2012
Hyundai Oilbank
Annual Report

Phase II
Refining the Future

Expanding **Energy**
Evolving **Growth**

Hyundai Oilbank

HYUNDAI OILBANK _
ANNUAL REPORT 2012

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EXPANDING ENERGY EVOLVING GROWTH

At Hyundai Oilbank, we have contributed to the development of Korea's energy industry and the convenience of millions of customers over the past half-century. In 2012, we increased our petrochemical production capacity through the successful mechanical completion of our #2 BTX (Benzene, Toluene, p-Xylene) Project in November, and laid the foundation for our community energy service through the full-fledged commercial operation of our cutting-edge fluidized bed combustion (FBC) facility. We also actively marched ahead with a broad range of new businesses. This included beginning the construction of a joint-venture lubricant base oil plant and establishing a joint venture oil terminal, Korea's first oil storage facility, in February. Moving forward, we plan to secure global growth engines by further diversifying our business structure through ongoing initiatives and innovations to transform into a truly world-class total energy provider.

Financial Highlights

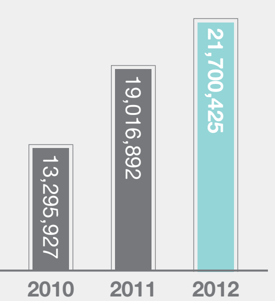
At Hyundai Oilbank, we were committed to achieving new business models and enhancing our competitiveness amid the rapidly changing market conditions in 2012. Moving forward, we will continue to grow by building a healthier financial structure and securing global growth engines through steady investments and changes in our earnings structure.

In KRW millions

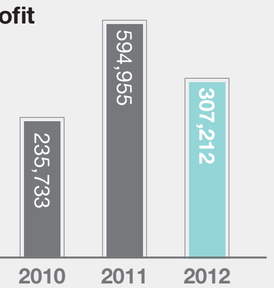
	2010	2011	2012
For the Year			
Sales	13,295,927	19,016,892	**21,700,425**
Operating Profit	235,733	594,955	**307,212**
Profit Before Income Tax	322,915	450,052	**222,704**
Net Income	254,138	366,342	**171,387**
At Year-End			
Total Assets	7,172,288	8,498,497	**8,444,503**
Total Liabilities	4,892,488	5,907,022	**5,682,933**
Total Equity	2,279,800	2,591,475	**2,761,570**
Stability Indicators			
Current Ratio	97.2%	99.2%	**116.3%**
Liabilities-to-Equity Ratio	214.6%	227.9%	**205.8%**
Dependence on Borrowings	37.7%	34.1%	**35.7%**
Interest Coverage Ratio	6.5	7.1	**2.0**

* Based on K-IFRS

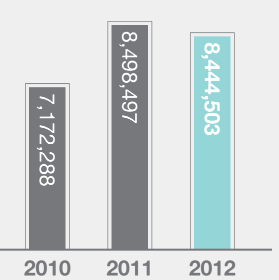
Sales
In KRW millions



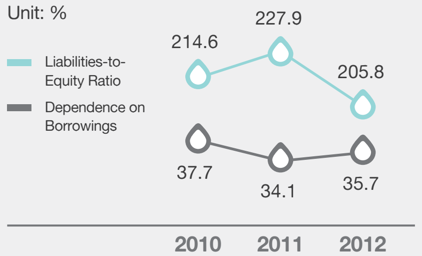
Operating Profit
In KRW millions



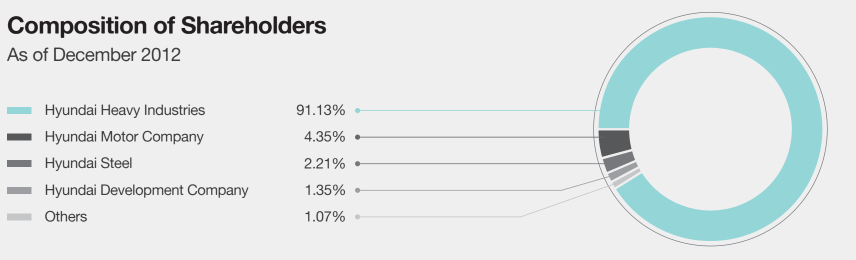
Total Assets
In KRW millions



Stability Indicators
Unit: %

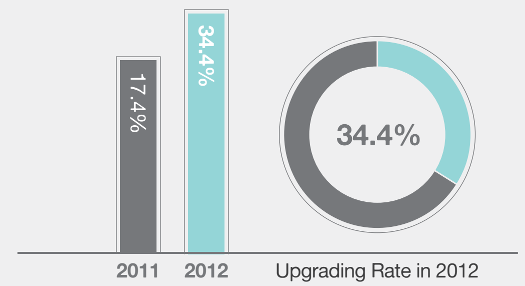


Composition of Shareholders
As of December 2012



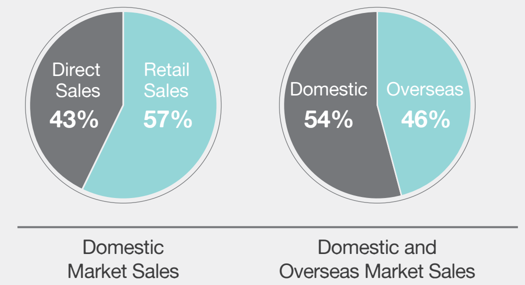
At a Glance

Stable Operation of #2 HOU Plant



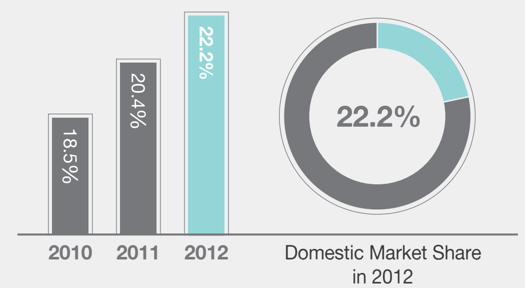
At Hyundai Oilbank, we completed and began full-scale operations of the #2 HOU plant in June 2011. With this, we have increased our previous daily upgrading capacity of 72,000 barrels by 62,000 barrels, and achieved the industry-leading 34.4% upgrading ratio, by processing 134,000 out of 390,000 barrels of crude oil on a daily basis. Based on such an upgrading rate, we are improving our refining margins and achieving stable operating profit by processing about 40% to 50% of the bunker-C oil that remains after crude oil refining into high-value-added products.

Domestic and Overseas Sales



At Hyundai Oilbank, our products, which are produced through the crude distillation and heavy oil upgrading processes, are sold to service stations, companies, and government institutions in the domestic market and overseas markets including Japan and China. We are continuously increasing the domestic market, in that domestic and overseas sales made up about 54% and 46%, respectively, of our total sales in 2012. We are also enhancing our export competitiveness in overseas markets by utilizing our overseas network including our subsidiaries in Singapore and Shanghai, while also focusing our capabilities on identifying new markets.

Domestic Light Oil Market Share



At Hyundai Oilbank, we continued our service station-centric sales activities in 2012; enhanced our operational competitiveness by supplying our products to thrifty service stations in the central region and developing service stations with a focus on our strategic areas; and invigorated our marketing by strengthening our customer loyalty and brand value improvement programs, despite the struggling economy inside and outside Korea. As a result, we achieved a 22.2% share of the domestic light oil market.

NEWS & ISSUES

01 Completed #2 BTX Project and began commercial operations

At Hyundai Oilbank, we completed our #2 BTX plant on November 14, 2012. Our construction period ended five months early, resulting in a cost reduction of about KRW 80 billion. Jointly constructed with Cosmo Oil of Japan on an approximate 85,000-square-meter site near our Daesan refinery, the #2 BTX plant began its commercial operations on February 1, 2013 to produce about 1,000,000 tons of petroleum products annually, including about 800,000 tons of p-Xylene and 140,000 tons of benzene. The majority of its production volume will be exported overseas, leading to an increase of about KRW 1 trillion annually in exports.

현대오일뱅크, BTX 생산능력 3배로

연산 100만톤 규모 충남 제2공장 완공

현대오일뱅크가 대규모 증설을 통해 석유화학제품의 기초원료인 벤젠·톨루엔·자일렌(BTX) 생산능력을 세배로 확장했다.

현대오일뱅크는 충남 대산공장의 8만5,000㎡ 부지에 제2BTX 프로젝트를 완공했다고 14일 밝혔다.

일본 코스모석유와 합작으로 사업비 6,000억원을 들여 만든 신규 BTX 설비는 연산 80만톤 규모의 파라자일렌과 14만톤 규모의 벤젠 등 총 100만톤 규모의 석유화학 제품을 생산할 수 있다. BTX설비는 혼합자일렌을 재료로 합성섬유나 각종 플라스틱, 휘발유 첨가제 등 석유화학제품의 기초 원료를 생산하는 시설이다.

02 Completed ultra-modern FBC

현대오일뱅크, 최첨단 열공급설비 준공

부산물 이용 年 500억 절감

현대오일뱅크가 석유 정제과정에서 나오는 부산물을 이용해 연간 500억 원의 비용을 절감하게 됐다. 이 회사는 "14일 충남 대산공장에 총 사업비 1000억 원을 투입한 최첨단 열공급설비(FBC)의 준공식을 열었다"고 16일 밝혔다. FBC는 석유 정제과정에 필요한 열과 전기를 생산하는 설비다. 회사 측은 "기존에는 중질유(벙커C유)를 연료로 썼지 학공단에 열과 전기를 판매할 계획이다. 현대오일뱅크 관계자는 "현재 사업다각화 차원에서 기존의 석유정제사업 외에 벤젠·톨루엔·파라자일렌(BTX)을 생산하는 석유화학공장의 증설, 윤활기유 사업, 울산 신항 유류저장사업 등에도 진출했다"며 "FBC 추가 건설은 장기적으로 다양한 에너지사업 분야로도 진출하겠다는 의미"라고 설명했다.

At Hyundai Oilbank, we completed a cutting-edge fluidized bed combustion (FBC) facility on September 14, 2012 to be the first in Korea to produce steam with petroleum coke as a fuel. Steam made here is employed to produce its own electricity needed to operate refining or petrochemical plants, and is used as a heat source for each process. By producing 220 tons of steam per hour at the facility, we anticipate cost savings of more than KRW 50 billion annually. We also plan to supply steam to the nearby Daesan Petrochemical Complex by expanding the facility.

03 Established Hyundai and Shell Base Oil

오일뱅크, 셸과 손잡고 윤활유 사업 진출

내달 합작법인 설립

2014년부터 상업가동

영업이익률 높아 '매력'

정유사 앞다퉈 투자 확대

현대오일뱅크가 석유 메이저 셸(Shell)과 손잡고 윤활기유 사업에 본격 나선다.

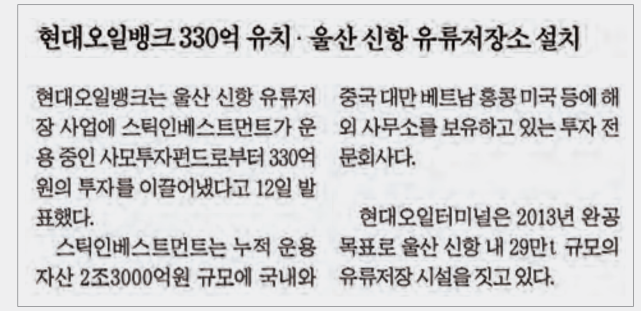
현대오일뱅크는 7일 싱가포르 샹그릴라호텔에서 권오갑 사장과 마크 게인스보로 셸 이스턴 대표가 참석한 가운데 윤활기유 합작을 위한 계약 서명식을 가졌다.

권오갑 현대오일뱅크 사장(왼쪽 두 번째)이 7일 싱가포르 샹그릴라호텔에서 열린 윤활기유 합작사업 조인식에서 마크 게인스보로 셸 이스턴 대표(왼쪽 세 번째) 등과 손을 맞잡고 있다.

At Hyundai Oilbank, we made full-fledged inroads into the lubricant base oil business with Shell. On February 7, 2012, Hyundai Oilbank signed an agreement with Shell Eastern to produce some 20,000 barrels of lubricants per day, and build a lubricant base oil plant of 33,000 m² at its Daesan refinery, which plans to commence commercial operations in 2014. The joint venture, Hyundai and Shell Base Oil, was officially launched on April 16, and held a groundbreaking ceremony at Daesan refinery on January 22, 2013. Lubricant base oil produced from the plant will be exported to Asia including China, and Hyundai Oilbank expects the joint venture to earn sales of approximately KRW 1 trillion and revenue of over KRW 80 billion on an annual basis.

Hyundai Oilbank

04 Hyundai Oil Terminal attracted investment of KRW 33 billion in oil storage project



현대오일뱅크 330억 유치·울산 신항 유류저장소 설치

현대오일뱅크는 울산 신항 유류저장 사업에 스틱인베스트먼트가 운용 중인 사모투자펀드로부터 330억원의 투자를 이끌어냈다고 12일 발표했다.

스틱인베스트먼트는 누적 운용자산 2조3000억원 규모에 국내와 중국 대만 베트남 홍콩 미국 등에 해외 사무소를 보유하고 있는 투자 전문회사다.

현대오일터미널은 2013년 완공 목표로 울산 신항 내 29만t 규모의 유류저장 시설을 짓고 있다.

Hyundai Oil Terminal attracted an investment of KRW 33 billion for its oil storage facility through a private equity fund managed by STIC Investments on June 11, 2012. Established in February 2012 through the spin-off of Hyundai Oilbank's oil storage business, the subsidiary began the construction of this oil storage facility, capable of storing about 290,000 tons of petroleum and petrochemical products at Ulsan New Port, with an aim for completion in 2013. Through this contract, it raised 36% of its total construction cost of approximately KRW 90 billion.

05 Established Hyundai Oilbank 1% Nanum Foundation

현대오일뱅크, 월급 1% 나눔재단 현판식

'현대오일뱅크 1% 나눔재단'이 8일 현판식을 갖고 출범했다. 현대오일뱅크 임직원의 급여 1%를 출연금으로 설립한 공익 재단이다. 현대오일뱅크는 작년 9월 대기업으로는 처음으로 노사가 뜻을 모아 급여 1% 나눔 약정식을 가졌고, 투명한 운용을 위해 재단 설립을 준비해왔다. 임직원의 95%가 매달 급여의 1%를 떼어내 소외된 이웃을 돕는다.

The Hyundai Oilbank 1% Nanum Foundation was officially inaugurated on February 8, 2012, and in the following September, our employees pledged to donate 1% of their monthly salaries to help our neighbors in need. Out of our employees, 96% have voluntarily chosen to participate in this program, and this spirit of donation is spreading to our business partners, service station owners, and other members of society. Consisting of outsiders for its transparent and systematic operation, the foundation has been carrying out eight projects since its establishment.

06 Reached collective wage bargaining agreement in 2012 with wage freeze for 2013

현대오일뱅크 노사, 전직원 임금동결 선언

현대오일뱅크 노사가 올해 전 임직원의 임금을 동결하기로 합의했다.

현대오일뱅크는 18일 서울 구로구 구로동 현대셀프주유소에서 권오갑 사장과 김태경 노조위원장 등이 참석한 가운데 '2013 임금동결 선언식'을 열었다. 이 회사가 임금동결을 결정한 것은 외환위기 당시인 1998년과 미국발 금융위기가 세계적으로 확산된 2009년에 이어 세 번째다.

현대오일뱅크 권오갑 사장(오른쪽)과 김태경 노조위원장이 18일 서울 구로구 구로동 현대셀프주유소에서 임금동결을 선언한 뒤 악수하고 있다. 현대오일뱅크 제공

Hyundai Oilbank Labor Union authorized company management to oversee wage bargaining and concluded a collective agreement on May 15, 2012. As the fruit of cooperative labor-management relations, this followed the union's announcement that it would allow management to set pay scales and declared no strike in January. Meanwhile, on February 18, 2013, the union declared a wage freeze for remainder of the year. This is the third time that the union made such a decision, following the first and second in 1998 and 2009, respectively, when business was slow due to the foreign exchange risk and the global financial crisis. Recognizing potential crises situations in the past, it was significant and beneficial for the company's sustainable growth that the union made this difficult decision in advance.

EXPANDING AND IMPROVING THE FACILITIES

We improved our facilities by completing our #2 BTX project and FBC facility. We anticipate these improvements will assist us to expand our production capacity and secure cost competitiveness in the petrochemical sector.

Projects Completed in 2012

#2 BTX Project

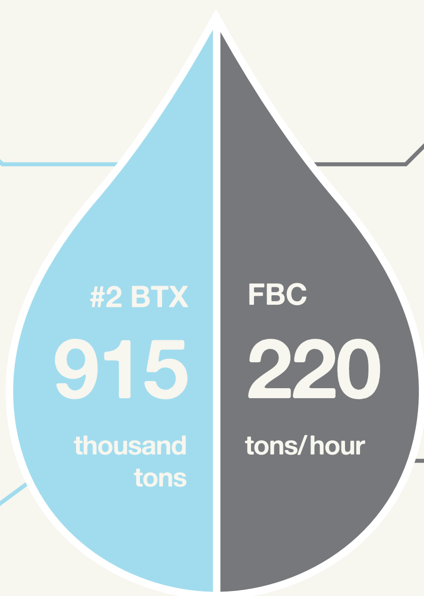
Completed #2 BTX project

FBC Project

Completed FBC

KRW **600** billion
Total Cost

KRW **1,000** billion
Sales



KRW **100** billion
Total Cost

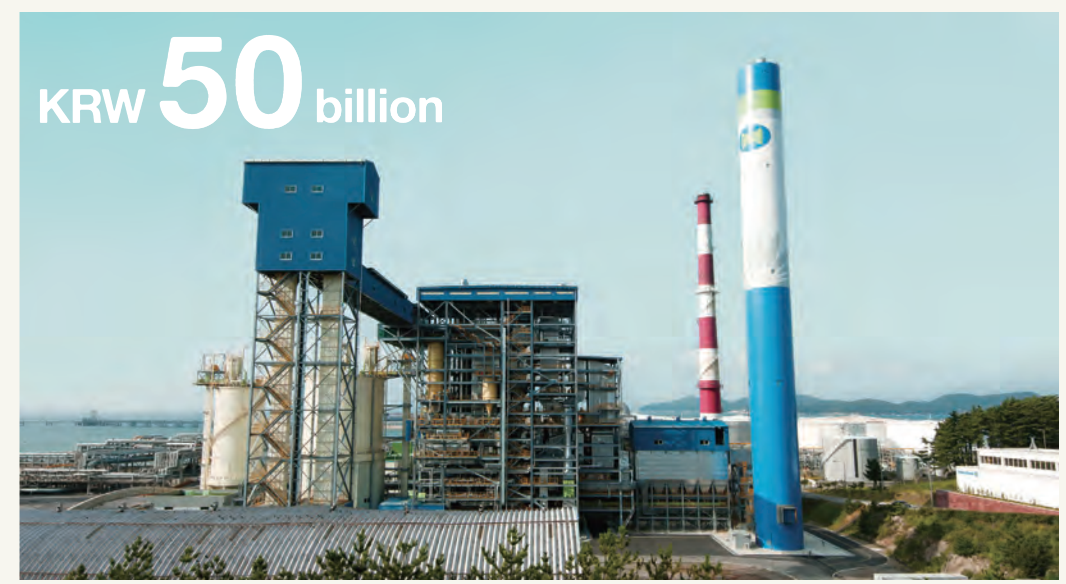
KRW **50** billion
Cost Reduction

Completed #2 BTX Plant

The new #2 BTX plant, jointly constructed with Cosmo Oil of Japan by investing a total working capital of KRW 600 billion, has expanded our production capacity in the petrochemical area to approximately 1.4 million tons from 0.5 million tons. Our construction period ended five months early, resulting in a cost reduction of about KRW 80 billion. Located on an approximate 85,000-square-meter site near our Daesan refinery, the #2 BTX plant began its commercial operations in February 2013, and the majority of its production volume will be exported overseas, leading to an increase of about KRW 1 trillion annually in exports and improvements to trade balance.

