
Other payables	919,019	-	-	919,019
Borrowings	3,743,121	-	-	3,743,121
Derivatives	-	4,662	269	4,931
	₩ 7,279,988	₩ 4,662	₩ 269	₩ 7,284,919

(in millions of Korean won)	December 31, 2010			
	Loans and receivables	**Assets at fair value through the profit and loss**	**Available-for-sale financial assets**	**Total**
Assets				
Cash and cash equivalents	₩ 853,864	₩ -	₩ -	₩ 853,864
Trade receivables	1,769,708	-	-	1,769,708
Other receivables	487,020	-	-	487,020
Other financial assets	42,013	-	96,618	138,631
Derivatives	-	272	-	272
	₩ 3,152,605	₩ 272	₩ 96,618	₩ 3,249,495

(in millions of Korean won)	December 31, 2010			
	Financial liabilities measured at amortized cost	**Liabilities at fair value through the profit and loss**	**Derivatives used for hedging**	**Total**
Liabilities				
Trade payables	₩ 1,798,131	₩ -	₩ -	₩ 1,798,131
Other payables	609,654	-	-	609,654
Borrowings	2,619,212	-	-	2,619,212
Derivatives	-	2,137	3,767	5,904
	₩ 5,026,997	₩ 2,137	₩ 3,767	₩ 5,032,901

(in millions of Korean won)	**January 1, 2010** Loans and receivables	Assets at fair value through the profit and loss	Available-for-sale financial assets	Total
Assets				
Cash and cash equivalents	₩ 822,533	₩ -	₩ -	₩ 822,533
Trade receivables	1,432,364	-	-	1,432,364
Other receivables	609,882	-	-	609,882
Other financial assets	407,999	-	109,163	517,162
Derivatives	-	957	-	957
	₩ 3,272,778	₩ 957	₩ 109,163	₩ 3,382,898

(in millions of Korean won)	**January 1, 2010** Financial liabilities measured at amortized cost	Liabilities at fair value through the profit and loss	Total
Liabilities			
Trade payables	₩ 1,085,047	₩ -	₩ 1,085,047
Other payables	1,057,730	-	1,057,730
Borrowings	2,734,015	-	2,734,015
Derivatives	-	570	570
	₩ 4,876,792	₩ 570	₩ 4,877,362

Income and loss of financial instruments by category for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)		2011		2010
Loans and receivables				
Interest income	₩	40,948	₩	26,372
Interest expenses		(1,335)		(1,475)
Foreign currency gain (loss)		41,840		(50,903)
Bad debts expense		(7,344)		-
Reversal of bad debts allowance		462		12,745
Assets and liabilities at fair value through profit or loss				
Derivative financial instruments gain (loss)		4,406		(4,001)
Assets classified as available-for-sale				
Gain(Loss) on valuation (Other comprehensive income (loss))		(662)		(12,448)
Gain(Loss) on disposal/disposal (Reclassification)		(18,374)		-
Gain(Loss) on disposal/disposal (Profit or loss)		19,272		-
Interest income		154		86
Dividends received		1,584		1,584
Financial liabilities at amortized cost				
Foreign currency gain (loss)		(103,727)		75,558
Interest expenses		(57,087)		(27,538)

12. Inventories

Inventories as of December 31, 2011 and 2010 and January 1, 2010, consist of the following:

(in millions of Korean won)		December 31, 2011		December 31, 2010		January 1, 2010
Merchandise	₩	-	₩	-	₩	10
Finished goods		874,898		765,529		632,998
Work in progress		398,031		278,023		241,564
Raw materials and materials-in-transit		3,250,962		1,794,859		1,668,359
Supplies		93,228		96,353		106,838
	₩	4,617,119	₩	2,934,764	₩	2,649,769

The cost of inventories recognized as expense and included in ‘cost of sales’ amounted to ₩ 27,243,439 million (2010: ₩ 17,595,506 million). The Group recognized loss on inventory valuation of ₩ 12,661 million for the year ended December 31, 2011, and reversal of allowance of ₩ 4,926 million for the year ended December 31, 2010.

13. Investments in jointly controlled entities

Jointly controlled entities as of December 31, 2011 and 2010, and January 1, 2010, consist of the following:

(in millions of Korean won) Investee	Number of Shares	Percentage of Ownership (%)	Acquisition cost	December 31, 2011	December 31, 2010	January 1, 2010
Jointly controlled entities						
S-OIL TOTAL Lubricants Co.,Ltd.[1]	3,500,001	50	₩ 20,134	₩ 25,422	₩ 24,839	₩ 24,226
HanKook Silicon Co.,Ltd.[2]	41,042,750	33.4	267,315	264,770	-	-
			₩ 287,449	₩ 290,192	₩ 24,839	₩ 24,226

[1] In accordance with the joint venture contract with Total Raffinage Marketing S.A., the Group acquired 50% plus one share of S-OIL TOTAL Lubricants Co., Ltd.'s outstanding shares.

[2] On June 28, 2011, the Group acquired 33.4% of outstanding shares of HanKook Silicon Co., Ltd.

Summarized financial status of jointly controlled entities as of December 31, 2011 and 2010, is as follows:

	2011	
(in millions of Korean won)	S-OIL TOTAL Lubricants Co., Ltd.	HanKook Silicon Co., Ltd.
Current assets	₩ 72,291	₩ 334,864
Non-current assets	17,372	544,379
Total assets	89,663	879,243
Current liabilities	37,629	399,606
Non-current liabilities	-	75,036
Total liabilities	37,629	474,642
Total equity	52,034	404,601
Revenues	283,366	150,390
Operating income	14,231	22,573
Profit before income tax	14,092	13,383
Profit for the year	10,685	8,961

(in millions of Korean won)	2010 S-OIL TOTAL Lubricants Co., Ltd.
Current assets	₩ 59,296
Non-current assets	17,567
Total assets	76,863
Current liabilities	25,590
Non-current liabilities	-
Total liabilities	25,590
Total equity	51,273
Revenues	241,188
Operating income	18,458
Profit before income tax	15,959
Profit for the year	12,106

The Group's share of the results of its jointly controlled entities and its aggregated assets and liabilities are as follows:

	2011				
(in millions of Korean won)	Assets	Liabilities	Equity	Revenues	Profit/(loss)
S-OIL TOTAL Lubricants Co., Ltd.	₩ 44,831	₩ 18,814	₩ 26,017	₩ 141,683	₩ 5,342
HanKook Silicon Co., Ltd.	293,667	158,530	135,137	16,729	51