Completed Ultra-Modern FBC

We completed a cutting-edge fluidized bed combustion (FBC) facility in September 2012. By producing 220 tons of steam per hour at the facility, we anticipate cost savings of more than KRW 50 billion annually, leading to a rise in our cost competitiveness. We also plan to supply steam to the nearby Daesan Petrochemical Complex by expanding the facility by 2014.



ACCELERATING
FOR NEW BUSINESSES

We are actively pushing new businesses, based on the establishment of Hyundai and Shell Base Oil and Hyundai Oil Terminal. By securing new future growth engines through such business diversification, we will continue to grow into a total energy provider.

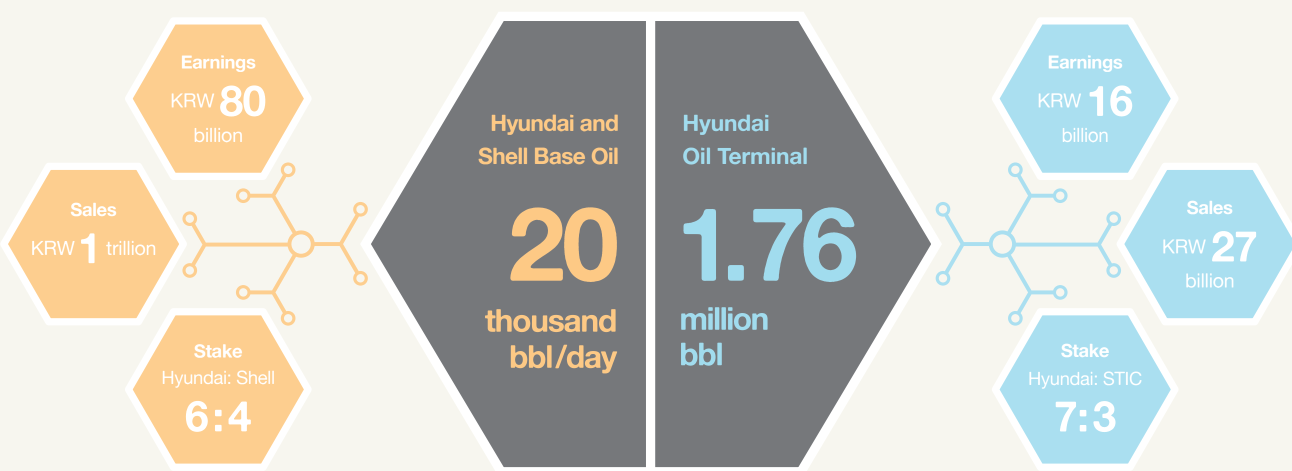
New Business Expansion

Hyundai and Shell Base Oil

Scheduled to complete a lubricant base oil plant in 2014

Hyundai Oil Terminal

Scheduled to complete an oil terminal in 2013



Hyundai and Shell Base Oil

Hyundai and Shell Base Oil held a groundbreaking ceremony for its lubricant base oil plant on January 22, 2013. Capable of processing 20,000 barrels a day, the plant will be built on a 33,000 m^2 site at our Daesan refinery, and will begin full-fledged commercial production in the second half of 2014. The joint venture expects to earn annual sales of approximately KRW 1 trillion and revenue of over KRW 80 billion, by exporting the majority of lubricant base oil produced from the plant to Asia including China.

Hyundai Oil Terminal

Hyundai Oil Terminal raised KRW 33 billion by signing an investment agreement with STIC in June 2012. We began the construction of an oil storage facility capable of storing 1.76 million barrels of petroleum and petrochemical products by investing approximately KRW 90 billion at Ulsan New Port, with an aim for completion in the second half of 2013. Hyundai Oil Terminal plans to grow into the largest logistics company in Southeast Asia by expanding its commercial oil storage business both in Korea and abroad.

RESPONSIBILITIES AS A CORPORATE CITIZEN

At Hyundai Oilbank, we are committed to fulfilling our responsibilities and commitment as a corporate citizen through the activities of the 1% Nanum Foundation and the completion of Hanmaeum Hall. By continuously seeking a broad range of win-win development efforts, we will take the lead in creating a healthier world for everyone.

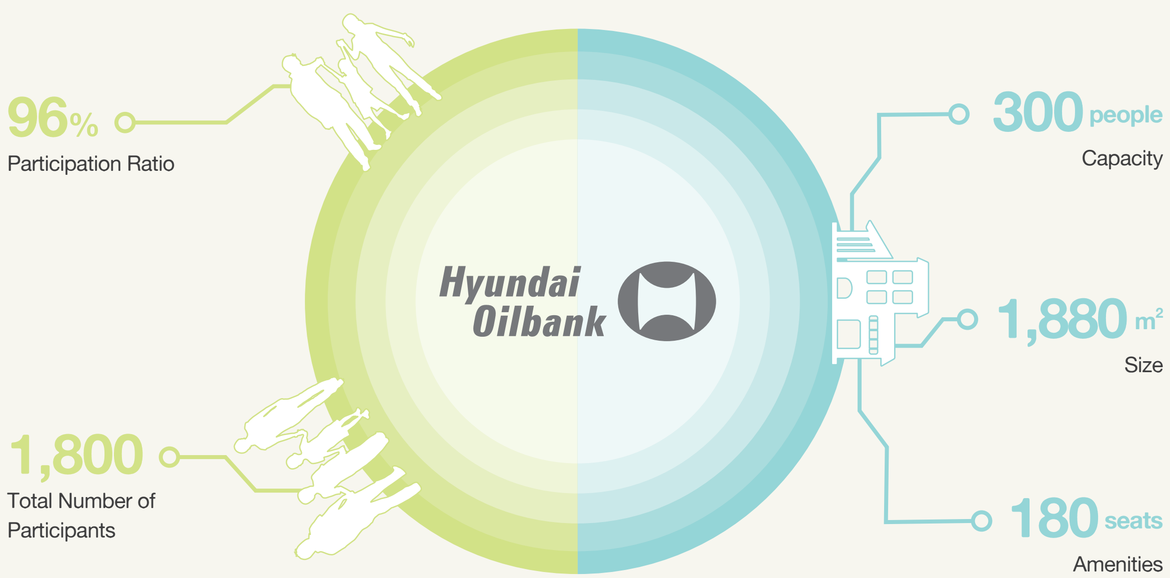
Expanding Donations

1% Nanum Foundation

96% of employees donate 1% of their monthly salaries

Hanmaeum Hall

Completed as welfare facility for business partners



1% Nanum Foundation

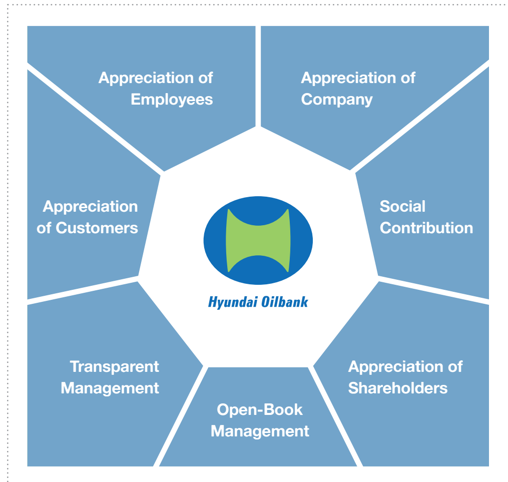
The Hyundai Oilbank 1% Nanum Foundation was officially introduced in February 2012, and consists of outsider members for its transparent and systematic operation. This followed the pledge in September 2011 of our employees to donate 1% of their monthly salaries. Approximately 96% of our employees have voluntarily chosen to participate in this program to help the underprivileged, and the spirit of donation is now spreading to our business partners, gas station owners, and other members of society.

Completed Hanmaeum Hall

We completed Hanmaeum Hall in April 2012. Built on a 1,880 m² site inside our Daesan refinery as a welfare facility for our business partners, it can accommodate up to 300 people, and is equipped with office spaces, conference rooms, and shower and sports facilities. In addition, its dining hall, named "Rest & Enjoy" with a seating capacity of 180 people, is receiving favorable responses from our business partner employees.

Management Philosophy

At Hyundai Oilbank, we bring forward a fundamental management philosophy that goes beyond upholding our initial goals and social responsibilities, and furthers our role in contributing to the economic and social development of the communities we serve. This encompasses seven detailed policies.



Customers	- Deliver top-quality products and services - Provide proactive support
Employees	- Improve quality of life
Shareholders	- Practice transparent management - Maximize shareholder value
Partners	- Create a win-win culture - Follow fair trade practices
Society	- Contribute to national economic and social development
Environment	- Practice eco-friendly management - Minimize environmental impact

Enhancing Stakeholder Value

With the greatest respect, we work to deliver greater value to all of our stakeholders, from customers and shareholders, to employees and our local communities. We strive to enhance the Hyundai Oilbank reputation and value. We elevate our intrinsic value by recognizing that our employees are our most valuable asset, treating them with mutual respect and fostering their creativity. We also recognize that customer satisfaction is fundamental, acting honestly and earnestly to provide customer value. To maximize shareholder value, we continue to pursue greater value through efficient management. We also recognize the important role we have to play in Korea's energy industry, making every effort to contribute to national economic and social development as we seek win-win growth with local communities.

Building Trust Through Action

As we strive to impart superior satisfaction to our stakeholders, we also aim to be a trusted and respected company by practicing management that is both open and transparent. We uphold social norms and order with high ethical standards, leading the way in fair and transparent management. We proactively disclose necessary business information and practice open-book management to make our employees partners in success. In all these ways, we are strengthening our core capabilities, offering the finest products and services, and achieving our corporate vision, benefitting our customers, employees, partners, shareholders, and local communities as we strive to achieve our fundamental goals and fulfill our responsibilities.

Management Strategy

At Hyundai Oilbank, we promoted a wide range of new businesses and sought new opportunities for growth in 2012. In 2013, we will be dedicated to securing global growth engines by putting new businesses into place as quickly as possible.

Four Major Tasks

▶Put New Businesses into Place Promptly

- Obtain early visible results from new businesses in pursuit
- Push forward to identify new businesses
- Secure new business researchers

▶Generate Earnings Stably

- Secure domestic market share and boost brand value
- Ensure internal stability through risk management

▶Operate Safely and Maximize Productivity

- Carry out routine maintenance effectively
- Maximize production volume by optimizing process
- Increase energy efficiency and minimize emergency shutdown

▶Develop Dynamic Organizational Culture

- Cultivate and strengthen global workforce
- Hire outstanding talent committed to company growth

Securing Global Growth Engines

In 2013, we will be taking the first step toward securing global growth engines. To this end, we will diversify our earnings structure by implementing a wide range of new businesses that we are carrying forward, and expand our overseas network to serve as a foothold for our emergence as a global total energy provider. At Hyundai Oilbank, our employees will put forth their best to maximize the company's revenue generating capability, based on its dynamic organizational culture. Our goal is to become a total energy company that is moving forward toward greater opportunities for future growth.

New Businesses Pursued in 2012

At Hyundai Oilbank, we actively carried forward new businesses in 2012 to secure global growth engines. Hyundai and Shell Base Oil, which we created with Royal Dutch Shell through 6:4 investments, began the construction of a lubricant base oil plant with a daily production capacity of 20,000 barrels at our Daesan refinery in Chungcheongnam-do (province), Korea. It is scheduled for full-scale commercial production in the second half of 2014. We are also executing a large-scale oil storage facility project by investing a total working capital of KRW 93.6 billion at Ulsan New Port in Korea. As the first commercial oil tank terminal in the country, it will attract both international and domestic cargo, by offering an oil and petrochemical storage capacity of 280,000 kiloliters.

At the same time, we promoted our Shanghai branch to a subsidiary status in October 2012. This was to allow our overseas branches to have a wider range of operations and build independent business areas. The Shanghai subsidiary plans to launch an independent trading business and directly advance into the Chinese domestic market. In addition, we established a new branch in Vietnam in July of the same year to aggressively tap into the Southeast Asia market in which demand for petroleum products is anticipated to steadily increase.

Message from the CEO

"In 2012, Hyundai Oilbank recorded KRW 21,700 billion in sales and KRW 307 billion in operating profit despite a challenging business environment. We will continue growing into a total energy company by innovating our refining-centric business structure, and identifying new businesses and new growth engines."

Dear valued shareholders, customers and other stakeholders:

I am pleased to report on the sustainable management activities and performances of Hyundai Oilbank.

Since our establishment in 1964 as Korea's first privately owned oil refinery, we have worked steadfastly as a driving force for national economic and industrial development for nearly half a century. Our daily refining capacity has grown over time from 10,000 to 390,000 barrels a day due to the tremendous growth of our gas and filling station network, which has continuously increased from a few dozen locations to over 2,300 across the nation.

Last year, although the business environment continued to bring challenges to our company, we faced them head-on and achieved record sales of KRW 21,700 billion and an operating profit of KRW 307 billion.

We successfully pulled up our share of the domestic light oil market to over 22%, which had been hovering around 18% for the past decade. We also innovated our refining-centric business portfolio, while focusing on identifying new businesses and growth engines that will propel our transformation into a total energy company.

We completed our #2 BTX plant, a joint venture with Cosmo Oil of Japan that will increase our annual BTX production capacity from 450,000 tons to about 1,400,000 tons. This project was also completed five months ahead of schedule, efficiently saving labor and resources. Through close collaboration with Cosmo Oil, we plan to procure a stable supply of crude oil and proactively respond to rising petrochemical demand from China, India, and other regional markets.

The joint-venture lubricant base oil project with Shell is smoothly in progress, and a groundbreaking ceremony was held at our Daesan refinery on January 22, 2013. The plant will have a daily capacity of 20,000 barrels, and the majority of its products will be supplied as raw materials for Shell's lubricant oil production plant and distributed worldwide through the Shell global network when it begins commercial operations in 2014.

Following the successful commercial operations of our cutting-edge FBC, the first step for our community energy project at Daesan complex, we are also accelerating the construction of our oil storage facility at Ulsan New Port with an aim to begin its commercial operations in the second half of this year. With a capacity of 280,000 kiloliters, the terminal is expected to handle over 2.7 million tons of petrochemicals from home and abroad annually, serving as the largest facility of its kind in southeast Korea.

In addition, we will continue to invest in future growth engines such as propylene derivatives, steel and chemicals as we plan to aggressively move forward with the new businesses that will lay the foundation for our transformation into a total energy provider.

At Hyundai Oilbank, we believe that a healthy society is essential to corporate survival, and that is what drives our commitment to social responsibility.

The Hyundai Oilbank 1% Nanum Foundation, which was established when we became the first major Korean company whose entire workforce resolved to donate 1% of their monthly salary, is carrying out a wide range of projects in earnest including the 1% Hope Discovery in Dead Zone and Hope Energy scholarship projects. We are also helping to boost the local economy.

This includes purchasing rice grown by neighborhood farmers near our Daesan refinery and donating it to community members in need, as well as fish stocking our local rivers and seas.

Furthermore, we received the USD 8 billion Export Tower on Trade Day from the Korea International Trade Association, the President's Award at the 1st Korea Knowledge Awards in recognition for the safe operation and efficiency of our plants, were named a Good Company For New Management-Employees Culture by the Ministry of Labor, and ranked first at the KS-SQI (Korean Standard-Service Quality Index) surveys by the Korea Standards Association.

We are embarking on new ventures here at Hyundai Oilbank, and we thank you for your trust, commitment, and unwavering support. We've built a plan to manifest our future, building bridges between what is and what can be. As we continue translating idealism into action, we invite you to join us as we make advances toward transformation into a total energy provider, expanding energy and evolving growth to create greater value for all our stakeholders.

Kwon Oh-gap President & CEO

Kwon Ohgap

Corporate Governance

At Hyundai Oilbank, we know that a transparent corporate governance structure is a hallmark of global companies. At our general shareholders' meeting held in March 2012, we appointed three outside directors to our board as we affirmed and elevated the board's role as the highest decision-making body of our company. Our goal is to create an advanced governance structure that will meet the expectations of all our stakeholders.

Board Role

Our board supports strategic decision-making in pending business issues and provides advisory and oversight functions to ensure transparency in management with the ultimate objective of achieving greater corporate value. Toward this end, the board elects and delegates authority to the CEO, oversees executive team performance, and provides guidance and recommendations. We believe the board plays a key role in bolstering our transparency and efficiency as well as enhancing our credibility with shareholders, investors, and markets.

Board Composition

Our articles of incorporation and board regulations provide for a five-member board chaired by the president and consisting of one inside director, one non-executive and non-outside director, and three outside directors, all of who are elected at the annual general shareholders' meeting. As the highest decision-making body of the company, the board is tasked with approving decisions regarding financial structure improvement, investment projects, and other major business matters.

Board of Directors

Inside Director	**Kwon Oh-gap** President & CEO, Hyundai Oilbank (2010 ~ Present) President & CEO, Hyundai Heavy Industries Sports (2009 ~ Present) Commissioner, The Korean Professional Football League (2013 ~ Present)		
Non-Executive and Non-Outside Director	**Kim Jung-rae** President & CEO, Hyundai Corporation (2012 ~ Present) Vice President, Hyundai Heavy Industries (2010 ~ 2011)		
Outside Directors	**Kim Kap-soon** Vice Chairman, Deloitte Korea (2009 ~ Present) Director, Seoul Regional Tax Office (2008)	**Kim Kap-you** Attorney, Bae, Kim & Lee (1996 ~ Present) Arbitrator, Korean Commercial Arbitration Board (2002 ~ Present) Member, American Arbitration Association (2009 ~ Present)	**Lee Bong-joo** Professor, Department of Social Welfare, Seoul National University (2007 ~ Present) Chairman, Korean Society of Child Welfare (2007 ~ Present)

Board Committees

Our board has three committees to enhance independence, professionalism, and efficiency. The composition and responsibilities of the Outside Director Nominating Committee, Audit Committee, and Internal Transaction Monitoring Committee are as follows.

Committee Roles

Committee	Members	Major Roles & Responsibilities
Audit Committee	**Kim Kap-soon** **Kim Kap-you** **Lee Bong-joo**	- Examines the Company's accounting and corporate activities - Requests reports on operations and reviews corporate financial status - Handles legal and other situations delegated by the articles of incorporation or board - Handles selection, replacement, and dismissal of the audit firm
Internal Transaction Monitoring Committee	**Kim Kap-soon** **Kim Kap-you** **Lee Bong-joo**	- Approves major internal transactions among HHI Group affiliates - Handles board reports and acquisition of board approval on those internal transactions
Outside Director Nominating Committee	**Kwon Oh-gap** **Kim Kap-soon** **Lee Bong-joo**	- Nominates outside director candidates at the annual general shareholders' meeting

Major Board Activities

The board met seven times during 2012, deciding a total of 28 agenda items.

Key Board Resolutions in 2012

Shareholders' Meeting, Board & Governance	- Approval of convocation of general shareholders' meeting and adoption of the agenda items for FY 2011 - Approval of revisions to board regulations - Approval of revisions to issues to be delegated to President & CEO - Approval of establishment of new regulations for Audit Committee - Appointment of members and establishment of new regulations for Outside Director Nominating Committee - Appointment of members and establishment of new regulations for Internal Transaction Monitoring Committee
Investment	- Approval of joint venture agreement for lubricant base oil business - Approval of investment in establishment of oil storage subsidiary - Approval of capital increase in Hyundai and Shell Base Oil
Accounting and Finance	- Approval of FY 2011 financial statements - Approval of FY 2011 business report - Approval of transaction limit terms with related HHI Group financial companies (quarterly) - Approval of internal transaction limit with HHI Group companies (quarterly) - Approval of internal transaction with HHI Group companies - Approval of 109th corporate bond issue - Approval of 110th corporate bond issue - Approval of 111th corporate bond issue - Approval of payment guarantee for Hyundai Cosmo Petrochemical - Approval of performance bond for Contract of Affreightment
Other Areas	- Approval of sponsorship agreement with Hyundai Heavy Industries Sports - Approval of 2013 business plan - Approval of establishment of overseas branch (Vietnam)

Executive Committee

At Hyundai Oilbank, our executive team is focused on identifying new business engines and delivering tangible results, backed with strengthened responsibility and authority and an organizational structure tuned for quality and execution.

1. Jang Ji-hak 2. Cho Young-cheul 3. Yoo Jae-bum 4. Kim Byung-sup 5. Moon Jong-bak 6. Kang Dal-ho

Moon Jong-bak
Head of Planning & Coordination Office and Global Business Division

In 2012, Hyundai Oilbank achieved favorable operating profit, as well as steadily laid the foundations to grow into a total energy provider, establishing Hyundai and Shell Base Oil, completing the #2 BTX plant, and opening a branch in Vietnam. In 2013, we will diversify our business structure that is concentrated in the refining business by continuously promoting new businesses, and actively exploring new opportunities abroad. In addition, Hyundai Cosmo Petrochemical will significantly contribute to enhancing our competitiveness with the commercial operations of the #2 BTX plant following the lead of the #1 BTX plant success.

Kim Byung-sup
Head of Sales & Marketing Division

We exceeded our initial business goal by 100%, and achieved an over 22% share in the domestic light crude oil market in 2012 by focusing on sales growth based on our enhanced competitiveness and active marketing. In 2013, we will strengthen our ability to respond to crises against changes in our environment by ensuring stable and continuous results. We also plan to upgrade our directly run service stations with a focus on our strategic regions and central Seoul, and put forth every effort so that the lubricant sales business can generate stable outcomes as early as possible.

Yoo Jae-bum
Head of Production Division

In 2013, we will carry out the largest-ever regular repair and maintenance since our founding, covering the #2 HOU and #2 BTX plants. Therefore, we must concentrate our full energy on stable operations and safety, health, and environmental (SHE) management. The Production Division will realize a zero-accident rate through repeated action-oriented training on safety and stable operations, continuously enhancing the safety awareness of our partners, and increasing the reliability of our facilities. In addition, we will sharply reduce energy costs, and encourage our staff to actively practice stable operations and prioritize productivity.

Kang Dal-ho
Head of Hyundai Oilbank R&D Institute

Hyundai Oilbank R&D Institute attracted a government subsidy of KRW 11.4 billion and carried our three in-house research projects in 2012. In 2013, we will maintain an appropriate balance between research in new technologies and technology development to seek out new growth engines and enhance existing businesses of the company. We will accelerate the development of high-end, premium-level products and focus on securing technologies for business diversification in line with the post-oil refining era.

Cho Young-cheul
Head of Management Support Division

We put our total efforts into financial soundness to successfully carry out company-wide projects and to support the company's growth in 2012. In 2013, the division will maximize its full abilities to help achieve the company's management goal of "securing growth engines." We will do our best to support successful business diversification as well as pursue an IPO again, and we will more actively concentrate our capabilities on foreign exchange and oil price risk management.

Jang Ji-hak
Head of Global Business Division

We will expand overseas in full scale through the development of profitable new markets and direct transactions in 2013 by actively tapping the entire world market including Europe as well as Australia and New Zealand. In addition, we will import crude oil by diversifying suppliers with care, and proactively develop new crude oil by expanding the imports of economically feasible spot oil. In the meantime, we will improve our competitiveness by strengthening the optimization of company-wide operations through the organic integration of crude oil procurement, production and sales.

Risk Management

At Hyundai Oilbank, we rapidly respond to environmental changes in overseas and domestic oil refining markets, forecasting and analyzing risk to prevent and mitigate it in pursuit of greater operational stability and profitability.

Risk Management Organization

We operate a risk management committee chaired by the CEO to effectively manage all conceivable risks that may occur due to changes in oil prices. We use a variety of methods to effectively and systematically manage all forms of risk, including oil price risk, exchange rate risk, and refining margin risk.

Oil Price Risk

The oil we import from the Middle East is normally purchased by contract at the price in the month of loading. Consequently, price fluctuations that may occur during the one-month transit time to Korea serve as a risk. We operate a system to hedge against such a risk. By implementing an early warning system, we are able to effectively respond when fluctuations occur. A consultative team consisting of the responsible executive and team leader formulates and executes a phased response plan. Risk exposure is managed in a flexible manner according to oil price conditions, and through this, we can simultaneously avoid risk and anticipate improved earnings. To prevent losses from price fluctuations, we have instituted mandatory hedging for operating margins as well as fixed price bids, oil reserves, and storage facility rental transactions. In addition, we hedge against refining margins by product through forward trading, by analyzing product price movements that fluctuate in linkage with oil prices. We minimize losses from oil price fluctuations by fixing margins through hedging once a certain level has been reached.

Exchange Rate Risk

Since we both import crude oil and export refined petroleum products, we are inherently exposed to risk from exchange rate fluctuations. We operate both regular and irregular risk management committees to set and review our exchange rate risk management strategy. Excluding speculative transactions, we hedge our risk to reduce or minimize exchange rate risk. We consult with external organizations to ensure systematic risk management and have implemented a system for determining risk exposure. We have also established internal risk management regulations, which guide us in hedging our exchange rate risk.

Crude Oil Import Diversification and Other Risks

We are aggressively pursuing the diversification of crude oil imports to avoid geopolitical risks including rapidly increasing risk of sourcing crude oil from Iran and other countries in the Middle East. An expansion in advanced facilities in Northeast Asia leads to a rise in demand for crude oil from the Middle East, however it is necessary to ease the heavy reliance on the Middle East and diversify fuel types for cost cuts. Accordingly, we plan to avoid the risk and maximize earnings at the same time by increasing new crude oil imports through organic linkage with plants. With regard to product sales, we manage the oil price risk arising from oil price fluctuations by selling products based on the previous month's prices and hedging against bid volume. We have also instituted mandatory hedging for fixed price bids, oil reserves, and storage facility rental transactions.

Ethical Management

At Hyundai Oilbank, we launched our ethical management initiative in 2002. In harmony with this, we will continue to pursue transparent management and ongoing innovations, based on the Hyundai Spirit of "creative wisdom, positive thinking and unwavering drive." In doing so, we will secure our position as a trusted and respected company in the rapidly changing business environment.

Corporate Commitment

Since we joined Hyundai Heavy Industries Group in 2010, a corporate-wide consensus has formed regarding the need for both greater transparency in management and continuous innovation. This ethical business culture is what drives our commitment to become a company that is trusted by customers, a preferred business partner of suppliers, a top investment choice of investors, a desirable workplace for employees, and a responsible corporate member of society.

Management Framework

We operate a well organized and practical ethical management system through education, publicity, and various programs that are based on ethics standards set in our ethics charter, code of conduct, and job ethics guidelines. We have also adopted a special code of ethics for job positions that require a higher standard of ethics and conduct.

Major Support Systems

"Clean Report" System	In 2013, we implemented stronger ethical management. Included in these changes, our employees are prohibited from accepting meals, money and valuables, gifts, and congratulatory or condolence money from our stakeholders. If they have inadvertently received money, goods, or gifts from a supplier, they are required to return them immediately, or donate them to designated social assistance organizations when returning is not possible.
Reporting Conflict of Interest	We prevent conflicts of interest by requiring our employees and the employees of our business partners to report in advance if they have a conflict of interest with their counterparties or if there is a potential for a conflict. This is to encourage fair and transparent practices during all transactions.
Whistleblower Protection and Incentives	We prevent the disclosure of rightful whistleblowers and details and guarantee confidentiality in principle to ensure their protection. Whistleblowers who report legal or ethical violations are provided incentives commensurate with company standards.
Ethics Website and Online Reporting	We operate our own website (http://ethics.oilbank.co.kr) that introduces our ethical management system and developments, our various ethical regulations including the ethics charter, and features case studies and a Q&A section to help better understanding on our code of ethics. The site also allows employees and others to report ethical violations, wrongdoing, corruption, unfair trade, and other inappropriate practices and policies.
Education	We operate collective ethics education every year for new hires and promoted employees to enhance their understanding and practices of ethical management. All employees are required to watch a monthly ethics video and take Hyundai Heavy Industries Group's customized online education course.

Compliance Program

We recognize that respecting fair market competition is key to improving our corporate competitiveness. We have had a fair trade compliance program covering all aspects of our operations in place since 2003.

Promoting Healthy Competition

We uphold the principle of free-market competition, respecting all relevant laws and customary business practices in the markets in which we operate, both domestic and overseas. Our compliance program and inspections contribute to greater consumer value and serve as a systematic and efficient system to prevent fair trade violations. We proactively work to comply with all relevant laws and regulations* through our code of conduct and employee training at all levels.

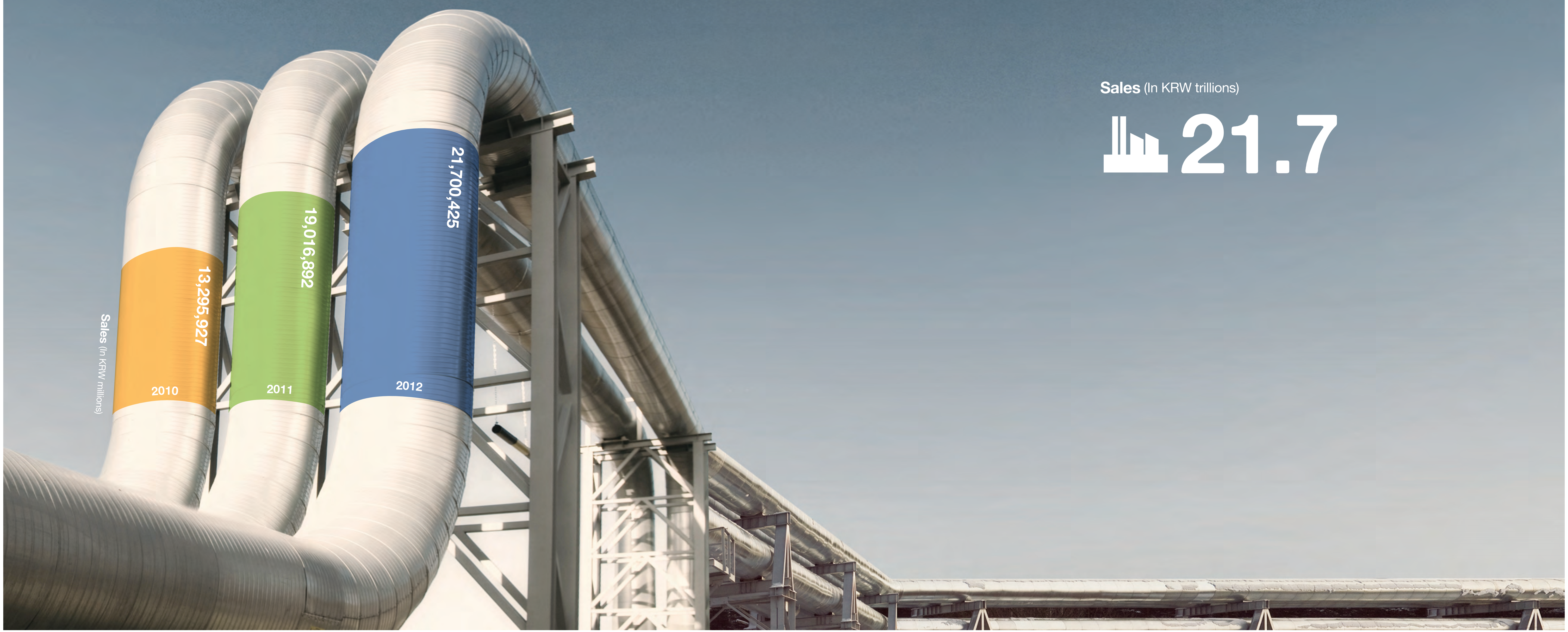
* Various laws and ordinances are enacted to promote competition and maintain fair trade order. They include the Monopoly Regulation and Fair Trade Act, Regulation of Standardized Contracts Act, Act on Fair Indication and Advertisement, Fair Transactions in Subcontracting Act, and Act on the Consumer Protection in the Electronic Commerce Transactions.

Compliance Program Components

CEO Leadership	• CEO conveys commitment through electronic correspondence and website • CEO presides over bidding committee
Program Organization	• Chief compliance officer serves concurrently as head of Planning & Coordination Office • Government Relations Team is in charge of compliance program • Chief compliance officer takes responsibility for budget allocation and execution for CP training
Compliance Handbook	• Handbook was published in December 2003 • Updates are distributed through compliance website
Training Programs	• Internal training programs cover regulatory change training, compliance manager training, compliance inspection and training, training for new hires, existing employees, team leaders and gas station owners, and special training as necessary • External training programs supervised by the Korea Fair Competition Federation and Fair Trade Commission • Cyber Training Center offers online training
Oversight System	• Sets up company-wide compliance regulations and procedures • Expands whistleblower channels
Disciplinary System	• Personnel regulations determine disciplinary measures • Personnel committee reviews and decides final action, up to and including dismissal
Document Management System	• Compliance documents managed online and offline via the compliance portal, document boxes, and newsletter • Documents updated via compliance website

BUSINESS OVERVIEW

In 2012, Hyundai Oilbank recorded KRW 21,700.4 billion in sales and KRW 307.2 billion in operating profit. We successfully pulled up our share of the domestic light oil market from 18% to over 22%. We also innovated our refining-centric business portfolio, while focusing on identifying new businesses and growth engines that will propel our transformation into a total energy company.



Petroleum Business

At Hyundai Oilbank, we expanded our share of Korea's light oil market to 22.2% through our daily production capacity of 390,000 barrels combined with a nationwide network of 2,355 gas stations. With our strengthened heavy oil upgrading capabilities, we are now setting our sights on becoming the nation's top petroleum refining and marketing company.

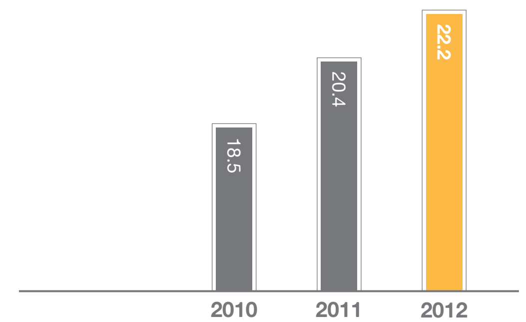
Diversifying Suppliers and Expanding Upgrading Capacity

In 2012, we secured up to 190 million barrels of crude oil per day—triple the previous amount—from Kuwait and Qatar, countries with abundant oil reserves and low geopolitical risks, which make them preferred regional suppliers in Asia, and ensured stable supply of high-sulfur heavy fuel oil for our new #2 HOU plant.

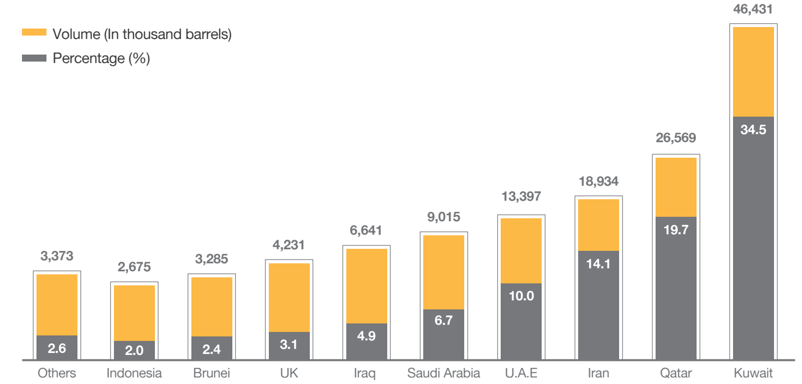
In the meantime, we tried to reduce the risk of over-reliance on oil producing countries in the Middle East by diversifying suppliers. We imported North Sea crude oil for the first time in 2012, and also secured Bualuang crude oil, making us the only refiner in Korea engaged in a long-term contract for high-sulfur crude oil produced in Thailand.

Our total daily crude oil refining capacity equaled 390,000 barrels as of December 2012, including a 134,000 barrel-per-day of upgrading capacity for producing light products. Our growing capacity to produce high-value-added products helps us to deal better with fluctuating international crude oil prices and to build solid business footing that will further improve both financial stability and profitability.

Light Oil Market Share in 2012 (Unit: %)



Oil Imports by Country in 2012



Growing Domestic Light Oil Market Share

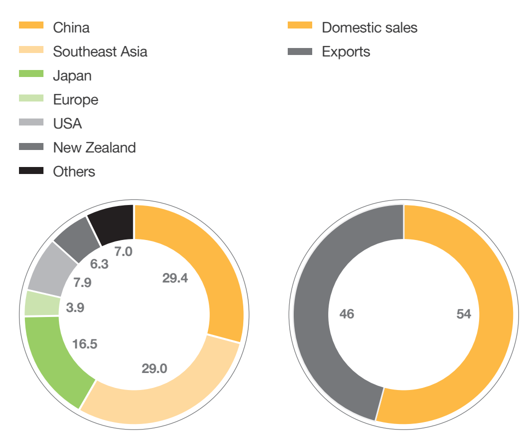
We focused on sales growth through strengthened sales competitiveness and invigorated marketing despite the difficult environment including slow business at home and abroad, and the Korean government's oil distribution improvement policies in 2012. In addition, we continued to increase our share of the domestic light oil market to over 22% amid keen competition through the #2 HOU Project.