	2010				
(in millions of Korean won)	Assets	Liabilities	Equity	Revenues	Profit/(loss)
S-OIL TOTAL Lubricants Co., Ltd.	₩ 38,432	₩ 12,795	₩ 25,637	₩ 120,594	₩ 6,053

Changes in investments in subsidiary and jointly controlled entities are as follows:

	2011			2010
(in millions of Korean won)	S-OIL TOTAL Lubricants Co., Ltd.	HanKook Silicon Co., Ltd.	Total	S-OIL TOTAL Lubricants Co., Ltd.
Beginning balance	₩ 24,839	₩ -	₩ 24,839	₩ 24,226
Acquisition	-	267,315	267,315	-
Share of profit	5,343	(2,545)	2,798	6,049
Unrealized gain (loss)	202	-	202	(203)
Dividends received	(4,900)	-	(4,900)	(5,250)
Other equity movement	(62)	-	(62)	17
Ending balance	₩ 25,422	₩ 264,770	₩ 290,192	₩ 24,839

14. Property, plant and equipment

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

(in millions of Korean won)	2011								
	Land	**Buildings**	**Structures**	**Machinery and equipment**	**Vehicles**	**Others**	**Catalysts**	**Construction-in-progress**	**Total**
At January 1, 2011									
Acquisition cost	₩ 1,067,051	₩ 150,463	₩ 535,263	₩ 2,227,615	₩ 11,503	₩ 182,129	₩ 423,065	₩ 1,698,954	₩ 6,296,043
Accumulated depreciation	-	(44,749)	(314,846)	(1,775,623)	(10,299)	(97,281)	(300,891)	-	(2,543,689)
Net book value	1,067,051	105,714	220,417	451,992	1,204	84,848	122,174	1,698,954	3,752,354
Changes during 2011									
Opening net book value	1,067,051	105,714	220,417	451,992	1,204	84,848	122,174	1,698,954	3,752,354
Additions	472	26	425	183	769	17,480	153,499	338,225	511,079
Transfers	184,552	106,098	160,486	1,169,633	-	30,243	50,775	(1,710,356)	(8,569)
Disposals	(265)	(161)	(298)	-	-	(422)	-	-	(1,146)
Depreciation	-	(5,463)	(26,743)	(183,917)	(526)	(34,249)	(120,360)	-	(371,258)
Closing net book value	1,251,810	206,214	354,287	1,437,891	1,447	97,900	206,088	326,823	3,882,460
At December 31, 2011									
Cost or valuation	1,251,810	256,286	695,226	3,397,431	11,945	222,331	575,229	326,823	6,737,081
Accumulated depreciation	-	(50,072)	(340,939)	(1,959,540)	(10,498)	(124,431)	(369,141)	-	(2,854,621)
Net book value	₩ 1,251,810	₩ 206,214	₩ 354,287	₩ 1,437,891	₩ 1,447	₩ 97,900	₩ 206,088	₩ 326,823	₩ 3,882,460

(in millions of Korean won)	2010								
	Land	**Buildings**	**Structures**	**Machinery and equipment**	**Vehicles**	**Others**	**Catalysts**	**Construction-in-progress**	**Total**
At January 1, 2010									
Acquisition cost	₩ 1,060,785	₩ 140,220	₩ 530,359	₩ 2,216,207	₩ 11,290	₩ 136,023	₩ 330,043	₩ 848,558	₩ 5,273,485
Accumulated depreciation	-	(41,514)	(294,405)	(1,640,795)	(10,182)	(79,658)	(213,459)	-	(2,280,013)
Net book value	1,060,785	98,706	235,954	575,412	1,108	56,365	116,584	848,558	2,993,472
Changes during 2010									
Opening net book value	1,060,785	98,706	235,954	575,412	1,108	56,365	116,584	848,558	2,993,472
Additions	272	160	160	-	524	13,600	93,022	933,547	1,041,285
Transfers	10,162	11,074	5,437	11,408	-	38,830	-	(83,151)	(6,240)
Disposals	(4,168)	(514)	(104)	-	-	(387)	-	-	(5,173)
Depreciation	-	(3,712)	(21,030)	(134,828)	(428)	(23,560)	(87,432)	-	(270,990)
Closing net book value	1,067,051	105,714	220,417	451,992	1,204	84,848	122,174	1,698,954	3,752,354
At December 31, 2010									
Cost or valuation	1,067,051	150,463	535,263	2,227,615	11,503	182,129	423,065	1,698,954	6,296,043
Accumulated depreciation	-	(44,749)	(314,846)	(1,775,623)	(10,299)	(97,281)	(300,891)	-	(2,543,689)
Net book value	₩ 1,067,051	₩ 105,714	₩ 220,417	₩ 451,992	₩ 1,204	₩ 84,848	₩ 122,174	₩ 1,698,954	₩ 3,752,354

Depreciation expense of ₩ 349,888 million (2010: ₩ 252,494 million) has been charged as ‘cost of sales’, ₩17,526 million(2010: ₩16,306 million) as ‘selling expenses’ and ₩3,844 million (2010: ₩2,190 million) as ‘administrative expense’.

As of December 31, 2011, a certain portion of property, plant and equipment is pledged as collateral for various loans (Note 16).

During the year, the Group has capitalized borrowing costs amounting to ₩12,079 million (2010: ₩ 28,793 million) on qualifying assets. Weighted average rate of specific borrowings for capitalized borrowing costs are same as that of debentures (Note 18).