Expanding Overseas Network for Global Growth

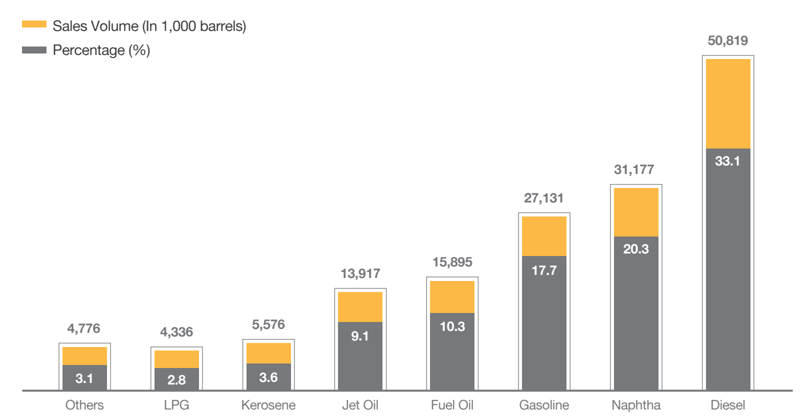
We sold approximately 60 million barrels or about 40% of our total petroleum product sales volume to export markets such as China, Japan, and Southeast Asia in 2012. In particular, we actively tapped into new markets including Australia, New Zealand, and Mongolia, and expanded our new propylene and lubricant base oil businesses by using our Shanghai and Dubai branches as bridgeheads.

We also divided our Product Trading Team into the Light Oil Product Team and the Heavy Oil Product Team. In addition, we plan to expand our global network in stages through 2020 with the goal of establishing five subsidiaries and four branches in nine countries. These entire efforts are aimed at advancing into new markets, increasing direct overseas transactions, and sharpening our export competitiveness.

Exports by Nation in 2012 (Unit: %)



Sales Volume by Product in 2012



Products

At Hyundai Oilbank, we produce a wide range of high-quality petroleum products and petrochemical feedstocks that are essential to everyday life—from cooking and heating fuels to transportation fuels and industrial feedstocks—to create a better and happier future for everyone.

Premium Gasoline

Our high-quality, high-octane premium gasoline has an octane rating of over 98. This eco-friendly, high performance gasoline features additives that improve engine performance, prevent declines in power output or fuel economy in even extended harsh driving conditions, and significantly reduce harmful emissions.

Gasoline

This volatile mixture of liquids is widely used as a fuel in spark-ignition internal combustion engines. Environmental regulations in Korea mandate that gasoline contain under 0.7% benzene by weight and under 10 mg/kg of sulfur. Our high-quality gasoline grades meet and exceed these standards by a large margin. In addition to containing engine-cleaning additives, our grades are formulated to improve fuel dispersion and combustion.

Ultra-Low-Sulfur Diesel

We are supplying Korea's first eco-friendly ultra-low-sulfur diesel that dramatically lowers exhaust and noise over standard diesel grades. These improved products also contain high-quality additives that help keep engines clean. All our diesel products have been bio-diesel mixtures since 2006, making our lineup even more eco-friendly.

Kerosene

Our kerosene products for indoor use are Korean Eco-Label certified, have almost no odor, and are virtually smoke- and soot-free when burned, making them ideal for use as indoor heating fuels. Our advanced refining process produces highly affordable products with excellent thermal and combustion efficiency.

Fuel Oil

Our fuel oil products are classified by sulfur content, application, and viscosity. Primarily used as internal combustion engine and boiler fuels, they include low-sulfur, marine, and class A, B, and C. Our marine fuel oil is divided into different classes of viscosity based on engine type, size, and specifications.

Liquefied Petroleum Gas

Propane is used for residential and commercial cooking and heating. Butane is used as a vehicle fuel as well as fuel for portable cooking and heating and industrial purposes. We produce sulfur-free LPG in an odorless, aerosol form, using strict quality control to minimize carburetor residue, the primary cause of LPG vehicle breakdowns.

Jet Fuel

Fuel for gas-turbine engines must deliver favorable combustion and starting characteristics that will not clog air filters and operate in low-pressure, low-temperature high-altitude environments. We produce kerosene-based fuels, including JP-8 for military use and Jet A-1 for civilian aviation use.

Naphtha

This liquid is widely used in the petrochemical industry to produce gasoline, solvents, fertilizer, and other petrochemical products. Heavy naphtha has a boiling point of above 100°C and is reformed into benzene, toluene, and xylene to become feedstocks used to produce synthetic rubbers, paint solvents, plastics, and polyester fibers.

Benzene, Toluene, Paraxylene

Benzene is a highly flammable colorless to pale yellow liquid with a distinctive odor that is the most important aromatic compound used in nylon, styrofoam, and insulation materials. Paraxylene is separated and produced from mixed xylene to make polyester, film, and polyethylene terephthalate.

Propylene

This core petrochemical feedstock is used in a broad range of products such as acetone, isopropyl alcohol, acrylonitrile, nylon 6, polypropylene, propylene oxide, epichlorohydrin, and polyisoprene. These materials are ultimately used to make acrylics, synthetic rubbers, plastics, detergents, and many other products.

Alkylate

The low vapor pressure and sulfur content of this liquid make it a high-quality, eco-friendly gasoline blending stock that boosts octane without adding aromatic compounds that cause air pollution.

Facilities

At Hyundai Oilbank, we deliver high-value-added, high-quality products that make life better through its state-of-the-art refining facilities. We are continually improving our processes to minimize the generation of pollutants as we strive to make our Daesan refinery one of the safest and most eco-friendly in the industry.

Refinery Growth and Progress

We are building Korea's most modern petroleum refinery through ongoing expansion and upgrade projects. Located on Korea's northwest coast on a site covering approximately 2.8 million square meters, our Daesan refinery processed 390,000 barrels of oil a day as of the end of 2012, 134,000 barrels of which were upgraded to high-value-added light oil products. Our #2 BTX plant began commercial operation in February 2013 to further diversify our petrochemical product portfolio as we take the next step toward being one of the world's most advanced refineries.

CDU, Crude Distillation Unit

VDU, Vacuum Distillation Unit

Crude Distillation Unit

The CDU process separates crude oil into different petroleum fractions by their boiling points. When crude oil leaves the storage tank, it is preheated to between 130°C and 139°C in a heat exchanger and passed through a desalter. This step is necessary because crude oil typically contains 10 to 3,000 mg/kg of salts which, if not removed before distillation, could allow the formation of hydrochloric or other acids, causing corrosion or blockage of downstream piping, equipment, and process units. After desalting, the crude oil is heated to 350°C and the fractions are drawn off from top to bottom—LPG, naphtha, kerosene, diesel, and fuel oil—based on their boiling points and then fed to downstream processes to remove impurities.

Vacuum Distillation Unit

The VDU process performs distillation at below atmospheric pressure. Approximately 50% of the crude oil remains as residue after the CDU process. The VDU distills this residue in a near-vacuum state to obtain high-viscosity oils such as vacuum gas oil, drawing off the different fractions from top to bottom—vacuum light gas oil (VLGO), vacuum heavy gas oil (VHGO), and vacuum residue (VR)—based on their boiling points. The VLGO, VHGO and VR are then fed to downstream hydrotreating and cracking processes.

Hydrocracking Unit

The HCR process "cracks" or breaks down the lower-quality heavy oil from the VDU process and removes impurities to produce good quality light oil. The HCR has several sections. The reactor cracks and purifies the heavy oil feed. The gas recycler provides the hydrogen necessary for the catalytic reaction. The fraction column separates the oil fractions based on boiling point. The resulting kerosene and diesel are used as blendstocks, while the LPG and naphtha are fed to downstream processes.

Delayed Coking Unit

The DCU process breaks down the residual oil from the CDU or VDU processes at its thermal cracking temperature of around 490°C to produce light oil and byproduct coke. The lighter oil factions are supplied to the hydrocracking and hydrotreating processes, while the coke is either used for fuel or sold as a product.

Facilities

Our Daesan Refinery consists of #1 Plant, #2 Plant, and BTX Plant.

Total Capacity (Unit: Thousand barrels/day)

Process	#1 Plant	#2 & HOU Plant	#1 BTX	#2 BTX	Total
Crude Distillation Unit	110	280			**390**
Vacuum Distillation Unit	76	-			**76**
Light End Recovery Unit	9	7.5			**16.5**
Naphtha Hydrotreating Unit					
- Naphtha Hydrotreating Unit	12	22			**34**
- Platforming Unit	4	21			**25**
- Mogas* Hydrotreating Unit	-	34			**34**
- Alkylation Unit	-	16			**16**
Kerosene/Gas Oil Hydrotreating Units					
- Kerosene Hydrotreating Unit	-	58			**58**
- Gas Oil Hydrotreating Unit	22	102			**124**
- Kerosene Merox Unit	27	-			**27**
Heavy Oil Cracking Units					
- Hydrocracking Unit	37	-			**37**
- Delayed Coking Unit	35	-			**35**
- Atmospheric Residue Desulfurization Unit	-	79			**79**
- Residue Fluidized Catalytic Cracking	-	62			**62**
BTX Process (tons per annum)					
- Benzene	-	-	120,000	115,000	**235,000**
- Paraxylene	-	-	380,000	800,000	**1,180,000**

* Mogas: A short for motor gasoline, it is a material to formulate gasoline.

Hydrotreating Units

The naphtha hydrotreating (NHT) process hydrogenates, desulfurizes, and denitrogenates the unsaturated hydrocarbons in naphtha and LPG, using a catalyst at elevated temperatures and pressures to enrich the hydrocarbons with hydrogen to remove nitrogen and oxygen impurities. The kerosene hydrotreating (KHT) process removes impurities such as sulfur, nitrogen, and oxygen from the kerosene feed from the CDU, using hydrogen and a catalyst to upgrade it to low-sulfur kerosene. The gas oil hydrotreating (GHT) process removes over 96% of sulfur and nitrogen compounds from the light oil products produced by the CDU and DCU using hydrogen and a catalyst. The treated products are transferred to storage tanks and used as blendstocks for a wide range of products.

Platforming Unit

The PLT process converts the low-octane naphtha produced by the CDU into high-octane naphtha reformate. The unit consists of a reactor section where the catalytic reforming process takes place and a recovery section where impurities formed by the catalytic reactions are removed. The reformate is used as a gasoline blendstock or feedstock for benzene, toluene, or xylene production, while the hydrogen byproduct of this process is fed to the hydrotreating processes.

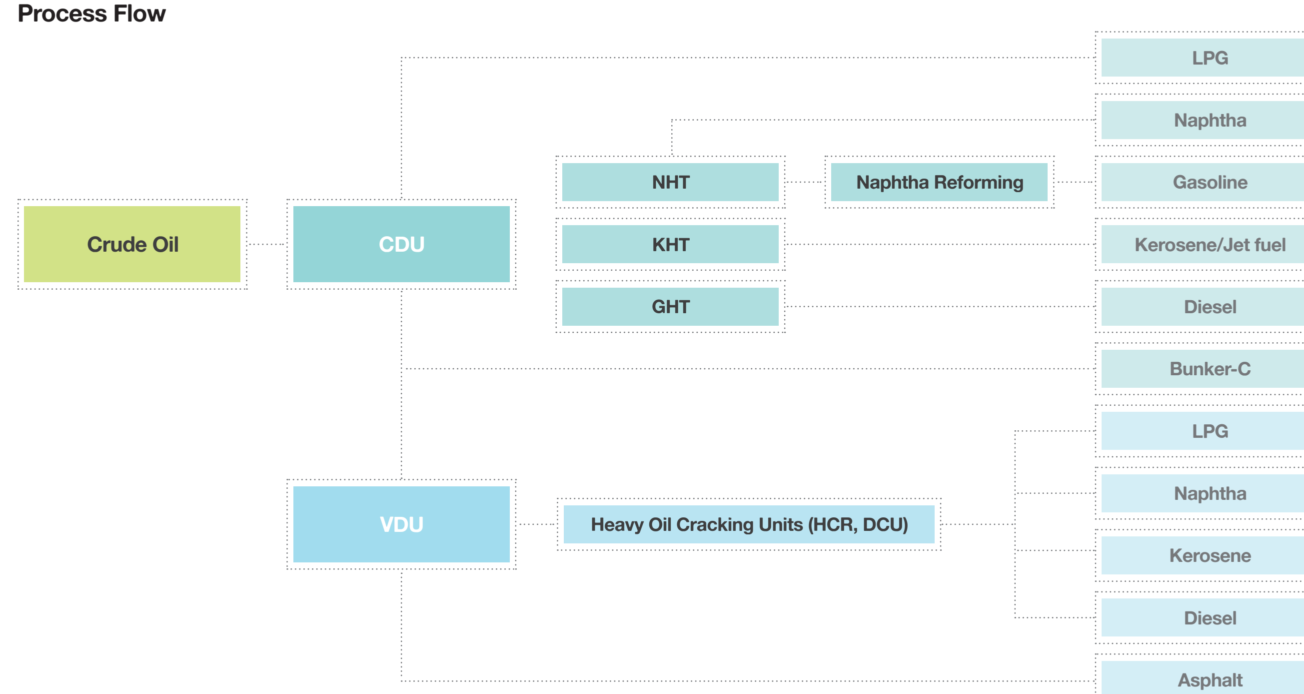
Atmospheric Residue Desulfurization Unit

The RDS process takes high-sulfur atmospheric residue from the refining process and adds hydrogen at high pressure and temperature conditions to trigger a desulfurization reaction, producing gas oil and low-sulfur fuel oil, the latter of which is used as feedstock for the FCC process.

Residue Fluidized Catalytic Cracking Unit

The FCC process converts the low-sulfur fuel oil from the RDS process using a fluidized catalyst into gasoline as well as light olefins and bunker-C oil for use as feedstocks in downstream propylene recovery, butamer, and alkylation processes.

Process Flow



Heavy Oil Upgrading Unit

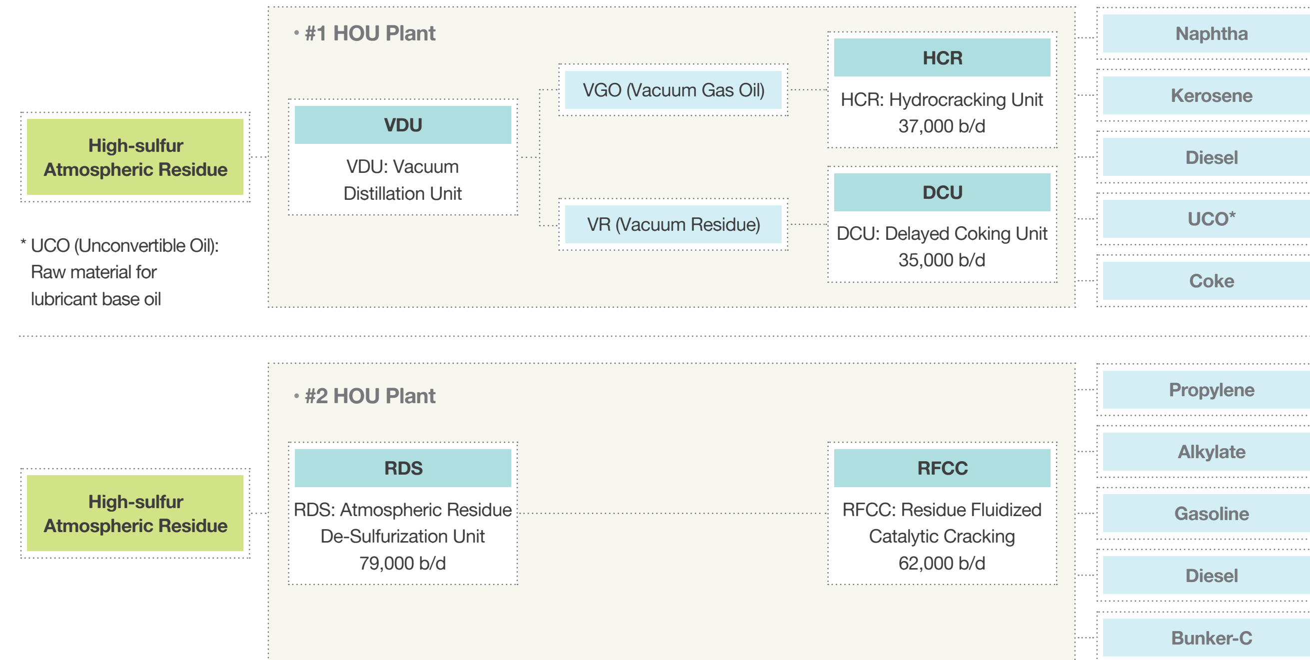
At Hyundai Oilbank, our successful completion of the #2 HOU plant has boosted our daily heavy oil upgrading capacity by 62,000 barrels, giving us an industry-leading 34.4% upgrading ratio. This facility positions us to increase both profitability and competitiveness through higher refining margins.

HOU Plant

In September 2011, we officially completed our #2 Heavy Oil Upgrading plant—our largest investment to date worth KRW 2.6 trillion. This put in place a new platform for our growth in the refining business, increasing our daily upgrading capacity by 62,000 barrels to 134,000 barrels from the previous 72,000 barrels. In the refining industry, the HOU plant takes heavy oil (bunker-C) and converts it into eco-friendly, high-value-added petroleum products of gasoline, diesel, propylene, and Alkylate. We operate two upgrading plants—the #1 HOU that decomposes fuel oil produced in the #1 crude distillation unit (CDU), and the #2 HOU that decomposes fuel oil produced in the #2 CDU.

Our #1 HOU plant, in operation since 1989, mainly producing diesel and kerosene, consists of the Hydrocracking Unit and the Delayed Coking Unit. Its daily refining capacity is 37,000 barrels by the Hydrocracking Unit and 35,000 barrels by the Delayed Coking Unit. Our #2 HOU plant includes residue desulfurization (RDS) and fluidized catalytic cracking (FCC) processes. The RDS process takes the low-quality bunker-C from the refining process and adds hydrogen to trigger a desulfurization reaction. The FCC produces such products as LPG, gasoline, and diesel as well as petrochemical feedstocks like propylene. The plant's daily refining capacity is 79,000 barrels by the RDS and 62,000 barrels by the FCC.

HOU Process Flow



Expanding Margins & Markets

With the completion of our #2 HOU plant, we have increased our previous daily upgrading capacity of 72,000 barrels by 62,000 barrels and achieved the industry-leading 34.4% upgrading ratio. This enables us to process the 40% to 50% portion of bunker-C oil that remains after crude oil refining into high-value-added products, improving our refining margins and generating stable operating profit.

The plant also gives us a quality edge, enabling us to produce gasoline and diesel products that meet the under-15-part-per-million sulfur content standard as required by law in the US state of California, the world's toughest standard. This opens the way for us to actively pursue exports to the US and other major markets that are adopting stricter standards on petrochemical products.

In short, the #2 HOU plant provides the foundation for higher refining margins, resulting in improved profitability, a higher level of competitiveness in the refining industry, and, ultimately, greater corporate value.

#2 BTX Project

At Hyundai Oilbank, we are boldly investing to expand our operations in value-added petrochemical fields. Our #2 BTX project is designed to diversify our business portfolio and revamp our revenue base, which will make us even more competitive in the years ahead.

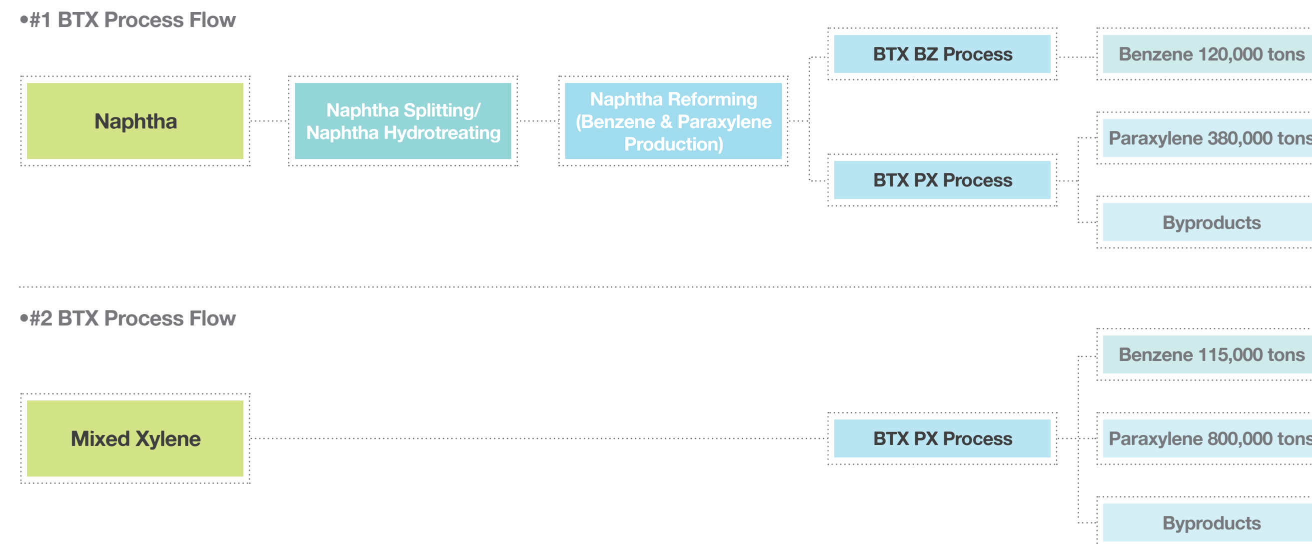
#2 BTX Project Overview

Hyundai Cosmo Petrochemical is a joint venture with Cosmo Oil of Japan founded in 2009. It achieved mechanical completion in November 2012, 19 months after it began engineering, procurement, and construction (EPC) in April 2011, and began commercial operations in February 2013.

Located on an 85,000-square-meter site near our Daesan refinery, our #2 BTX plant will produce p-Xylene and benzene as feedstocks to make synthetic fibers and all kinds of plastics by using mixed xylene. Since the launch of EPC, it has encountered zero accidents over a period of 3,000,000 hours, and construction was completed five months earlier than originally scheduled.

In particular, the facility will be able to proactively respond to changes in international raw materials prices as Cosmo Oil will provide its mixed xylene requirements. We also anticipate synergies to be generated from product exports through active joint marketing.

Key Processes



Business Portfolio Diversification

The #2 BTX plant is increasing our annual output by 920,000 tons, including 800 thousand tons of paraxylene and 120 thousand tons of benzene. We will export the entire 900,000-ton output of the #2 BTX plant, actively responding to growing demand especially from China, India, and other Asian markets to increase sales by around KRW 1 trillion annually as we continue to diversify our business portfolio.

New Businesses and Expansion of Global Network

We actively initiated lubricant base oil and oil terminal businesses to secure new future growth engines. In addition, we established overseas subsidiaries and branches, while enabling our foreign branches to broaden their radius of operations and build independent business areas. Based on this, we plan to innovate our business structure and generate a stable revenue base to rise as a total energy provider.

Lubricant Base Oil Business

For the lubricant base oil business, we established Hyundai and Shell Base Oil in April 2012, a joint venture with Royal Dutch Shell, and began the construction of a lubricant base oil plant on an approximate 33,000 square meter site inside our Daesan refinery in 2013. Capable of handling 20,000 barrels a day, it is scheduled to begin full-fledged production, following its mechanical completion, in the second half of 2014.

This business will produce base oil for lubricants by using the byproducts of our hydrotreating process. As one of the most reliable revenue sources for refiners that shows a stable profit rate due to high entry barriers resulting from limited feedstock, the lubricant base oil market is forecast to maintain sharp upturns going forward, particularly enjoying greater sales growth in Asia. We plan to export the majority of our products from this plant to China, the largest consuming market, and other countries in Asia through Shell's global distribution network. Sales are expected to reach about KRW 1 trillion annually, beginning from 2015.

Oil Terminal Business

We established Hyundai Oil Terminal, and successfully raised KRW 33 billion by signing an investment agreement with STIC Investments, a private equity firm, in February 2012. We began the construction of a large-scale oil storage facility for petroleum and petrochemical products at Ulsan New Port by investing a total working capital of KRW 93.6 billion in 2011. Currently, we are carrying out basic piling work for upper storage facilities in some sections after completing the reclamation of seas covering 86,821 square meters.

Scheduled for completion in the second half of 2013, the terminal will have a storage capacity of 280,000 kiloliters and dock facilities capable of handling tankers of up to 80,000 deadweight tons. It will serve as the largest logistics base for petrochemical products in the southeast part of Korea, by attracting petrochemicals from both home and abroad.

We also plan to engage in a wide range of profit-making operations during the same period. This includes product trading on consignment by utilizing our domestic and overseas logistics networks, bunkering through the use of our shipping bases, and branding to enhance the added value of our products.

Overseas Subsidiaries and Branches

We are actively promoting our overseas branches to subsidiary status in order to broaden their radius of operations and build independent business areas. In October 2012, we established our Shanghai subsidiary, following our first subsidiary in Singapore. The Shanghai subsidiary had been securing clients for our head office and assisting with operations as a branch, but current plans are in motion to launch the trading business independently and directly enter into the Chinese market going forward.

In July 2012, we opened a new branch in Vietnam, which will likely provide a broad range of business opportunities with great potential. This is to more aggressively tap into the Southeast Asian market in which demand for petroleum products is expected to rise going forward. Vietnam has a shortage of petroleum supply while enjoying high economic growth. The branch will lead the expansion our exports to the country, and will act as our key base targeting the Southeast Asian market.

Quality Management

At Hyundai Oilbank, we are enhancing the quality of our post-sales services in all stages through exhaustive quality inspections and use of our quality complaint management system. Through R&D, we will focusing on basic quality control that contributes to improving the qualitative competitiveness of our products, as we strive to meet market expectations and maximize customer satisfaction.

Quality Management Principles and Initiatives

Placing our top priority on customer satisfaction, we conduct exhaustive quality tests on all our products, throughout the entire production process and all the way to the pump at each of our service stations. Notably, in order to ensure high quality management during the final distribution stage, we carry out regular quality inspections throughout the year to systematically control the quality of our products in the market to prevent any possible deterioration in advance.

This rigorous commitment to quality management enabled us to once again pass all regular fuel-quality tests administered by the Ministry of Knowledge Economy and the Ministry of Environment in 2012. The reliability of our quality tests was also confirmed by third parties such as the Korea Institute of Petroleum Management (K-Petro), passing testing for all fuel types and categories within the acceptable margin of error.

Prior to this, we became the first Korean oil refiner to be globally recognized for its JIS K 2207 straight asphalt product. We were also recertified for the ISO 9001 quality management system, winning international recognition for our quality and management levels.

Quality Complaint Management System

The Quality Management Team at Hyundai Oilbank is responsible for responding to all customer complaints regarding quality issues. All submitted complaints are processed in consultation with other relevant departments within the company. The customers are notified of the outcomes once they are processed. An IT system for quality control is used to resolve potential delays in the complaint handling process to ensure response speed and efficiency. The company also runs a full-time technical support center in Pangyo to provide quick troubleshooting support and speedy on-site customer assistance, equipped with cutting-edge testing and analysis equipment.

Pursuant to company policies, even in cases where the cause of the complaint is not clear, Hyundai Oilbank representatives must visit the customer within 72 hours of receiving the complaint to consult with the customer and collect samples for further testing. The type of testing required is determined based on the presented complaint, and once the tests are completed, the customer is notified immediately of the results.

We also operate regular quality training programs for our sales force and service station operators, and annually publish a quality handbook as part of our efforts to promptly address customer's quality concerns. Additionally, information on hazardous substances contained in the company's products is also provided in strict compliance with health and safety-related regulations to help protect the health and safety of all customers.

Hyundai Oilbank R&D Institute

We opened the Hyundai Oilbank R&D Institute in the Pangyo Techno Valley district of Seongnam in November 2011 to take the lead in diversifying our business portfolio and driving future businesses. The institute serves as a center point for forward-looking research and development at Hyundai Oilbank, as it consolidates the R&D functions and personnel previously scattered across a number of company worksites around Korea. It is tasked with developing new technologies and training high-caliber technical professionals, spanning a wide range of fields such as oil refining, lubricant base oil, next-generation fuels, and petrochemicals.

It has actively pursued collaboration with domestic universities, government-run research institutes, and international companies in the fields of petroleum and petrochemicals. One example is the memorandum of understanding signed in October 2011 with Cosmo Oil of Japan covering R&D as well as technological cooperation in all fields of energy, including the exchange of engineers. In order to accomplish its mission as an incubator of talent, motivation and power for discovering new growth engines, the institute aims to achieve the following vision and goals.

First, it assertively promotes R&D in close linkage with the enhancement of technological competitiveness and the business diversification strategy. It will continuously discover government-supported R&D tasks, and strengthen industry-research-academy collaborations to solve global energy problems and discover new growth engines.

Second, it will do its best to secure technologies for our business diversification. Specifically, it will focus on securing production technologies that are needed for our advance into such promising business areas as steel and chemicals, polypropylene derivatives, lubricant base oil, solvents, modified asphalt, naphtha upgrading, and shale gas.

Third, the institute will be committed to hiring key talent to explore future new growth engines and bring them to realization in the intensifying global technology race. It will broaden the range of its technological cooperation both in and outside Korea, while increasing efforts to secure a technological position that fits with the company's status and vision.

Marketing & Service

At Hyundai Oilbank, we enhance our sales competitiveness by strengthening brand value, building up partnerships with affiliated service stations, improving service quality, consolidating customer loyalty, and expanding affiliate marketing.

Strengthening Brand Value

We have carried out a wide variety of activities to raise corporate preference and embed a friendly company image in consumers since our outset as a member of the Hyundai Heavy Industries family in 2010. These include our reinforced sports marketing activities such as the title sponsorship of the K-League—Korea's top professional football league, and sponsoring the Ulsan Hyundai Football Club. We have also held the Dream Concert K-pop festival for youth as well as a marketing idea competition for university students to maximize our brand value.

Visual design plays an important role in communicating our brand message. Our corporate identity guidelines create a unified brand image and improve brand awareness, ensuring a consistent, standardized design for our gas stations, attendant uniforms, advertising materials, offices, and all other spaces as we aim to set the industry standard for design excellence. We are particularly focused on developing unique designs for our service stations that are the nearest customer contact points, primarily by applying our own characters and art walls. This is being done to enhance our corporate image and assist our affiliate service stations become landmarks in their areas.

Building Up Partnerships with Affiliate Service Stations

In 2012, we introduced a Partner Relationship Management (PRM) program to build up partnerships with our affiliate service stations by providing the ultimate in services to their owners.

We also operate a host of life-related programs, targeting service station owners and their families. These include Queens Party, Healing Camp, Children's Industrial Expedition, and discounts for health checkups at major hospitals. We also support promotional materials such as mineral water and tissues, painting work, and attendant uniforms. In addition, we visit and hold surprise parties for workers at our service stations throughout the year, while operating a "Thanks Team," a first in Korea, that assists with their fueling service operations.

Improving Service Quality

We are Korea's first refiner to assign service and partnership specialists known as "Market Designers" to each region to systematically improve the gas station experience. We also operate a "Welcome Team" to demonstrate service delivery and train station attendants, helping to invigorate station sales.

We pay attention to what our customers have to say through a customer advisory panel, gaining valuable feedback from a consumer perspective on our marketing activities and level of service as well as advice on how we can improve the customer experience. As a result of these efforts, we ranked first in the service station category at the 2012 KS-SQI (Korean Standard-Service Quality Index) surveys by the Korea Standards Association.

Our call center is on the frontline in serving our customers, ranking first among 161 companies in the KS-CQI (Korean Standard-Contact Service Quality Index) survey by the same association, and earning the industry's top rating on the Korea Service Quality Index (KSQI) by the KMA Consulting for the fourth straight year in 2012.

Consolidating Customer Loyalty

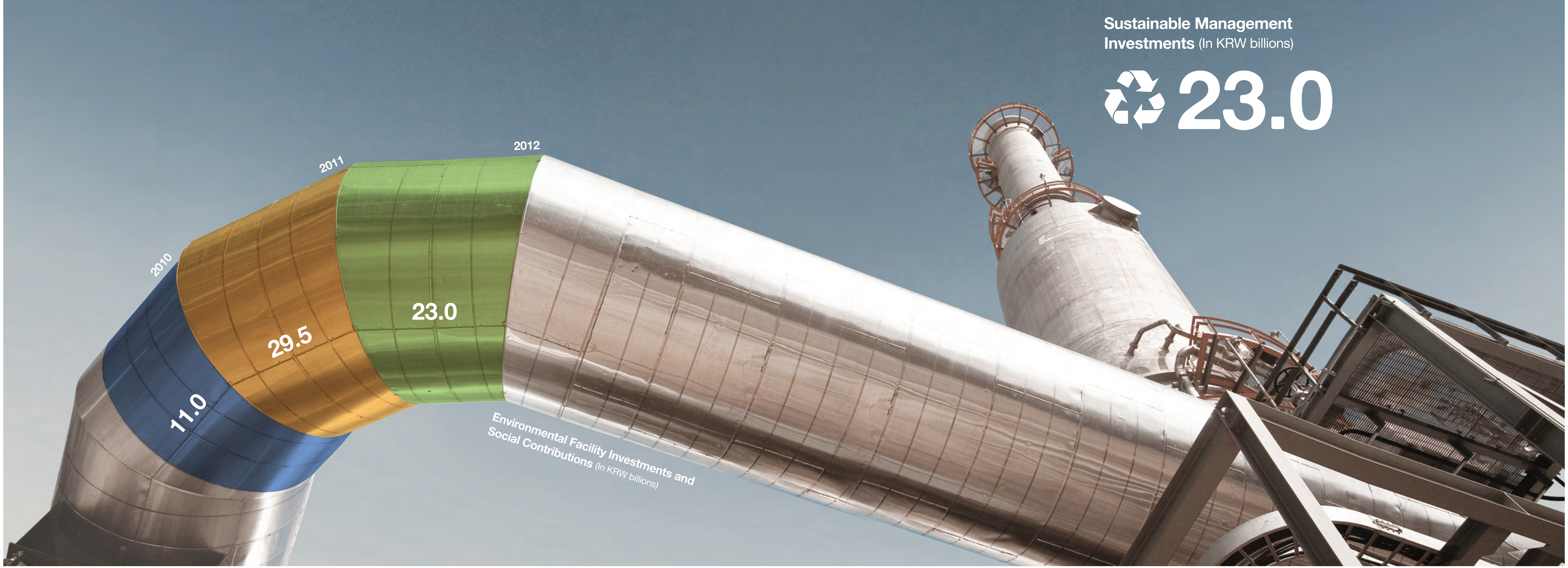
Our marketing begins with the scientific mining of customer data from the over 1.2 million customers who carry our bonus card. By utilizing a digital coupon system, we implement tailored customer relationship management (CRM), taking into account the business conditions by service station, along with customer information by age group, region, and transaction type, and CRM for our business partners with high cost efficiency. Through these, we increase the value of our bonus card that provides a solid foundation to secure customers, while maximizing customer loyalty.

Expanding Affiliate Marketing

Since becoming a Hyundai Heavy Industries Group affiliate in 2010, we have aggressively pursued marketing partnerships with the credit card, retail, automobile, insurance, food and beverage, restaurant industries, and Hyundai Group affiliates as well as some of Korea's top companies in each business sector. As high oil prices have persisted over the past few years, consumers have become increasingly price conscious. We have partnered with a credit card company to offer a new card that helps customers save money on their gas purchases. We have also partnered with events such as major musicals and concerts, festivals, and discount stores as part of a nationwide regional partner program, building our image as a gas station that provides fun, money-saving benefits. Going forward, we will continue to uphold the company's sustainable growth by taking the initiative in differentiated marketing activities such as service station-centered promotions and ongoing regional affiliate marketing.

SUSTAINABLE MANAGEMENT

From our distinctive efforts to preserve a cleaner natural environment for our next generations, to social contribution activities and initiatives of our employees to benefit the less fortunate, we are pursuing a harmonious coexistence and the sustainable growth of our communities as we live up to our responsibilities and mission as a corporate citizen.



Environmental Management

At Hyundai Oilbank, we're working on minimizing our impact on the environment in all aspects of our business activities. We are in full compliance with government environmental policies and legal standards for air, soil, and water quality as well as marine protection.

Grand prize winner of Hyundai Oilbank Environmental Photo Contest

Integrating Environmental Management

Our integrated safety, health, and environmental (SHE) management system is focused on making environmental information public, providing SHE education and training, increasing green purchasing, and outsourcing waste management and disposal. In 2007, we implemented a SHE management system, enabling the company-wide integration and sharing of environmental information that had been previously scattered across our organization. Designed to support seamless data interchange with legacy systems, the integrated SHE system has specialized components for safety, health, and the environment as well as education and training, empowering us to build effective internal and external response systems and work processes.

Integrated Environmental Management System

- **Establishing Integrated System |** Establish an integrated system for efficient SHE management
- **Disclosing Environmental Information |** Make all environmental information public
- **SHE Education and Training |** Provide SHE education and training to cope with fires, injuries, and environmental accidents
- **Increasing Green Purchasing |** Increase eco-friendly purchasing after signing green purchasing agreement in 2005
- **Outsourcing Waste Management and Disposal |** Outsource byproduct and waste management and disposal to a private contractor specialist

Investing to Improve the Environment

We are committed to minimizing the generation of pollutants at our business locations as well as developing and producing eco-friendly products that help preserve the natural environment. Since launching our Clean Fuel Project in 2005 to produce cleaner fuels such as ultra-low-sulfur diesel and eco-friendly gasoline, we have installed a number of high-performance pollution-control facilities such as electrostatic precipitators, regenerative thermal oxidizers (RTO), and selective catalytic reduction (SCR) systems. We have also implemented an ongoing leak detection and repair (LDAR) program to reduce volatile organic compound (VOC) emissions. Through 2015, we plan to invest in vapor recovery units (VRUs) for our terminal facilities as well as advanced wastewater treatment facilities as part of our ongoing investments to protect the environment.