15. Intangible assets

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

(in millions of Korean won)	2011 Facility usage rights	Others	Membership rights	Total
At January 1, 2011				
Acquisition cost	₩ 8,113	₩ 27,998	₩ 14,805	₩ 50,916
Accumulated depreciation	(2,178)	(18,274)	-	(20,452)
Net book value	5,935	9,724	14,805	30,464
Changes during 2011				
Opening net book value	5,935	9,724	14,805	30,464
Additions	-	549	4,341	4,890
Transfers	-	8,569	-	8,569
Disposals	-	-	(2,402)	(2,402)
Amortization	(405)	(4,116)	-	(4,521)
Closing net book value	5,530	14,726	16,744	37,000
At December 31, 2011				
Cost or valuation	8,113	37,116	16,744	61,973
Accumulated depreciation	(2,583)	(22,390)	-	(24,973)
Net book value	₩ 5,530	₩ 14,726	₩ 16,744	₩ 37,000

(in millions of Korean won)	2010 Facility usage rights	Others	Membership rights	Total
At January 1, 2010				
Acquisition cost	₩ 7,728	₩ 22,022	₩ 12,968	₩ 42,718
Accumulated depreciation	(1,784)	(13,536)	-	(15,320)
Net book value	5,944	8,486	12,968	27,398
Changes during 2010				
Opening net book value	5,944	8,486	12,968	27,398
Additions	-	124	3,343	3,467
Transfers	385	5,855	-	6,240
Disposals	-	(2)	(1,506)	(1,508)
Amortization	(394)	(4,739)	-	(5,133)
Closing net book value	5,935	9,724	14,805	30,464
At December 31, 2010				
Cost or valuation	8,113	27,998	14,805	50,916
Accumulated depreciation	(2,178)	(18,274)	-	(20,452)
Net book value	₩ 5,935	₩ 9,724	₩ 14,805	₩ 30,464

Amortization expense of ₩1,733 million (2010: ₩1,077 million) is included in ‘cost of sales’, ₩ 990 million (2010: ₩ 579 million) in ‘selling expenses’ and ₩ 1,798 million (2010: ₩ 3,477 million) in ‘administrative expense’.

Membership impairment reviews are undertaken annually. As a result of the impairment test, the Group expects the carrying value of membership is higher than the recoverable amount.

16. Assets pledged as collaterals

As of December 31, 2011, assets pledged as collaterals are as follows:

(in millions of Korean won and millions of other foreign currencies)

Pledged Assets as Collateral	Secured Amount	Creditors	Related Borrowings/ Guarantees	Balance of Borrowings
Land, Buildings, BTX and others	₩ 19,350 USD 144 FFr155 JPY 11,781	The Korea Development Bank	Usance Borrowings	₩ 564,902 (USD 490)
R2R Debottlenecking and others	Security for transfer	Hana Bank	Loans for facility	₩ 15,746
Time deposits	₩ 7,424	Defense Acquisition Program Administration	Contractual guarantee	-
Time deposits	₩ 98	Korea Coast Guard	Contractual guarantee	-
		Total		₩ 580,648

17. Trade payables, other payables and other liabilities

Trade payable and other payables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
(in millions of Korean won)	**Current**	**Non-Current**	**Current**	**Non-Current**	**Current**	**Non-Current**
Trade payables	₩2,617,848	₩ -	₩1,798,131	₩ -	₩1,085,047	₩ -
Non-trade payables	889,749	-	583,468	-	1,025,238	-
Accrued expenses	11,241	-	8,270	-	14,629	-
Dividend payables	170	-	169	-	150	-
Rental deposit payables	-	17,859	-	17,747	-	17,713
	₩3,519,008	₩ 17,859	₩2,390,038	₩ 17,747	₩2,125,064	₩ 17,713

Other liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
(in millions of Korean won)	**Current**	**Non-Current**	**Current**	**Non-Current**	**Current**	**Non-Current**
Advances from customers	₩ 94,234	₩ -	₩ 66,777	₩ -	₩ 38,378	₩ -
Withholdings	8,993	-	4,423	-	3,094	-
Long-term unearned revenues	-	660	-	788	-	1,113
	₩103,227	₩ 660	₩ 71,200	₩ 788	₩ 41,472	₩ 1,113

The carrying amount is a reasonable approximation of the fair value for current trade payables and other payables.

18. Borrowings

Details of borrowings as of December 31, 2011 and 2010, and January 1, 2010 are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Current			
Banker's usance	₩ 3,054,108	₩ 1,936,116	₩ 2,370,124
Current maturities of debentures	199,774	-	-
Current maturities of long-term borrowings	1,724	1,304	1,779
	3,255,606	1,937,420	2,371,903
Non-current			
Debentures	349,189	548,237	348,550
Foreign currency debentures	115,192	113,656	-
Long-term borrowings	22,135	18,912	12,550
Foreign currency long-term borrowings	999	987	1,012
	487,515	681,792	362,112
	₩ 3,743,121	₩ 2,619,212	₩ 2,734,015

As of December 31, 2011 and 2010, and January 1, 2010, details of bank borrowings are as follows:

(in millions of Korean won)	**Financial institutions**	**Maturity**	**Interest rate (%) Dec 31, 2011**	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Short-term borrowings						
Banker's usance	Korea Development Bank and others	Jan 23, 2012 and others	1.03 ~ 1.74	₩ 3,054,108	₩1,936,116	₩ 2,370,124
Current maturities of long-term borrowings						
Loans for facilities from energy usage rationalization fund	Hana Bank	Mar 15, 2012 and others	1.50 ~ 2.25	925	1,304	1,779
Loans for facilities from energy usage rationalization fund	Korea Exchange Bank	Sep 15, 2012	2.25	317	-	-
Environment improvement supporting funds loans	Hana Bank	Jun 30, 2012	3.8	482	-	-
				1,724	1,304	1,779
Long-term borrowings						
Loans for facilities from energy usage rationalization fund	Hana Bank	Sep 15, 2019 and others	1.50 ~ 2.25	14,768	10,746	4,884
Environment improvement supporting funds loans	Hana Bank	Mar 31, 2019	3.8	4,518	5,000	4,500
Loans for facilities from energy usage rationalization fund	Korea Exchange Bank	Jun 15, 2017	2.25	2,849	3,166	3,166
				22,135	18,912	12,550
Foreign currency long-term borrowings						
Success repayable loan	Korea National Oil Corporation	-	-	999	987	1,012
				999	987	1,012
				₩ 3,078,966	₩1,957,319	₩ 2,385,465

Debentures outstanding as of December 31, 2011 and 2010, and January 1, 2010, consist of the following:

(In millions of Korean won)	**Issuance date**	**Maturities**	**Interest Rates (%) Dec 31, 2011**	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Public bonds (43-1)	Sep 18, 2009	Sep 18, 2012	5.08	₩ 200,000	₩ 200,000	₩ 200,000
Public bonds (43-2)	Sep 18, 2009	Sep 18, 2014	5.45	150,000	150,000	150,000
Public bonds (44-1)	May 26, 2010	May 26, 2013	4.15	115,330	113,890	-
Public bonds (44-2)	May 26, 2010	May 26, 2013	4.12	200,000	200,000	-
				665,330	663,890	350,000
Less: Present value discount				(1,175)	(1,997)	(1,450)
				₩ 664,155	₩ 661,893	₩ 348,550

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
6 months or less			
Current maturities of long-term borrowings	₩ 1,638	₩ 1,304	₩ 1,779
Long-term borrowings	21,793	18,912	12,550
Foreign currency debentures	115,192	113,656	-
	₩ 138,623	₩ 133,872	₩ 14,329

The carrying amount is a reasonable approximation of the fair value for long-term borrowings, with the effect of discount being insignificant.