Environmental Facility Investments

Years	Tasks	Cost
2011 ~ 2012	Tank area soil remediation	KRW 2.0 billion
2007 ~ 2010	VOC reduction facilities	KRW 2.7 billion
2007 ~ 2012	SCR for boilers/heaters	KRW 10.7 billion
2008	RTO for wastewater treatment	KRW 2.1 billion

Environmental Facility Investment Plans

Years	Tasks
2012 ~ 2015	KRW 26 billion in VRU and #2 HOU LDAR

Conducting Environmental Reviews

We conduct regular audits and inspections of each business location to prevent or eliminate all conceivable environmental risks as part of our commitment to accident prevention and mitigation.

	Environmental Inspections	Environmental Audits
Goals	Minimize risk through prevention and the identification of environmental risks	Achieve substantive environmental management through on-site verification of environmental risk management and improvement measures
Tasks	- Verify compliance with environmental laws, regulations, and guidelines - Verify implementation of an in-house environmental inspection system - Verify quality of facility/equipment management	- Verify compliance with environmental laws, regulations, and guidelines - Verify adequacy of in-house environmental inspection system and training outcomes - Verify implementation of improvement recommendations - Verify implementation of risk management initiatives by respective divisions

Responding to Climate Change

We are making multilateral efforts for direct and indirect energy savings to minimize the environmental impacts including greenhouse gas emissions and climate change arising from our production activities. When our Daesan refinery was established, we also built a combined heat and power plant capable of supplying 100% of the steam needed for refinery operations. We continue to enhance energy efficiency through waste heat recovery, operational improvements, and a variety of other methods. We have been a participant in the Korean Emission Reduction Registry Program* run by the Korea Energy Management Corporation since its launch in 2005, using energy efficiency diagnostics to develop greenhouse gas reduction projects. We are also a member of the Ministry of Knowledge Economy's Climate Change Response Team. In addition, we are actively participating in the green growth policies promoted by the Korean government. For example, we have participated in a pilot program for the Energy Target Management System (organized by the Ministry of Knowledge and Economy) since 2010, and the GHG & Energy Target Management System that is grounded in the Basic Act on Low Carbon Green Growth, since 2012. Although our GHG emissions have been in decline for the past several years due to our investment in energy-efficient technology and facilities, the completion of our #2 HOU plant caused both energy consumption and GHG emissions to temporarily increase in 2011. We will continue to push forward with our emissions reduction initiatives as we strive to be the most energy-efficient company in our industry.

* Korean Emission Reduction Registry Program: Incentives are provided by the government to companies for GHG reductions certified by a third-party verification.

Social Contribution

At Hyundai Oilbank, we strive to make a difference in so many areas of life as we lend a helping hand through donations, volunteer service, disaster relief, social welfare programs, and environmental initiatives.

Hyundai Oilbank 1% Nanum Foundation

Since September 2011, our employees have donated 1% of their monthly salaries to help our neighbors in need. We were the first large company in Korea whose employees pledged to do so regularly every year, contributing to the spread of a donating culture joined by other influential businesses.

Approximately 96% of our over 1,800 employees have voluntarily chosen to participate in this program, and the spirit of donation is now spreading to our business partners, gas station owners, and even employee family members. We have established the Hyundai Oilbank 1% Nanum Foundation to transparently and fairly administer program donations, carrying out a wide range of projects in full scale to support those in need including independently living seniors and youth-headed households.

Hyundai Oilbank Scholarship Foundation

Since we launched this foundation in 2003, we have contributed KRW 50 million annually to an educational development fund to benefit middle school, high school, and university students living in the Daesan region who demonstrate academic excellence or have difficult family circumstances. The scholarship foundation is managed by representatives from the local groups and organizations to ensure its independence and transparency.

Programs with Partners

We join our fellow Hyundai Heavy Industries Group affiliates in contributing to a number of charity programs including the Community Chest of Korea. We have also partnered with other Korean refiners to create a special KRW 100 billion fund to provide relief to the underprivileged who are suffering in this age of high oil prices as well as run a number of industry-wide programs to establish a responsible energy culture. We carry out a wide range of other donation activities, including delivering care packages to an affiliated military unit and supporting scholarships for the children of cargo transporters.

Volunteer Activities

We support and encourage employee volunteer service by making a financial contribution to the same charities they volunteer at. Through our "One Heart Volunteer Service Festival" held twice annually as well as other volunteer activities, our employees are providing over 5,000 hours of community service each year. In 2012, our volunteers participated in diverse programs including those led by the Seven Color Rainbow Family Volunteer Group and the 1% Nanum Foundation, and reached out to needy children and families, actively lending a helping hand wherever it was needed to share love and hope. Through our matching grant program, the company also matches employee donations, contributing an identical amount to the Hyundai Oilbank 1% Nanum Foundation.

Supporting Local Communities

We are building win-win partnerships with residents of the Daesan region where our refinery and headquarters are located through a wide variety of community initiatives. Since 2003, we have operated a rice purchasing program to help lift farming incomes and build a self-supporting farming economy. We have helped revitalize and increase the income of local fishing communities by sponsoring an annual rockfish restocking program and coastal cleanup in the Samgilpo area. In addition, we supported 57 needy young people in Africa and Asia by raising a social contribution fund for which the company matched the cash value of bonus card points that our 2,400 customers donated through a sharing campaign in the same amount.

Hiring the Disadvantaged

We are an active employer of disabled individuals and seniors in local communities. We have partnered with the Korea Employment Promotion Agency for the Disabled to create job opportunities for those who have disabilities, including the seriously disabled. Since 2003, we have hired disabled individuals as car wash attendants at our nationwide gas station network. In 2010, we began working with senior employment organizations to hire senior citizens as pump attendants under our Silver Star program. As of the end of 2011, we employed approximately 1,000 seniors at stations across the nation. We plan to steadily expand both of these hiring programs to give the disadvantaged more opportunities for self-actualization and social engagement.

FINANCIAL STATEMENTS

In today's fast-changing markets, we are committed to achieving our new vision of being a total energy provider as we accelerate toward greater success and a brighter, energy-filled future.

Operating Profit (In KRW billions)

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Management's Discussion & Analysis

Disclaimer on Forward-Looking Statements

This report contains forward-looking statements related to future activities, events, and developments that reflect Company expectations regarding its financial results and business conditions at the time of this publication. These forward-looking statements are based on multiple assumptions regarding the future business environment and may prove incorrect. Actual results may differ materially from expectations contained in these forward-looking statements due to various risks and uncertainties underlying the Company's assumptions. Such risks and uncertainties include but are not limited to changes in the Company's internal management and changes in the external environment.

The Company undertakes no obligation to publicly update or revise any forward-looking statements to reflect risks or uncertainties that have occurred after the publication of this report. Consequently, the Company can give no assurance that the circumstances or events presented in these forward-looking statements will take place as forecast, as they are based on expectations at the time of writing. Please be cautioned that the Company will not provide an update on any changes to its risk factors or forward-looking statements after the publication date.

Economic & Market Overview

2012 Economic Overview

In 2012, the international economic climate was faced with slowdowns in global economic growth amid increasing uncertainties due to the spreading financial turbulence in Europe, a double-dip recession in the USA, worries over a hard landing in the Chinese economy, and exchange rate wars among many countries of the world. These global factors were a major threat to stable growth in Korea, a country that is highly reliant on foreign trade.

On the domestic front, economic growth fell in the 2% range due to restrained domestic consumption in addition to sluggish exports following slowdowns in global economic growth. The former was caused by structural problems such as increasing household debts and the stagnant real estate market. Financial markets saw a significant dull in financing through the stock and bond markets due to deteriorating conditions at home and abroad. Interest rates showed a downward trend due to low interest rates following falls in the real economy. Exchange rates also maintained a strong won due to the currency stabilization policy by major industrial nations.

Market Overview

International Oil Price and Foreign Exchange Rate

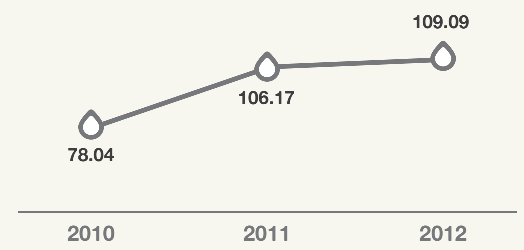
The international crude oil market is characterized by limited availability, concentrated regional production, uncertain supply and demand, and price volatility. Viewed from a basic supply and demand perspective, it can be described as a seller's market. The primary oil-producing nations are clustered in the Middle East. Some 75% of proven global oil reserves are held by regional oil producers, who also account for 40% of annual global oil production. Most regional producers are members of the Organization of Petroleum Exporting Countries (OPEC), an organization that has enormous influence in international oil markets. However, non-OPEC producers are rapidly increasing their international market share, giving them significant influence in the market as well.

Today's international oil market prices are determined by a broad and complicated range of factors. These include economic factors affected by rising global oil demand, suppliers from non-OPEC producers, current OPEC market policy, and fluctuations in inventory levels; geopolitical factors such as political unrest in Iran and other producing nations in the Middle East; and financial factors such as futures markets or speculative behavior or strategy.

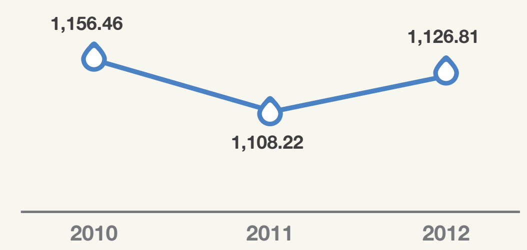
International crude oil prices took a roller coaster ride between maximum USD 124.22 and minimum USD 89.15, based on the benchmark Dubai crude oil, showing strong volatility in the first half of 2012. This followed a decline in demand from industrial nations, reflecting Iran's nuclear problems, ongoing sovereign debt crisis in Europe, the economic downturn in the USA, and slower growth in emerging countries including China.

The average crude oil price finished the year at USD 109 per barrel, a rise of approximately USD 3 per barrel from the 2011 figure. This was due mainly to the economic recovery of the USA from the beginning of the second half, and worries over dwindling supplies behind financial penalties on Iran, and geopolitical threats from the Middle East.

Dubai Crude Average Selling Price
(Unit: USD/barrel)



Average Foreign Exchange Rate
(Unit: KRW/USD)



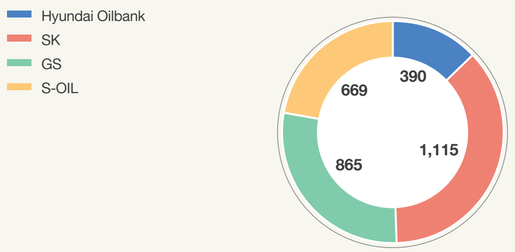
The Korean won-US dollar rate saw the strength of the dollar, a relatively safe asset, in the wake of the escalating sovereign debt crisis in Europe and increasing uncertainties in the world economy. However, the value of the won rose against the US dollar, affected by the monetary easing policy of major industrial nations and a surplus for the current account in Korea, from the beginning of the latter half of the year. As a result, the 2012 average won-dollar rate rose by 18.6 over the year. In 2013, the won will likely remain strong in general following the settlement of key economic destabilizing factors and the ongoing monetary loosening policy in major countries.

Korean Oil Refining Industry Overview

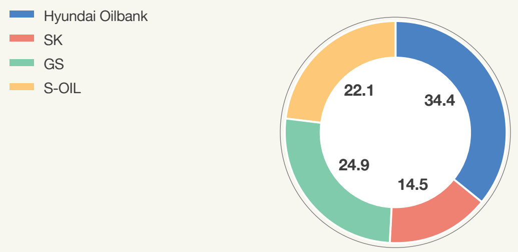
The Korean oil refining industry has held the world's sixth-largest daily refining capacity of 3,039,000 barrels as of 2012 through large-scale refinery expansion projects since the early 1990s. These facilities enable economies of scale that now give the industry a competitive advantage in international markets. This competitiveness is enabling the industry to shed its image of being a domestic industry and expand exports to the point where over 50% of total production capacity is now sold overseas.

Management's Discussion & Analysis

Refining Capacity (Unit: 1,000 Barrels/Day)



Upgrading Ratio (Unit: %)



The profitability of the refining industry is directly affected by volatility in refining margins caused by price differences between crude oil and products. Accordingly, Hyundai Oilbank plans to improve its profitability by increasing its hydrocracking units — heavy oil upgrading facilities that upgrade lower-quality heavy oil to high-value-added light oil. In 2012, our operating profit edged down slightly over the year since refining margins remained weak due to the worldwide economic slowdowns. However, the company recorded relatively higher levels of operating margins in the refining business. This was done by raising our productivity backed by the highest heavy oil upgrading ratio (34.4%) in Korea, and by enhancing our profitability through expanding the domestic market share, and increasing exports.

Risk Management

Risk Management Organization

The Company operates a risk management committee headed by the CEO to effectively and systematically manage all conceivable risks associated with crude oil supply imbalances, including oil price risk, exchange rate risk, and refining margin risk.

Oil Price Risk

The oil the Company imports from the Middle East is normally purchased by contract at the standard price in the month of loading. The Company operates a system that manages the volume of oil imported in a given month to hedge against price fluctuations that may occur during the one-month transit time to Korea. By managing risk exposure and implementing an early warning system, we are able to effectively respond when fluctuations occur. A consultative team consisting of the responsible executive and team leader formulates and executes a phased response plan. To prevent losses from price fluctuations, we have instituted mandatory hedging for operating margins as well as fixed-price bids, oil reserves, and storage facility rental transactions. To reduce exposure to fluctuations in monthly import volume, we determine the portion of the monthly volume that is exposed to risk and make adjustments based on current market dynamics. In addition to oil price risk, we hedge the operating margins for our RFCC, HCR, and other upgrading facilities, using futures trading to lock-in its upgrading margins once a certain level has been reached.

Exchange Rate Risk

The Company is inherently exposed to risk from exchange rate fluctuations on both crude oil imports from overseas and refined petroleum product exports. We operate both regular and irregular risk management committees to set and review the basic exchange rate risk management strategy and establish internal guidelines to guide us in hedging this risk. We consult with outside organizations to ensure systematic risk management and have implemented a system for determining risk exposure. Excluding speculative trading, we hedge all trades to eliminate or minimize our exposure to exchange rate risk.

Iranian Crude Oil Import Risk

The Company is proactively addressing the rapidly increasing risk of sourcing Iranian crude oil due to recent geopolitical developments. We have secured a stable supply of oil for our #2 HOU plant by diversifying oil import sources, increasing oil imports from Kuwait and signing a new contract for Al Shaheen crude from Qatar. In relation to this risk, we have also changed payment terms to payment in Korean won 60 days after cargo loading and reduced our oil import volume from Iran.

2012 Business Results

Operational Overview

Summary of Income Statement

In KRW billions

	2012	2011	YoY Change	
Sales	21,700	19,017	2,683	14.1%
Cost of Goods Sold	21,036	18,086	2,950	16.3%
Gross Profit	665	931	-266	-28.6%
Selling and Administrative Expenses	357	336	21	6.5%
Operating Profit	307	595	-288	-48.4%
Finance Income (Costs)	-81	-82	1	-1.2%
Other Non-Operating Income (Expenses)	-19	-69	50	-72.7%
Share of Profit of Associates	15	6	9	167.0%
Net Income	171	336	-195	-53.2%
Operating Margin	1.42%	3.13%		-1.71%p
Net Margin	0.79%	1.93%		-1.14%p

In 2012, the Company recorded sales of KRW 21.7 trillion, an increase of 14% over the prior year, primarily led by a YoY rise in the operation ratio of its production facilities, and the full-fledged operations of the #2 HOU. This resulted from our efforts to secure global competitiveness by increasing exports despite the uncertain environment domestically and globally due to economic slowdowns, and from our proactive response to external conditions. It also greatly helped petroleum products rank first in exports in 2012, contributing to the national economy.

Management's Discussion & Analysis

Operating profit fell by 48.4% over the year to KRW 307.2 billion, however, due mainly to bearish refining margins following a rise in the volatility of oil prices and unfavorable oil price and exchange rate movements. Net income also decreased by 53.2% to KRW 171.4 billion. Consequently, operating margin and net margin edged down by 1.71% and 1.14%, respectively, to 1.42% and 0.79%.

Despite management difficulties, the Company was dedicated to strengthening its competitiveness in the refining industry by upgrading its facilities and continuously identifying businesses capable of driving new growth in 2012. We laid the groundwork that will allow us to strategically respond to environmental changes at home and abroad by securing facility competitiveness through the nation's highest upgrading ratio (34.4%). We are also in the process of diversifying into new business fields such as BTX, lubricant base oil, and polypropylene derivatives as we move away from the refining-centric business structure.

As a result, we successfully completed our #2 HOU plant, and without settling for the status quo, we are actively investing to secure future growth engines. For example, we began the construction of a lubricant base oil plant with a daily capacity of 20,000 barrels on a site of about 33,000 square meters in our Daesan refinery in January 2013. Another new business we have entered is the oil terminal business. Scheduled for completion by the end of 2013 at Ulsan New Port, the terminal will have a storage capacity of 280,000 kiloliters and dock facilities capable of handling tankers of up to 80,000 deadweight tons.

In 2013, we expect to realize steady earnings going forward following the gradual stabilization of international oil prices and rising demands from China and other emerging countries in Southeast Asia. The world economy is also forecast to recover gradually, leading to a consistent increase in exports.

Profit Analysis

Sales

In 2012, sales increased over the year, due mainly to rising oil prices and an increase in operation volume following the full-scale operations of our #2 HOU plant. The Company sold approximately 154 million barrels of petroleum products in 2012 through a wide range of sales and distribution channels including domestic and overseas sales subsidiaries, distributors, and Hyundai Oilbank gas stations. Domestic sales include direct sales to major businesses and government agencies, sales to Company owned-and-operated gas stations, and retail sales.

Retail Sales

The Company sells light oil products to end-users through gas stations, agencies, the National Agricultural Cooperative Federation, and LPG filling stations or to other agencies and retail outlets. The retail sales channel is the primary domestic channel, which we are expanding in strategic regions as well as increasing channel sales through strengthened advertising and mass promotions to build market share.

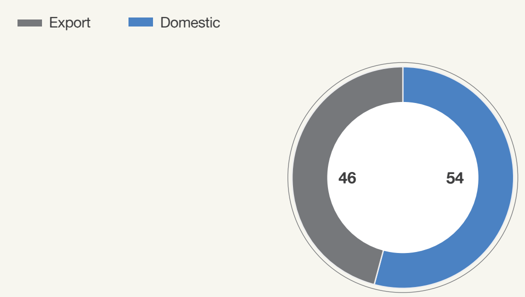
Direct Sales

The Company sells to corporate sales channels including industrial firms, the military and government, and tender sales. Unlike retail sales, which primarily deal in the supply of light oil products, these sales include marine fuel oil, jet fuel, asphalt, naphtha, and a variety of other products. We have established the Hyundai Oilbank R&D Institute to steadily improve quality. We also seek to boost sales and profitability by entering new markets.