The Group has the following undrawn borrowing facilities:

(in millions of Korean won)	**December 31, 2011**	**December, 31 2010**	**January 1, 2010**
Floating rate			
- Expiring within one year	₩ 2,850,479	₩ 2,452,232	₩ 2,081,154

19. Provisions for other liabilities and charges

Changes in provisions are as follows:

(in millions of Korean won)	Environmental Restoration			
	2011		2010	
Beginning Balance	₩	2,711	₩	2,310
Additional provision		8,771		3,065
Utilized during the period		(3,388)		(2,664)
Ending Balance	₩	8,094	₩	2,711

20. Retirement benefit obligations

Retirement benefit obligations recognized on the consolidated statements of financial position are as follows:

(in millions of Korean won)	December 31, 2011		December, 31 2010		January 1, 2010	
Present value of funded obligations	₩	115,405	₩	108,902	₩	112,485
Fair value of plan assets[1]		(91,240)		(92,090)		(98,642)
Liability on the statement of financial position	₩	24,165	₩	16,812	₩	13,843

[1] As of December 31, 2011 and 2010, and January 1, 2010, the fair value of plan assets includes existing amount of national pension contribution of ₩ 583 million, and ₩ 833 million, and ₩ 1,213 million, respectively.

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

(in millions of Korean won)	2011		2010	
Beginning balance	₩	108,902	₩	112,485
Current service cost		14,928		14,662
Interest expense		6,336		5,894
Benefits paid		(32,713)		(34,002)
Actuarial gain (loss)		17,952		9,863
Ending balance	₩	115,405	₩	108,902

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

(in millions of Korean won)		2011		2010
Beginning balance	₩	92,090	₩	98,642
Expected return on plan assets		4,774		4,845
Contribution		15,500		12,000
Benefits paid		(20,366)		(23,172)
Actuarial gain (loss)		(758)		(225)
Ending balance	₩	91,240	₩	92,090

The amounts recognized on the consolidated comprehensive income statements for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)		2011		2010
Current service cost	₩	14,928	₩	14,662
Interest expenses		6,336		5,894
Expected return on plan assets		(4,774)		(4,845)
	₩	16,490	₩	15,711

Out of the total charges, ₩ 9,782 million (2010: ₩ 8,990 million) has been charged as 'cost of sales', ₩ 4,552 million (2010: ₩ 4,419 million) as 'selling expenses', ₩ 2,043 million(2010: ₩ 2,041 million) as 'administrative expense', and ₩ 113 million (2010: ₩ 261 million) in 'construction-in-progress'. The actual return on plan assets was ₩ 4,016 million (2010: ₩ 4,620 million).

The principal actuarial assumptions used are as follows:

	December 31, 2011	December, 31 2010	January 1, 2010
Discount rate	5.25%	6.00%	5.39%
Expected return on plan assets	4.70%	5.00%	4.75%
Future salary increases	4.38%	4.38%	4.02%

Plan assets consist of:

(in millions of Korean won)		December 31, 2011		December, 31 2010		January 1, 2010
Debt instruments	₩	90,657	₩	91,256	₩	97,429
Others		583		834		1,213
	₩	91,240	₩	92,090	₩	98,642

Expected contributions to plan assets for the year starting January 1, 2012, amount to ₩ 21,658 million.

Adjustments for the differences between initial assumptions and actual figures:

(in millions of Korean won)	**December 31, 2011**	**December, 31 2010**	**January 1, 2010**
Present value of defined benefit obligation	₩ 115,405	₩ 108,902	₩ 112,485
Fair value of plan assets	(91,240)	(92,090)	(98,642)
Deficit of the funded plans	24,165	16,812	13,843
Defined benefit liability adjustments	10,566	9,256	-
Defined benefit asset adjustments	758	225	-

21. Contingencies

As of December 31, 2011, three blank notes and two blank checks are held as collaterals by Korea National Oil Corporation ("KNOC") and one blank note by Korea Development Bank to guarantee outstanding borrowings and lines of credit.

As of December 31, 2011, the Company has banker's usance agreements of up to a maximum of ₩ 5,579 billion with Shinhan Bank and 18 other banks.

As of December 31, 2011, Korea Exchange Bank has provided guarantees of ₩ 28,842 million for the Company's repayment of remaining bonus points over the guarantee periods starting from November 1, 2011 to January 31, 2012.

As of December 31, 2011, the Company is either a defendant or a plaintiff in various legal actions arising from the normal course of business, and the major pending litigations are as follows:

(A) In February 2001, the Ministry of National Defense ("MND") brought a civil lawsuit of compensation loss claiming ₩ 158,420 million against five oil refiners, including the Company, at the Seoul Central District Court. On December 30, 2009, the Seoul High Court ruled that the amount of ₩ 130,992 million should be paid jointly and severally by the said five oil refiners including interests for their delayed payment to the MND. Based on the court decision, the Company paid ₩ 38,000 million to the MND and recorded ₩ 11,350 million, exceeding the previously accrued amount of ₩ 26,650 million, as others expenses. The Company appealed to the Supreme Court on January 22, 2010. Subsequently, on July 28, 2011 the Supreme Court annulled the decision of the second trial ruled by Seoul High Court claiming that the penalty of ₩130,992 million to the said five oil refiners was problematically computed, and returned the case to Seoul High Court to recalculate.

(B) The head of the Ulsan district tax office imposed taxes of ₩ 4,907 million on the Company claiming that Sea-Marine, a broker selling marine tax-free oil had distributed it illegally in the domestic market rather than providing ships for overseas service with about 12 million liters of tax-free oil supplied by the Company. The Company recorded the amount mentioned above as other expenses in 2005. With regard to this case, the Company filed a case at the Supreme Court asking nullity of imposition of transportation tax and others, but the case was dismissed in October 2011.

(C) The Ulsan district tax office and the Ulju county office imposed ₩ 5,502 million on the Company for the illegal tax refund through forging confirmation of the tax exemption oil supply by certain gas stations. The Company recorded the said amount as other expenses through 2008 to 2009 and filed an administrative lawsuit at the Ulsan district court in March 2010. The Ulsan District Court decided in the Company's favor in June 2011, but the case is currently pending in Busan High Court as the defendant lodged an appeal.

(D) On December 2, 2009, the FTC decided that the six LPG providers, including the Company, were involved in the price collusion from 2003 to 2008 charging a penalty of ₩ 669 billion (₩ 39 billion for the Company). The Company recorded the said penalty as other expenses and paid the penalty in June 2010. The Company filed an administrative lawsuit at the Seoul High Court in May 2010 but the court decided in the FTC's favor in January 2012. The Company filed an appeal to the Supreme Court.

(E) On September 20, 2011, the FTC judged four oil refiners, including the Company, colluded among themselves to limit competition among gas stations by refraining from opening new stations near existing ones operated by rivals. As a result, the FTC notified the Company of a penalty amounting to ₩ 43,871 million and the Company recorded the said amount as other expenses in 2011. The case was filed as an administrative litigation at Seoul High Court in October 2011.

On March 17, 2008, KNOC notified the Company of the excess refund of tariff amounting to ₩ 32,009 million, which the Company recorded as other expenses and paid in full during the year ended December 31, 2008. The Company filed a protest at The Board of Audit and Inspection of Korea, and the case is under consideration.

22. Capital stock and capital surplus

The numbers of shares outstanding as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	Number of shares issued (Common Stock)	Number of shares issued (Preferred Stock)	Share capital (Common Stock)	Share capital (Preferred Stock)	Share premium	Total
January 1, 2010	112,582,792	4,021,927	₩ 281,457	₩ 10,055	₩ 379,190	₩ 670,702
December 31, 2010	112,582,792	4,021,927	281,457	10,055	379,190	670,702
December 31, 2011	112,582,792	4,021,927	281,457	10,055	379,190	670,702

Under its Articles of Incorporation, the Company is authorized to issue 60 million shares that are cumulative, participating preferred stock that are non-voting and entitled to a minimum cash dividend at 9% of par value. As all of the preferred stock as of December 31, 2011, was issued before March 27, 1998, it receives 1% more dividends over common stock under the Articles of Incorporation.

The Company is authorized to issue non-voting convertible stock up to 4 million shares. Each share of this non-voting convertible stock was converted to one common share. As of December 31, 2011, there is no outstanding convertible stock issued by the Company.

The Company may grant options to purchase the Company's common stock to key employees or directors who have contributed or are expected to contribute to the management and technological innovation of the Company with the approval of the shareholders. The grant limit of the options is 15% of outstanding shares and the options may be granted with the special resolution of the shareholders. As of December 31, 2011, no option has been granted.

The Company is authorized to issue 180,000,000 shares of common stock with a par value of ₩2,500 per share and 112,582,792 shares are issued. The Company is authorized to issue 60,000,000 shares of cumulative, participating preferred stock with par value of ₩2,500 per share and 4,021,927 shares are issued.

23. Treasury stock

As of December 31, 2011, the Company holds 184,080 treasury shares of preferred stock amounting to ₩ 1,876 million and is deducted from shareholders' equity. The Company intends to dispose of the treasury stock depending on the market conditions.

24. Retained earnings

Retained earnings as of December 31, 2011 and 2010, and January 1, 2010, consist of the following:

(in millions of Korean won)	December 31, 2011	December, 31 2010	January 1, 2010
Legal reserve			
Earned surplus reserve[1]	₩ 145,756	₩ 145,756	₩ 145,756
Discretionary reserve			
Reserve for improvement of financial structure	55,700	55,700	55,700
Reserve for business rationalization	103,145	103,145	103,145
Reserve for market development	1,278,998	830,498	758,498
	1,437,843	989,343	917,343
Revaluation reserve	984,648	984,648	984,648
Unappropriated retained earnings	994,386	708,364	200,039
	₩ 3,562,633	₩ 2,828,111	₩ 2,247,786

[1] The Commercial Code of the Republic of Korea requires the Company to appropriate as a legal reserve, an amount equal to a minimum of 10% of annual cash dividends declared, until the reserve equals 50% of its issued capital stock. As the Company's reserve exceeds 50% of its issued capital stock, additional reserve is unnecessary. The reserve is not available for the payment of cash dividends.

Changes in retained earnings are as follows:

(In millions of Korean won)		**2011**		**2010**
Beginning balance	₩	2,828,111	₩	2,247,786
Profit for the year		1,190,976		710,532
Dividends paid relating to prior year		(256,221)		(87,412)
Interim dividends		(186,273)		(34,926)
Actuarial gain (loss)		(13,960)		(7,869)
Ending Balance	₩	3,562,633	₩	2,828,111

Year-end cash dividends for 2010 amounting to ₩ 256,221 were paid out in April 2011.

In accordance with the Articles of Incorporation, on July 15, 2011, the Board of Directors declared interim cash dividends of ₩ 1,600 per share as of June 30, 2011:

(in millions of Korean won, except number of shares)

	No. of shares Issued [1]		**Amount**	**Dividend yield**		**Cash Dividends**
Common stock	112,582,792	₩	281,457	64%	₩	180,133
Preferred stock	3,837,847		9,595	64%		6,141
	116,420,639	₩	291,052		₩	186,274

[1] Treasury stocks are excluded from the number of shares issued.