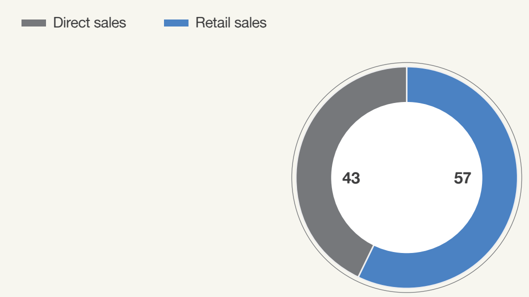
Exports

The Company exports the portion of production that exceeds domestic demand through petroleum product traders, general trading companies, and direct sales on both long-term and spot contracts. With the completion of heavy oil upgrading facilities in 2011 and a rise in the operating capacity ratio and a more diverse range of export products, we are now pushing forward with plans to expand into new markets in Europe, Africa, Latin America, Australia, and elsewhere as we prepare for exports to capture a greater portion of sales in the coming years. We are also studying the feasibility of setting up overseas branch offices in Southeast Asia and other regions to enter local markets.

Sales by Market (Unit: %)

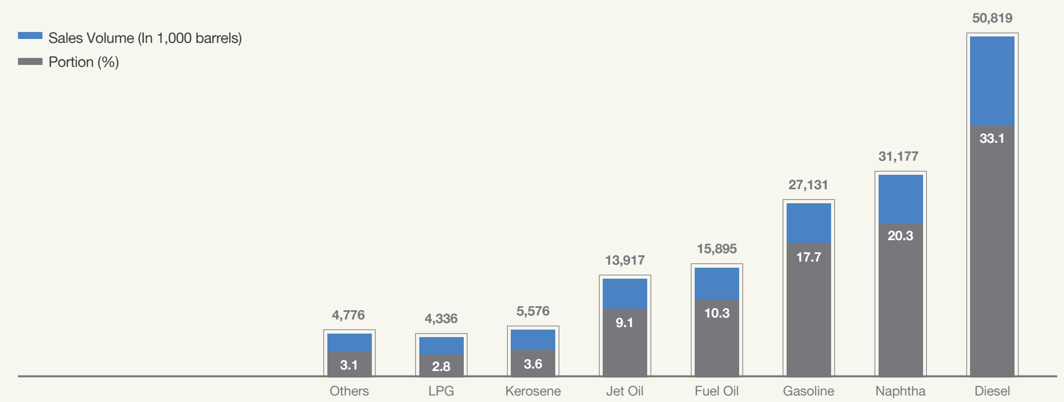


2012 Domestic Sales (Unit: %)



With the operation of the #2 HOU plant, our upgrading ratio rose from 17.4% to a domestic industry-leading 34.4%. This gave us the ability to produce higher-value-added products, improving overall business competitiveness and strengthening our profit base as well as lifting our light oil market share by 1.9% points to 22.2%. In terms of product sales volume, diesel led the way, accounting for 50,819,000 barrels or 33.1% of the total, followed by naphtha, gasoline, and fuel oil. Sales of light oil products such as gasoline, jet fuel, and kerosene continued to steadily rise.

2012 Sales by Product

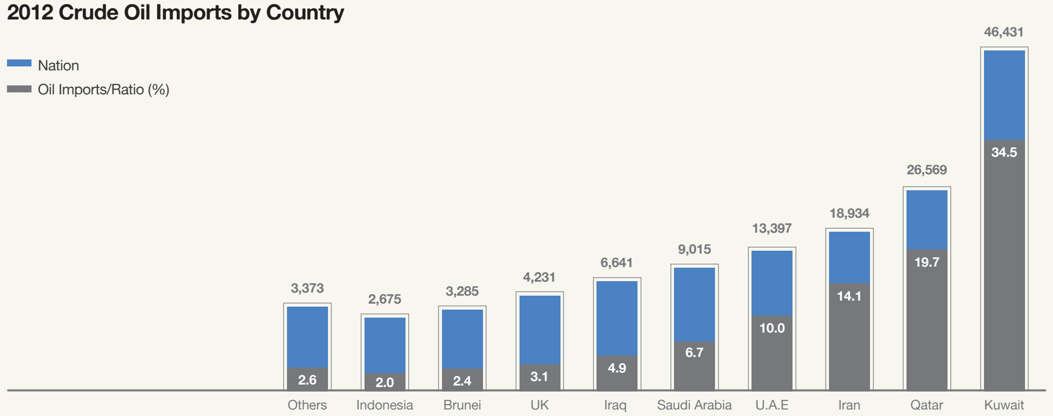


Management's Discussion & Analysis

Cost of Goods Sold

The Company imports 90% of its oil requirements from the Middle East, and the majority of the oil required for stable operation of the #2 HOU plant is sourced under long-term contracts with state-owned oil companies of oil producing countries. In 2012, we particularly made efforts to secure cost competitiveness and stable supply lines by diversifying suppliers. For example, we imported oil from the North Sea, and increased the import volume from Kuwait and Qatar, ensuring a steady supply of high-sulfur heavy fuel oil for our new #2 HOU plant in preparation for economic sanctions against Iran.

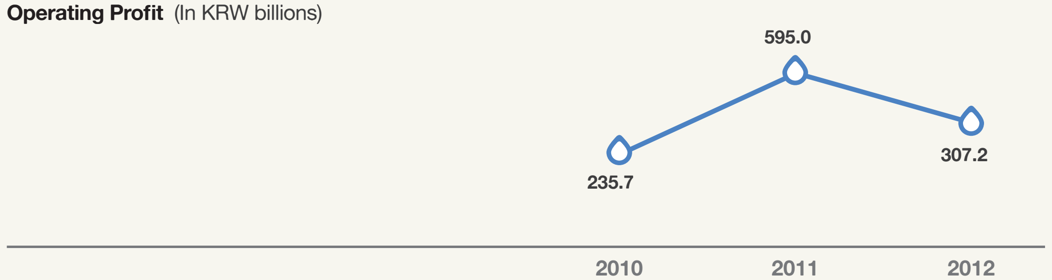
2012 Crude Oil Imports by Country



Operating Profit

Operating profit decreased by 48.4% over the year to KRW 307.2 billion in 2012. This was because the growth of petroleum products weakened due to the worldwide economic slump, resulting in the weakness of refining margins. It was also caused by excessive inventory-related losses following sharp downfalls in oil prices in the second quarter.

Operating Profit (In KRW billions)



Finance Income (Costs)

Finance income (costs) increased by 25.1% over the year to KRW 292.6 billion from KRW 233.8 billion in 2011. This mainly stemmed from gains on foreign currency transactions following a strong won.

In KRW billions

	2012	2011	YoY Change	
Finance Income	106	76	30	39.2%
Finance Costs	187	158	29	18.3%
Finance Income (Costs)	293	234	59	25.1%

Net Income

Net income fell by 53.2% over the year to KRW 171.4 billion in 2012. This resulted from a sharp decline in profitability, reflecting rapid downfalls in refining margins due to an aggravating management environment despite a rise in sales.

Summary of Financial Position

At the end of 2012, the Company had consolidated assets of KRW 8,444.5 billion, a 0.6% decrease from the previous year-end. Current assets decreased by 3.9% to KRW 3,714.9 billion. This was mainly caused by a fall in inventories although cash and cash equivalents increased.

Non-current assets edged up by 2.1% to KRW 4,729.6 billion, primarily reflecting our additional investments in Hyundai Cosmo Petrochemical in which we have a 50% stake. Current liabilities backed up by 18.3% to KRW 3,193.8 billion, led by a drop in short-term financial liabilities. Non-current liabilities surged by 24.7% to KRW 2,489.2 billion due mainly to long-term financing through the issuance of corporate bonds. Total shareholders' equity increased by 6.6% to KRW 2,761.6 billion.

In KRW billions

	2012	2011	YoY Change	
Current Assets	3,715	3,867	-152	-3.9%
Non-Current Assets	4,730	4,632	98	2.1%
Total Assets	8,445	8,499	-54	-0.6%
Current Liabilities	3,194	3,910	-716	-18.3%
Non-Current Liabilities	2,489	1,997	492	24.7%
Total Liabilities	5,683	5,907	-224	-3.8%
Capital Stock	1,225	1,225	0	0.0%
Additional Paid-in and Other Capital	-23	0	-23	
Accumulated Other Comprehensive Income (Loss)	-9	-8	-1	-25.1%
Retained Earnings	1,534	1,374	160	11.7%
Non-Controlling Interest	34	0	34	
Total Equity	2,762	2,592	170	6.6%
Liabilities-to-Equity Ratio	205.79%	227.94%		-22.15%p

Management's Discussion & Analysis

CAPEX

New investments fell by 80% year-on-year in 2012, following the completion of the #2 HOU project in June 2011. However, the Company continues its investments to secure new growth engines including the lubricant base oil business. Investments by year are as follows:

In KRW billions

	2012	2011	YoY Change	
New Investment	115	589	-474	-80.4%
Additional Investment	79	84	-5	-5.8%
Capital Investment	176	14	162	1,131.5%
Total	370	687	-317	-46.1%

Liquidity and Financing

Liquidity

As of the end of 2012, the Company's liquidity—comprised of cash and cash equivalents and short-term financial assets—stood at KRW 146.3 billion, a rise of 50% from the prior year. The primary reason for the rise was a decline in extensive cash outflows due to the completion of large-scale facility investments.

The Company continuously monitors liquidity to ensure that an appropriate level is maintained and operating capital requirements are met. We take into account financing plans, target internal ratios, and capital market conditions when forecasting liquidity requirements.

Financing

The Company improved its debt structure through stable financing by relatively increasing long-term liabilities. Large-scale capital expenditure decreased due to the completion of heavy oil upgrading facilities, and we reduced short-term current liabilities and issued large-scale corporate bonds in preparation against the uncertain management environment. As a result, total liabilities dwindled by 3.8% over the year to KRW 5,682.9 billion, and our liabilities-to-equity ratio also improved by 22.1% points to 205.8%.

2013 Market Outlook and Management Plans

In 2013, factors of overall global economic unrest remain, and non-traditional oil supplies such as shale oil will likely increase centering around North America, although there are oil price rising factors such as the visual signs of effects from pump-priming policies by major countries. As a consequence, crude oil prices are forecast to move downward as compared to the prior year's levels. Refining margins are also anticipated to decline slightly following an increase in petroleum supplies due to the operation of new refining facilities.

Accordingly, the Company plans to push forward with the following four major tasks in 2013 as it takes the next step toward its goal of securing global growth engines.

Put New Businesses in Place as Early as Possible

We will diversify our revenue structure through new businesses that will enable us to leap beyond the margin constraints of our refining centric business portfolio. To this end, we will push forward with extensive research and investment to incubate new businesses, while striving to put our oil terminal and lubricant base oil business in place as early as possible.

Generate Earnings in a Stable Manner

We will increase our operating profit. Such efforts will include the stable operations of our #2 HOU plant with high profitability, the development of high-margin overseas new markets, the improvement of productivity, and cost savings. At the same time, we will build foundations for our sustainable growth. This will be done by improving the diversification levels of our business structure through revenue growth by our petrochemical subsidiary following the completion of its facility expansion and full-fledged investment in new businesses.

Operate Safely and Maximize Productivity

Continuous operation is of supreme importance in the oil refining industry. This is why stable refinery operation is our top priority. As we are particularly scheduled for extensive regular repair and maintenance for stable operations in 2013, each plant employee has a journeyman's spirit and sense of responsibility, and is dedicated to creating a safe workplace. In addition, we will maximize the efficiency of all our processes to optimize our complete production facilities and take our production competitiveness to the next level.

Develop Dynamic Corporate Culture

In any undertaking, the results depend on how determined the people are in that organization. This is why investment in people and securing quality talent are the key elements in corporate growth. We are dedicated to cultivating quality employees who are motivated and passionate about what they do. Through this, we will continue to create a dynamic organizational culture.

RESPECTED TRUSTED PROFESSIONAL SAMIL

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
Hyundai Oilbank Co., Ltd.

We have audited the accompanying consolidated statements of financial position of Hyundai Oilbank Co., Ltd. and its subsidiaries (collectively the “Group”) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of Hyundai Oilbank Co., Ltd. and its subsidiaries as of December 31, 2012 and 2011, and their financial performance and cash flows for the years then ended, 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.

Samil PricewaterhouseCoopers

Seoul, Korea
March 8, 2013

This report is effective as of March 8, 2013, 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.

HYUNDAI OILBANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

In thousands of Korean won

	Notes	2012	2011
Assets			
Current assets			
Cash and cash equivalents	4,6	107,473,025	68,512,945
Short-term financial instruments	4,6,7	38,817,689	28,965,304
Financial assets at fair value through profit	4,6,19	248,654	1,380,379
Trade and other receivables	4,6,9,30	1,391,947,798	1,385,476,826
Inventories	10	2,088,992,735	2,304,309,869
Other current assets		87,415,468	78,355,635
		3,714,895,369	3,867,000,958
Non-current assets			
Investments in associates	11	159,993,625	32,984,403
Long-term financial instruments	4,6,7	1,523,500	2,023,500
Available-for-sale financial assets	4,6,8,	3,075,175	3,075,175
Long-term trade and other receivables	4,6,9	146,888,545	126,602,212
Investments in properties	12	26,634,006	26,634,006
Property, plant and equipment	13	4,308,825,673	4,357,650,003
Intangible assets	14	82,667,344	82,526,260
		4,729,607,868	4,631,495,559
Total assets		8,444,503,237	8,498,496,517

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

HYUNDAI OILBANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

In thousands of Korean won

	Notes	2012	2011
Liabilities			
Current liabilities			
Short-term financial liabilities	4,6,16	702,859,972	1,041,234,648
Financial liabilities at fair value through profit	4,6,19	2,142,101	2,122,711
Trade and other payables	4,6,15,30	2,370,321,714	2,761,175,093
Current income tax liabilities	27	29,104,888	32,016,988
Provisions	18	6,808,000	13,580,000
Other current liabilities		82,531,770	60,073,978
		3,193,768,445	3,910,203,418
Non-current liabilities			
Long-term financial liabilities	4,6,16	2,311,734,550	1,856,628,838
Long-term trade and other payables	4,6,15	44,122,475	11,780,045
Defined benefit liability	17	16,471,883	11,029,186
Provisions	18	7,911,889	10,814,644
Deferred income		40,440,511	56,610,459
Derivative financial instruments	4,6,19	5,940,814	4,953,277
Deferred income tax liabilities	27	62,542,260	45,002,041
		2,489,164,382	1,996,818,490
Total liabilities		5,682,932,827	5,907,021,908
Equity attributable to owners of the Parent			
Capital stock	20	1,225,412,110	1,225,412,110
Additional paid-in and other capital		(22,595,908)	-
Accumulated other comprehensive income (loss)	21	(9,410,295)	(7,520,668)
Retained earnings	22	1,533,914,386	1,373,583,167
Non-controlling interest		34,250,117	-
Total equity		2,761,570,410	2,591,474,609
Total liabilities and equity		8,444,503,237	8,498,496,517

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

HYUNDAI OILBANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011

In thousands of Korean won

	Notes	2012	2011
Sales	5,30	21,700,424,898	19,016,892,240
Cost of sales	24,30	21,035,770,857	18,086,191,602
Gross profit		664,654,041	930,700,638
Administrative expenses	23,24	357,442,069	335,745,589
Operating profit	2	307,211,972	594,955,049
Finance income	25	105,972,682	76,119,931
Finance costs	25	186,633,296	157,729,443
Other non-operating income	26	310,634,062	458,447,995
Other non-operating expenses	26	329,420,477	527,336,318
Share of profit of associates	11	14,938,823	5,595,113
Profit before income tax		222,703,766	450,052,327
Income tax expense	27	51,316,661	83,709,984
Net income		171,387,105	366,342,343
Net income attributable to owners of the Parent company		171,595,199	366,342,343
Non-controlling interest		(208,094)	-
Basic earnings per share in (Korean won)	28	700	1495

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

HYUNDAI OILBANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011

In thousands of Korean won

	2012	2011
Net income	171,387,105	366,342,343
Other comprehensive income		
Cash flow hedge loss on valuation of derivative financial instruments	(748,553)	(12,273,081)
Actuarial losses	(11,263,981)	(41,147,686)
Share of other comprehensive income of associates	(529,601)	(1,307,277)
Currency translation differences	(611,472)	59,983
Total comprehensive income for the year	158,233,498	311,674,282

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

HYUNDAI OILBANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2012 AND 2011

In thousands of Korean won

	Capital stock	Additional paid-in and other capital	Accumulated other Comprehensive income	Retained earnings	Non-controlling interest	Total
Balance at January 1, 2011	1,225,412,110	-	5,999,706	1,048,388,511	-	2,279,800,327
Comprehensive income						
Net income	-	-	-	366,342,343	-	366,342,343
Cash flow hedges	-	-	(12,273,081)	-	-	(12,273,081)
Actuarial losses	-	-	-	(41,147,686)	-	(41,147,686)
Share of other comprehensive income of associates	-	-	(1,307,277)	-	-	(1,307,277)
Currency translation differences	-	-	59,983	-	-	59,983
Balance at December 31, 2011	1,225,412,110	-	(7,520,669)	1,373,583,168	-	2,591,474,609
Balance at January 1, 2012	1,225,412,110	-	(7,520,669)	1,373,583,168	-	2,591,474,609
Comprehensive income						
Net income (loss)	-	-	-	171,595,199	(208,094)	171,387,105
Cash flow hedges	-	-	(748,553)	-	-	(748,553)
Actuarial losses	-	-	-	(11,263,981)	-	(11,263,981)
Share of other comprehensive income of associates	-	-	(529,601)	-	-	(529,601)
Currency translation differences	-	-	(611,472)	-	-	(611,472)
Transactions with shareholder						
Investments of subsidiaries	-	(22,595,908)	-	-	34,458,211	11,862,303
Balance at December 31, 2012	1,225,412,110	(22,595,908)	(9,410,295)	1,533,914,386	34,250,117	2,761,570,410

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

HYUNDAI OILBANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

In thousands of Korean won

	Notes	2012	2011
Cash flows from operating activities			
Cash generated from operations			
Net income		171,387,105	366,342,343
Adjustments	29	480,967,499	364,268,862
Changes in assets and liabilities	29	(262,190,168)	(131,749,256)
		390,164,436	598,861,949
Interest received		9,243,871	11,854,697
Interest paid		(149,254,727)	(81,613,604)
Income tax paid		(32,999,554)	(149,106,428)
Net cash generated from operating activities		217,154,026	379,996,614
Cash flows from investing activities			
Purchases of financial assets		(56,717,977)	(19,165,304)
Proceeds from disposal of financial assets		47,865,592	26,101,519
Purchases of long-term financial assets		(500,000)	(1,000,000)
Proceeds from disposal of long-term financial assets		-	2,500
Purchases of available-for-sale financial assets		-	(3,000,000)
Purchases of property, plant and equipment		(232,389,495)	(678,502,089)
Proceeds from sale of property, plant and equipment		26,728,011	26,174,114
Purchases of intangible assets		(1,235,807)	(5,581,675)
Proceeds from sale of intangible assets		1,365,590	3,066,435
Acquisition of subsidiary		(112,600,000)	(7,500,000)
Increase in loan and receivables		(136,607,762)	(26,495,423)
Decrease in loan and receivables		116,276,591	35,599,747
Net cash used in investing activities		(347,815,257)	(650,300,176)

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

HYUNDAI OILBANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

In thousands of Korean won

	Notes	2012	2011
Cash flows from financing activities			
Proceeds from borrowings		59,045,867	300,000,000
Repayments of borrowings		(240,000,000)	(384,647,647)
Proceeds from long-term borrowings		9,916,544	415,878,000
Proceeds from issuance of bonds		746,885,900	199,423,600
Repayments of current portion of bonds		(450,000,000)	(336,668,000)
Repayments of current portion of long-term borrowings		(847,000)	(847,000)
Non-controlling shareholder's paid-in capital		44,862,303	-
Net cash provided by financing activities		169,863,614	193,138,953
Change in foreign exchange rates		(245,428)	12,559
Net increase (decrease) in cash and cash equivalents		38,956,955	(77,152,050)
Cash and cash equivalents at beginning of year		68,512,945	145,661,367
Changes in cash equivalents due to foreign currency translation		3,125	3,628
Cash and cash equivalents at the end of year		107,473,025	68,512,945

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

HYUNDAI OILBANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

1. General Information

Hyundai Oilbank Co., Ltd. (the "Company") was established in 1964 to engage in the production and sale of petroleum products. The Company and its production facilities are located in Daesan, South Chungcheong Province. The consolidated financial statements of the Company as at and for the year ended December 31, 2012, consist that of the Company and its subsidiaries (together referred to as the "Group"). The Company has a production capacity of 390,000 barrels per stream day (BPSD) in petroleum processing.