25. Reserves

Details of components of other reserves consist of:

(in millions of Korean won)	**Gain on disposal of treasury stocks**	**Available for sale financial instruments**	**Unrealized gain on equity-method investments**	**Valuation loss on hedging derivatives**	**Currency translation differences**	**Total**
Balance at January 1, 2011	₩ 952,311	₩ 51,313	₩ 13	₩ (3,710)	₩ 8,186	₩ 1,008,113
Unrealized gain on available-for-sale securities	-	(15,877)	-	-	-	(15,877)
Cash flow hedges	-	-	-	1,664	-	1,664
Currency translation differences	-	-	-		12	12
Share of other comprehensive income in jointly controlled entities	-	-	(47)			(47)
Balance at December 31, 2011	₩ 952,311	₩ 35,436	₩ (34)	₩ (2,046)	₩ 8,198	₩ 993,865
Balance at January 1, 2010	₩ 952,311	₩ 61,023		₩ -	₩ 8,210	₩ 1,021,544
Unrealized gain on available-for-sale securities	-	(9,710)		-		(9,710)
Cash flow hedges	-	-		(3,710)		(3,710)
Currency translation differences	-	-			(24)	(24)
Share of other comprehensive income in jointly controlled entities	-	-	13			13
Balance at December 31, 2010	₩ 952,311	₩ 51,313	₩ 13	₩ (3,710)	₩ 8,186	₩ 1,008,113

26. Cost of sales

Cost of sales for the years ended December 31, 2011 and 2010, consists of the following:

(in millions of Korean won)	**2011**	**2010**
Inventories, beginning	₩ 765,529	₩ 633,008
Net purchases	1,830,885	1,147,488
Manufacturing cost for the year	30,399,895	19,837,588
Transfer from other accounts	19,615	-
Transfer to other accounts	(1,545,388)	(961,679)
Inventories, ending	(874,898)	(765,529)
Adjustments	(899,896)	(638,502)
Cost of sales	₩ 29,695,742	₩ 19,252,374

27. Selling and administrative expenses

Selling and administrative expenses for the years ended December 31, 2011 and 2010, consist of the following:

(in millions of Korean won)	Selling expenses		Administrative expenses	
	2011	**2010**	**2011**	**2010**
Salaries and wages	₩ 45,907	₩ 43,392	₩ 23,364	₩ 21,373
Severance benefits	4,552	4,419	2,043	2,041
Employee benefits	32,314	29,415	14,147	12,336
Depreciation and amortization	18,516	16,885	5,642	5,667
Commission and service charge	8,046	8,535	3,270	4,008
Export expenses	124,804	96,830	-	-
Bad debts expense	7,344	-	-	-
Others	195,524	166,356	35,145	24,198
	₩ 437,007	₩ 365,832	₩ 83,611	₩ 69,623

28. Other income and expenses

Other income and expenses for the years ended December 31, 2011 and 2010, consist of the following:

(1) Other income

(in millions of Korean won)	2011	2010
Gain on disposal of property, plant and equipment	₩ 74	₩ 612
Gain on disposal of intangible assets	240	46
Dividend income	1,584	1,584
Gain on disposal of available-for-sale financial instruments	19,272	-
Reversal of allowance for bad debts	462	12,745
Gain on foreign currency transactions	567,805	393,676
Gain on foreign currency translation	26,453	15,464
Gain on derivative transactions	51,014	65,542
Gain on valuation of derivatives	2,695	272
Others	28,253	22,331
	₩ 697,852	₩ 512,272

(2) Other expenses

(in millions of Korean won)		2011		2010
Loss on disposal of property, plant and equipment	₩	752	₩	713
Loss on disposal of intangible assets		1,103		461
Donations		10,473		5,980
Loss on foreign currency transactions		602,484		385,781
Loss on foreign currency translation		16,503		11,608
Loss on derivative transactions		46,029		68,668
Loss on valuation of derivatives		4,714		2,137
Others		79,559		778
	₩	761,617	₩	476,126

29. Financial income and expenses

Financial income and expenses for the years ended December 31, 2011 and 2010, consist of the following:

(1) Financial income

(in millions of Korean won)		2011		2010
Interest income	₩	41,102	₩	26,458
Gain on foreign currency transactions		275,713		175,293
Gain on foreign currency translation		8,150		39,021
Gain on valuation of derivatives		1,440		990
	₩	326,405	₩	241,762

(2) Financial expenses

(In millions of Korean won)		2011		2010
Interest expenses	₩	58,422	₩	29,013
Loss on foreign currency transactions		195,386		194,543
Loss on foreign currency translation		125,635		6,867
	₩	379,443	₩	230,423

30. Deferred income tax and income tax expense

Income tax expense for the years ended December 31, 2011 and 2010, consists of following:

(in millions Korean won)		2011		2010
Current tax:				
Current tax on profits for the year	₩	379,700	₩	147,005
Adjustments in respect of prior years		(755)		129
		378,945		147,134
Deferred tax:				
Origination and reversal of temporary differences		(2,116)		18,904
Impact of change in Korean tax rate		15,895		-
		13,779		18,904
Income tax expense	₩	392,724	₩	166,038

Reconciliation between income before income taxes and income tax expenses for the years ended December 31, 2011 and 2010, follows:

(In millions of Korean won)		2011		2010
Profit before income taxes	₩	1,583,700	₩	876,570
Income tax based on statutory rate	₩	383,229	₩	212,104
Non-taxable income		(1,721)		(2,893)
Non-deductible expenses		10,988		418
Re-measurement of deferred tax – change in the Korean tax rate		15,895		-
Deductions and others		(15,667)		(43,591)
Income tax expenses		₩ 392,724		₩ 166,038

The weighted average applicable tax rate was 24.2% in 2011 (2010: 24.2%).

The income tax (charged)/credited directly to equity during the years is as follows:

	December 31, 2011					
(in millions Korean won)		**Before tax**		**Tax (charge) credit**		**After tax**
Fair value gains from available-for-sale financial assets	₩	46,749	₩	(11,313)	₩	35,436
Share of other comprehensive income of jointly controlled entities		(45)		11		(34)
Loss on valuation of derivative instruments		(2,699)		653		(2,046)
Currency translation differences		10,511		(2,313)		8,198
Actuarial loss on retirement benefit obligations		(28,798)		6,969		(21,829)
	₩	25,718	₩	(5,993)	₩	19,725

(in millions Korean won)	December 31, 2010					
	Before tax		**Tax (charge) credit**		**After tax**	
Fair value gains from available-for-sale financial assets	₩	65,786	₩	(14,473)	₩	51,313
Share of other comprehensive income of jointly controlled entities		17		(4)		13
Loss on valuation of derivative instruments		(4,757)		1,047		(3,710)
Currency translation differences		10,495		(2,309)		8,186
Actuarial loss on retirement benefit obligations		(10,088)		2,219		(7,869)
	₩	61,453	₩	(13,520)	₩	47,933

(in millions Korean won)	January 1, 2010					
	Before tax		**Tax (charge) credit**		**After tax**	
Fair value gains from available-for-sale financial assets	₩	78,234	₩	(17,211)	₩	61,023
Share of other comprehensive income of jointly controlled entities		-		-		-
Loss on valuation of derivative instruments		-		-		-
Currency translation differences		10,526		(2,316)		8,210
Actuarial loss on retirement benefit obligations		-		-		-
	₩	88,760	₩	(19,527)	₩	69,233

The analysis of deferred tax assets and deferred tax liabilities is as follows:

(in millions of Korean won)	**December 31, 2011**		**December 31, 2010**		**January 1, 2010**	
Deferred tax assets						
Deferred tax asset to be recovered after more than 12 months	₩	(25,491)	₩	(19,894)	₩	(18,425)
Deferred tax asset to be recovered within 12 months		(22,458)		(28,485)		(45,802)
		(47,949)		(48,379)		(64,227)
Deferred tax liabilities						
Deferred tax liability to be recovered after more than 12 months		203,864		189,126		192,685
Deferred tax liability to be recovered within 12 months		55,046		63,962		63,354
		258,910		253,088		256,039
Deferred tax assets(liabilities), net	₩	210,961	₩	204,709	₩	191,812

During the year, as a result of the change in the Korean corporation tax rate from 22% to 24.2% that was substantively enacted on December 31, 2011, and that will be effective from January 1, 2012, the relevant deferred tax balances have been re-measured.

The gross movement on the deferred income tax account is as follows:

(in millions of Korean won)		2011		2010
Beginning balance	₩	(204,709)	₩	(191,812)
Comprehensive income statement charge		(13,779)		(18,904)
Tax charged/(credited) directly to equity		7,527		6,007
Ending balance	₩	(210,961)	₩	(204,709)

Changes in the deferred income taxes assets and liabilities for the years ended December 31, 2011 and 2010, are as follows:

	2011			
(in millions of Korean won)	**Beginning Balance**	**Income statement**	**Equity**	**Ending Balance**
Depreciation	₩ 11,889	₩ 516	₩ -	₩ 12,405
Loss on impairment of investments	3,152	505	-	3,657
Salaries and wages payable	12,547	(3,916)	-	8,631
Gain (loss) on foreign currency translation	(8,730)	8,970	-	240
Accrued liabilities	8,520	1,211	-	9,731
Share of profit/(loss) of jointly controlled entities	1,008	(71)	-	937
Gain (loss) on valuation of derivative instruments	233	(473)	-	(240)
Loss on impairment of property, plant and equipment	1,313	131	-	1,444
Change in inventory costing method	(21,706)	(8,728)	-	(30,434)
Customs duties receivable	(26,321)	4,761	-	(21,560)
Accrued interest income	(416)	(407)	-	(823)
Defined benefit liability	(5,971)	4,420	-	(1,551)
Financial instruments	(649)	129	-	(520)
Employee benefits	2,992	277	-	3,269
Revaluation of lands	(173,107)	(16,802)	-	(189,909)
Others	(13)	(1)	-	(14)
Gain on valuation of available for sale financial instruments	(14,473)	-	3,160	(11,313)
Currency translation differences and share of other comprehensive income of jointly controlled entities	(2,313)	(231)	11	(2,533)
Loss on valuation of derivatives	1,047	-	(394)	653
Actuarial gain (loss)	2,219	-	4,750	6,969
Tax credit carryforwards	4,070	(4,070)	-`	-
	₩ (204,709)	₩ (13,779)	₩ 7,527	₩ (210,961)

	2010			
(in millions of Korean won)	**Beginning Balance**	**Income statement**	**Equity**	**Ending Balance**
Depreciation	₩ 12,715	₩ (826)	₩ -	₩ 11,889
Loss on impairment of investments	3,162	(10)	-	3,152
Salaries and wages payable	7,687	4,860	-	12,547
Gain (loss) on foreign currency translation	(16,056)	7,326	-	(8,730)
Accrued liabilities	8,653	(133)	-	8,520
Share of profit/(loss) of jointly controlled entities	1,139	(131)	-	1,008
Gain (loss) on valuation of derivative instruments	(94)	327	-	233
Loss on impairment of property, plant and equipment	1,313	-	-	1,313
Change in inventory costing method	(10,925)	(10,781)	-	(21,706)
Customs duties receivable	(30,259)	3,938	-	(26,321)
Accrued interest income	(1,346)	930	-	(416)
Defined benefit liability	(4,156)	(1,815)	-	(5,971)
Financial instruments	(562)	(87)	-	(649)
Employee benefits	2,834	158	-	2,992
Revaluation of lands	(173,107)	-	-	(173,107)
Others	(7)	(6)	-	(13)
Gain on valuation of available for sale financial instruments	(17,211)	-	2,738	(14,473)
Currency translation differences and share of other comprehensive income of jointly controlled entities	(2,316)	-	3	(2,313)
Loss on valuation of derivatives	-	-	1,047	1,047
Actuarial gain (loss)	-	-	2,219	2,219
Tax credit carryforwards	26,724	(22,654)	-	4,070
	₩ (191,812)	₩ (18,904)	₩ 6,007	₩ (204,709)

31. Expenses by nature

Expenses by nature for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Raw materials used	₩ 27,472,816	₩ 17,764,486
Changes in inventories of finished goods and work in progress	(229,377)	(168,980)
Employee benefit expense	224,480	202,441
Utility expenses	1,749,760	1,083,220
Depreciation and amortization	375,779	276,123
Transportation expenses	116,049	101,914
Advertising costs	18,541	15,703
Other expenses	488,312	412,922
Total cost of sales, selling and administrative expenses	₩ 30,216,360	₩ 19,687,829

32. Employee benefit expense

Details of components of employee benefit expense consist of:

(in millions of Korean won)		2011		2010
Wages and salaries	₩	189,546	₩	173,851
Social security costs		18,557		13,140
Pension costs – defined benefit plans		16,377		15,450
Total	₩	224,480	₩	202,441

33. Earnings per share

Basic earnings per common share is calculated by dividing the profit attributable to common shareholders of the Company by the weighted average number of ordinary shares in issue during the year. As the Company's preferred shares are participating shares with right to participate in distribution of earnings, earnings per share on preferred share is also calculated.

Earnings per common share for the years ended December 31, 2011 and 2010, is calculated as follows:

(in millions of Korean won, except per share data)		**2011**		**2010**
Net income	₩	1,190,976	₩	710,532
Adjustments:				
Dividends for preferred stock		(96)		(96)
Additional dividends for preferred stock		(39,258)		(23,419)
Net income available for common stock		1,151,622		687,017
Weighted average number of shares of common stock		112,582,792		112,582,792
Basic earnings per common share	₩	10,229	₩	6,102

Earnings per preferred share for the years ended December 31, 2011 and 2010, is calculated as follows:

(in millions of Korean won, except per share data)		**2011**		**2010**
Net income attributable to preferred shareholders	₩	39,354	₩	23,515
Weighted average number of shares of preferred stock[1]		3,837,847		3,837,847
Basic earnings per preferred share	₩	10,254	₩	6,127

[1] 184,080 treasury shares are excluded in calculating weighted average number of shares of preferred share.

As there are no dilutive items outstanding, diluted earnings per share is identical to basic earnings per share.

34. Related parties

Details of related parties are as follows:

	Company
The investors which have significant influence	Aramco Overseas Co.,B,V., Hanjin Energy Co., Ltd.
Subsidiary	S-International Ltd.
Jointly controlled entities	S-OIL TOTAL Lubricants Co., Ltd., HanKook Silicon Co., Ltd.
Other related parties	Saudi Arabian Oil Company, Korean Air Lines Co., Ltd.

Significant transactions with related parties for the years ended December 31, 2011 and 2010, and the related receivables and payables as of December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	Sales		Purchases	
	2011	2010	2011	2010
Jointly controlled entity				
S-OIL TOTAL Lubricant Co., Ltd.	₩ 136,181	₩ 103,081	₩ 708	₩ 2,841
Others				
Saudi Arabian Oil Company	-	-	26,240,819	16,839,448
Korean Air Lines Co., Ltd.	404,255	309,230	48	-
	₩ 540,436	₩ 412,311	₩ 26,241,575	₩ 16,842,289

	Receivables			Payables		
	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Jointly controlled entity						
S-OIL TOTAL Lubricant Co., Ltd.	₩ 3,130	₩ 3,021	₩ 1,409	₩ 56	₩ 58	₩ 600
Others						
Saudi Arabian Oil Company	-	-	-	2,364,432	1,733,281	1,041,605
Korean Air Lines Co., Ltd.	42,671	30,103	13,645	53	-	110
	₩ 45,801	₩ 33,124	₩ 15,054	₩ 2,364,541	₩1,733,339	₩1,042,315

The Group has allowance of bad debts on receivables from related parties of ₩ 7 million, ₩ 7 million, ₩ 148 million as of December 31, 2011 and 2010, and January 1, 2010, respectively. There is no bad debt expense in 2011 and reversal of allowance amounting to ₩ 141 million was recognized in 2010.

Transactions with shareholders, management, and employees

During the years ended December 31, 2011 and 2010, changes in loans to shareholders, management, and employees are as follows:

	2011			
(in millions of Korean won)	**Beginning**	**Increase**	**Decrease**	**Ending**
Short-term loans receivable	₩ 910	₩ 1,200	₩ 1,294	₩ 816
Long-term loans receivable	7,166	1,694	1,566	7,294
	₩ 8,076	₩ 2,894	₩ 2,860	₩ 8,110

	2010			
(in millions of Korean won)	**Beginning**	**Increase**	**Decrease**	**Ending**
Short-term loans receivable	₩ 84,512	₩ 1,049	₩ 84,651	₩ 910
Long-term loans receivable	7,119	1,890	1,843	7,166
	₩ 91,631	₩ 2,939	₩ 86,494	₩ 8,076

For the year ended December 31, 2011, the Group recorded short-term benefits of ₩ 1,058 million (2010: ₩1,041 million) and severance benefits of ₩ 123 million (2010: ₩ 119 million) as key management compensation. Key management consists of registered executive officers who have the authority and responsibility in the planning, directing and control of the Group’s operations.

35. Cash generated from operations

Reconciliation between operating profit and net cash inflow (outflow) from operating activities follows:

(in millions of Korean won)		**2011**		**2010**
Profit for the year	₩	1,190,976	₩	710,532
Adjustments :				
Income tax expense		392,724		166,038
Depreciation expense		371,258		270,990
Amortization expense		4,521		5,133
Bad debts expense		7,344		-
Interest expense		58,422		29,013
Loss on foreign currency translation		142,138		18,475
Loss on derivative transactions		46,029		68,668
Loss on valuation of derivatives		4,714		2,137
Gain on disposal of available-for-sale securities		(19,272)		-
Loss on disposal of property, plant, and equipment		752		713
Loss on disposal of intangible assets		1,103		461
Loss on valuation of inventories		12,661		(4,926)
Interest income		(41,102)		(26,458)
Gain on foreign currency translation		(34,603)		(54,485)
Reversal of allowance for bad debts		(462)		(12,745)
Gain on disposal of property, plant, and equipment		(74)		(612)
Gain on disposal of intangible assets		(240)		(46)
Gain on derivative transactions		(51,014)		(65,542)
Gain on valuation of derivatives		(4,135)		(1,262)
Dividend income		(1,584)		(1,584)
Share of profit from jointly controlled entities		(3,000)		(5,846)
Others		3,391		(12,057)
		889,571		376,065
Changes in net working capital				
Increase in trade receivables		(864,665)		(334,362)
Increase in other receivables		(11,885)		33,121
Decrease in other current assets		(2,602)		5,233
Increase in inventories		(1,695,016)		(278,479)
Increase in trade payables		817,502		725,459
Increase in other payables		305,823		(441,699)
Decrease in other liabilities		23,344		28,709
Dividend from jointly controlled entities		4,900		5,250
		(1,422,599)		(256,768)
Cash generated from operations	₩	657,948	₩	829,829

Proceeds from sale of property, plant and equipment in the statement of cash flows comprise:

(in millions of Korean won)		**2011**		**2010**
Net book amount	₩	1,146	₩	5,173
Gain on disposal of property, plant and equipment		74		612
Loss on disposal of property, plant and equipment		(752)		(713)
Proceeds from sale of property, plant and equipment	₩	468	₩	5,072

Significant transactions not affecting cash flows for the years ended December 31, 2011 and 2010, are as follows:

(In millions of Korean won)		**2010**		**2009**
Reclassification of construction in-progress to property, plant and equipment and intangible assets	₩	1,710,356	₩	83,151
Current portion of long-term borrowings		201,498		1,304
Current portion of long-term loans receivable		34,169		21,698