As of December 31, 2012, Hyundai Heavy Industries Co., Ltd. owns 91.13% of total outstanding shares.

A. The consolidated subsidiaries as of December 31, 2012, are as follows:

Subsidiaries	Location	Percentage of ownership (%)	Business
HDO Singapore Pte., Ltd.	Singapore	100	Petroleum trading
MS Dandy Ltd.	Marshall Islands	100	Ships leasing
Hyundai Oil Terminal Co., Ltd.	Korea	70	Oil storage industry
Hyundai and Shell Base Oil Co., Ltd.	Korea	60	Lubricant oil production
Hyundai Oilbank (Shanghai) Co., Ltd.	China	100	Petroleum trading

B. Subsidiary's financial information as of December 31, 2012 and 2011, is as follows:

2012

In thousands of Korean won

Subsidiaries	Assets	Liabilities	Sales	Profit (loss) for the year
HDO Singapore Pte., Ltd.	169,951,125	168,369,416	4,889,922,012	293,532
MS Dandy Ltd.	14,665,572	9,471,789	-	(677)
Hyundai Oil Terminal Co., Ltd.	76,112,669	1,365,470	22,960	(119,904)
Hyundai and Shell Base Oil Co., Ltd.	32,160,410	2,595,516	-	(430,306)
Hyundai Oilbank (Shanghai) Co., Ltd.	15,267,010	13,338,678	20,973,727	303,891

2011

In thousands of Korean won

Subsidiaries	Assets	Liabilities	Sales	Profit (loss) for the year
HDO Singapore Pte., Ltd.	143,753,074	142,350,392	2,548,975,585	22,331
MS Dandy Ltd.	3,793,917	-	-	(11,912)

HYUNDAI OILBANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

C. The following table presents changes in scope of consolidation in 2012:

Subsidiaries	Reason
Hyundai Oil Terminal Co., Ltd.	Newly incorporated
Hyundai and Shell Base Oil Co., Ltd.	Newly incorporated
Hyundai Oilbank (Shanghai) Co., Ltd.	Newly incorporated

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these 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 maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The Group's financial statements for the annual period beginning on January 1, 2011, have been prepared in accordance with 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 preparation of the consolidated 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 3.

2.1.1 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group
The Group changed its accounting policy to present the operating profit after deducting cost of sales, and selling and administrative expenses from revenue, in accordance with the amendment of Korean IFRS 1001, Presentation of Financial Statements.

The Group applies the accounting policy retroactively in accordance with the amended standards and the comparative consolidated statement of comprehensive income is restated by reflecting adjustments resulting from the retrospective application. As a result of the changes in the accounting policy, other income and expenses of ₩ 297,281 million and ₩ 302,240 million, respectively, for the year ended December 31, 2012 (2011: ₩ 437,491 million and ₩ 415,071 million, respectively), which include gain on settlement of derivatives, gain or loss on disposal of financial asset at fair value through profit or loss, classified as operating profit under the previous standard, were excluded from operating profit. Consequently, operating profit for the years ended December 31, 2012 and 2011, increased by ₩ 4,959 million and decreased by ₩ 22,420 million, respectively, as compared to the amounts under the previous standard. However, there is no material impact on net income and earnings per share for the years ended December 31, 2012 and 2011.

(b) New standards and interpretations not yet adopted
New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2012, and not early adopted by the Group are as follows:

- Amendment of Korean IFRS 1001, Presentation of Financial Statements
  Korean IFRS 1001, Presentation of Financial Statements, requires other comprehensive income items to be presented into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently. This is effective for annual periods beginning on or after July 1, 2012, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

- Amendments to Korean IFRS 1019, Employee Benefits
  According to the amendments to Korean IFRS 1019, Employee Benefits, the use of a 'corridor' approach is no longer permitted, and therefore all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are now changed to calculating net interest expense (income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities (assets). This amendment will be effective for annual periods beginning on or after January 1, 2013, and the Group is assessing the impact of application of the amended Korean IFRS 1019 on its consolidated financial statements. The Group expects additional disclosures in relation to employee benefits upon application of the above amended Korean IFRS requirement.

- Enactment of 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 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within the Korean IFRSs. This amendment will be effective for annual periods beginning on or after January 1, 2013, and the Group expects that the application of this enactment would not have a material impact on its consolidated financial statements.

- Enactment of Korean IFRS 1110, Consolidated Financial Statements
  Korean IFRS 1110, Consolidated Financial Statements, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements of the Parent Company. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This enactment will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of this standard.

- Enactment of Korean IFRS 1111, Joint Arrangements
  Korean IFRS 1111, Joint Arrangements, aims to reflect the substance of joint arrangements by focusing on the contractual rights and obligations that each party to the arrangement has rather than its legal form. Joint arrangements are classified as either joint operations or joint ventures. A joint operation is when joint operators have rights to the assets and obligations for the liabilities, and account for the assets, liabilities, revenues and expenses, while parties to the joint venture have rights to the net assets of the arrangement and account for their interest in the joint venture using the equity method. This enactment will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of this standard.

- Enactment of Korean IFRS 1112, Disclosures of Interests in Other Entities
  Korean IFRS 1112, Disclosures of Interests in Other Entities, provides the disclosure requirements for all forms of interests in other entities, including a subsidiary, a joint arrangement, an associate, a consolidated structured entity and an unconsolidated structured entity. This enactment will be effective for annual periods beginning on or after January 1, 2013, and the Group is reviewing the impact of this standard.

2.2 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1027, Consolidated and Separate Financial Statements.

(a) Subsidiaries
Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Group also assesses the existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies and others.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The 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 Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss is recognized in profit or loss.

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

Goodwill is initially measured as the excess of the aggregate of the consideration transferred 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 the Group companies are eliminated. Unrealized losses are also eliminated after recognizing impairment of transferred assets. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

(d) 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 statement of income.

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 in profit or loss.

(e) 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 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 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (Note 5). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

The Group has only one reportable segment.

2.4 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 consolidated financial statements are presented in Korean won, which is the Controlling Company'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 profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of income within 'financial income or costs'. All other foreign exchange gains and losses are presented in the statement of income within 'Other non-operating revenues (expenses)'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

(c) Translation into the presentation currency

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency 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 statement of income are translated at average exchange rates; and
- all resulting exchange differences are recognized in other comprehensive income.

Exchange differences arising from the translation of borrowings designated for hedging the investment and other currency instruments are recognized in other comprehensive income. When foreign operations are wholly or partially sold, exchange differences recognized in equity are transferred to profit or loss in the statement of income. When the Company ceases to control the subsidiary, exchange differences that were recorded in equity are recognized in the statement of income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

2.5 Cash and Cash Equivalents

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

2.6 Financial Assets

2.6.1 Classification

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

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial instruments held for trading. A financial instrument is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives and embedded derivatives are also categorized as held for trading unless they are designated as hedges. Financial assets at fair value through profit or loss are classified as current assets.

(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.

(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 non-current assets unless the investment matures or management intends to dispose of them within 12 months after the end of the reporting period.

(d) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company intends and is able to hold to maturity and are classified as 'other financial assets' in the statements of financial position. If the Company were to sell other than an insignificant amounts of held-to-maturity investments, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity investments are included in non-current assets, except for those with maturities of less than 12 months after the end of the reporting period, which are classified as current assets.

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 are initially recognized at fair value, and transaction costs are expensed in the statement of income. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments 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, including interest income, are presented in the statement of income within 'other non-operating income' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of income as part of 'other non-operating income' when the Group's right to receive dividend payments is established.

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 statement of income as 'other non-operating income (expenses)'.

Interest on available-for-sale and held-to-maturity financial assets calculated using the effective interest method is recognized in the statement of income as part of 'other non-operating income'. Dividends on available-for-sale equity instruments are recognized in the statement of income as part of 'other non-operating income' when the Group's right to receive dividend payments is established.

2.6.3 Offsetting financial instruments

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

2.6.4 Derecognition

Financial assets are derecognized when the contractual rights to receive cash from the investments have expired or have been transferred, and the Group has substantially transferred all risks and rewards of ownership or when the risk and rewards of ownership of transferred assets have not been substantially retained or transferred and the Group has not retained control over these assets.

2.7 Impairment of Financial Assets

(a) Assets carried at amortized cost
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- Delinquency in interest or principal payments for more than three months;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties.

Impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the impairment loss amount and the amount of the loss is recognized in the statement of income. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. In practice, the Group may measure impairment loss based on the fair value of financial asset using an observable market price.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (for example, an improvement in debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of income.

(b) Assets classified as available-for-sale
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. 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, for example decrease in fair value of the investments by more than 30% from its cost for more than six months, is also evidence that the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of income. Impairment losses recognized in the consolidated statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of income.

2.8 Derivative Financial Instruments 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, and if so, the nature of the item being hedged. The resulting gain or loss from financial assets (liabilities) of fair value through profit or loss is recognized in 'other non-operating income (expenses)' according to the nature of transactions.

The Group designates certain derivatives as either:

» hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);
» hedges of a particular risk associated with a recognized asset, liability, and highly probable forecasted transaction (cash flow hedge).

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. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 19. Movements on the hedging reserve in other comprehensive income are shown in Note 21. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item.

(b) Cash flow hedge
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 statement of income within 'other non-operating income (expenses)'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in the case of inventory, or in depreciation charge in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income within 'other non-operating income (expenses)'.

2.9 Trade Receivables

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

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value.

Cost is determined using the moving average method. The cost of finished goods and work in progress consists of the raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Non-current Assets (or Disposal Group) Held for Sale

Non-current assets (or disposal group) are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.12 Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less 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 statement of income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Buildings	25 ~ 50 Years	Tools and fixtures	5 Years
Structures	25 ~ 50 Years	Vehicles	5 Years
Machinery	5 ~ 15 Years	Other	2 ~ 6 Years

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other non-operating income and expenses' in the statement of income.

2.13 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.14 Intangible Assets

(a) Goodwill
Goodwill is measured as explained in Note 2.2(a) and goodwill arising from the acquisition of subsidiaries, associates and business is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or group of CGUs, that is expected to benefit from the synergies of the combination. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) Trademarks and licenses
Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses acquired in a business combination are recognized at fair value at the acquisition date. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives of four to 20 years.

(c) Research and development
Research expenditures are recognized as an expense as incurred. Development costs that are identifiable and probable that future economic benefits will flow to the entity are recognized as intangible assets when the following criteria are met:

• it is technically feasible to complete the intangible assets so that it will be available for use;
• management intends to complete the intangible assets and use or sell it;
• there is an ability to use or sell the intangible assets;
• it can be demonstrated how the intangible assets will generate probable future economic benefits;
• adequate technical, financial and other resources to complete the development and to use or sell the intangible assets are available; and
• the expenditure attributable to the intangible assets during its development can be reliably measured.

Directly attributable costs that are capitalized as intangible assets include appropriate portion of salaries incurred and relevant overhead costs to develop intangible assets.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs which are previously recognized as an expense should not be recognized as an asset in a subsequent period.

Development costs recognized as assets are amortized over their estimated useful lives, which do not exceed five years.

(d) Membership rights
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.

2.15 Investment Property

Investment property is held to earn rentals or for capital appreciation or both. Investment property also includes property that is being constructed or developed for future use as investment property. Investment property is measured initially at its cost including transaction costs incurred in acquiring the asset. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, 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 statement of income during the financial period in which they are incurred.

Land held for investment is not depreciated. Investment property, except for land, is depreciated using the straight-line method over their useful lives from 25 to 50 years.

The depreciation method, the residual value and the useful life of an asset are reviewed at the end of each financial year and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other non-operating income (expenses)' in the statement of income.

The fair value of investment property disclosed in Note 12 reflects market conditions at the end of the reporting period, with adjustment that reflects specific asset's characteristics, condition and location. The book value for financial reporting purpose is determined based on the evaluation of the investment property by an independent valuer, who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

2.16 Impairment of Non-financial Assets

Goodwill 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. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.17 Financial Liabilities

(a) Financial liabilities at fair value through profit or loss
The Group's financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives including bifurcated derivatives from financial instruments containing embedded derivatives are also categorized as held-for-trading unless they are designated as hedges.

(b) Financial liabilities carried at amortized cost
The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial assets that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and as 'trade and other payables', and 'short and long-term financial liabilities' in the statement of financial position. Financial liabilities carried at amortized cost are included in non-current liabilities, except for liabilities with maturities within 12 months after the end of the reporting period, which are classified as current liabilities.

2.18 Trade Payables

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

2.19 Financial Guarantee Contract

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the original or modified terms of a debt instrument.

Financial guarantees are initially measured at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the amounts below and recognized as 'other financial liabilities'.

- the amount determined in accordance with Korean IFRS 1037, Provisions, Contingent Liabilities and Contingent Assets; or
- the initial amount, less accumulated amortization recognized in accordance with Korean IFRS 1018, Revenue.

2.20 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 statement of income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the borrowings for at least 12 months after the end of the reporting period.

2.21 Provisions

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 are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.22 Current and Deferred Income Tax

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

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. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated 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 or 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 subsidiaries and associates, 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.

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 same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.23 Employee Benefits

The Group operates a defined benefit plan. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of 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, together with adjustments for unrecognized past-service costs. 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. Past-service costs are recognized immediately in income, while costs are amortized over the vesting period.

2.24 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 Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received is included in equity attributable to the Company's equity holders.

2.25 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, after elimination of intra-company transactions.

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. The Group bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods
The Group manufactures and sells a range of footwear products in the wholesale market. Sales of goods are recognized when products are delivered to the purchaser. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the purchaser has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

(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.

(d) Customer loyalty programme
The Group operates a customer loyalty programme in which customers are granted rewards to receive discounts on future purchases when purchasing products. The granted reward is recognized as a separately identifiable component of the sale transaction (initial sale transaction) that grants the reward. The fair value of consideration to give or given for the initial sale is allocated to the reward points and remaining of initial sale, and the consideration allocated to the reward points is measured based on the fair value of reward in exchange of reward points, which is the fair value of reward points considered the proportion of reward points that are not expected to be redeemed. Revenue from the award credits is recognized when it is redeemed, and the unredeemed proportion by customers is expected to be depleted within 12 months after the initial sale.

2.26 Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.

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

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

2.27 Dividend Distribution

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

2.28 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2012 consolidated financial statements of the Group was approved by the Board of Directors on March 7, 2013.

3. 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) Estimated impairment of goodwill
The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.14. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Useful lives of property, plant and equipment
The Group determines the estimated useful lives and related depreciation expenses of tangible assets such as machinery. The estimation is based on the expected cycles of the products and it can vary depending on the behavior of the competitors to respond to changes in the technical and industrial cycles. When there is a reduction in useful lives the management will increase depreciation expense accordingly. Also, when assets are abandoned, disposed or obsolete, its value can be reduced or removed from the book.

(c) Income taxes
The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recorded, based on its best estimate, current taxes and deferred taxes that the Group will be liable in the future for the operating results as of the financial year end. However, the final tax outcome in the future may be different from the amounts that were initially recorded. Such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(d) Provisions
As described in Note 18, the Group recognizes provisions for warranties and repairs and estimated returns as of the reporting date. The amounts are estimated based on historical data.

(e) Customer loyalty programme
The Group operates a customer loyalty programme and the granted reward to the customer from the program is a separately identifiable component of the initial sale transaction that grants the reward. The allocation of the reward portion is estimated based on the past experience.

(f) Defined benefit liability
The present value of the defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the pension benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Other key assumptions for defined benefit liability are based in part on current market conditions. Additional information is disclosed in Note 17.

4. Financial Risk Management

4.1 Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price 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. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

i) 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 and recognized assets and liabilities.

The Group's risk management policy is to hedge the risk of changes in currency from foreign currency assets and liabilities through derivatives such as forward exchange contracts, and others.

The Group's financial instruments denominated in major foreign currencies as of December 31, 2012 and 2011, are as follows:

2012

In thousands of Korean won

	USD	EUR	JPY	Other	Total
Cash and cash equivalents	6,708,060	-	-	-	**6,708,060**
Trade receivables	246,391,308	-	-	-	**246,391,308**
Other receivables	2,415,366	-	-	-	**2,415,366**
	255,514,734	-	-	-	**255,514,734**
Trade payables	(1,353,916,243)	(844,495)	-	-	**(1,354,760,738)**
Other payables	(2,460,631)	-	(24,779)	(2,060)	**(2,487,470)**
Financial liabilities	(400,523,755)	-	-	-	**(400,523,755)**
	(1,756,900,629)	(844,495)	(24,779)	(2,060)	**(1,757,771,963)**

2011

In thousands of Korean won

	USD	EUR	JPY	Other	Total
Cash and cash equivalents	26,989,018	-	-	57,231	**27,046,249**
Trade receivables	280,226,245	-	-	-	**280,226,245**
Other receivables	10,173,614	-	-	225,494	**10,399,108**
	317,388,877	-	-	282,725	**317,671,602**
Trade payables	(1,813,033,422)	(727,402)	-	-	**(1,813,760,824)**
Other payables	(1,787,982)	-	(489)	(318,400)	**(2,106,871)**
Financial liabilities	(350,605,906)	-	-	-	**(350,605,906)**
	(2,165,427,310)	(727,402)	(489)	(318,400)	**(2,166,473,601)**

The effect of foreign currency risk to profit is a sum of net foreign currency fluctuations of Korean won against other foreign currency fluctuations. Hedge effectiveness of derivative instruments has not been reflected. As of December 31, 2012 and 2011, if the foreign exchange rate of the Korean won fluctuated by 5% while other variables held constant, the effects on profit would be as follows:

In thousands of Korean won

	2012		2011	
	5% Increase	5% Decrease	5% Increase	5% Decrease
Foreign currency assets	12,775,737	(12,775,737)	15,883,580	(15,883,580)
Foreign currency liabilities	(87,888,598)	87,888,598	(108,323,656)	108,323,656
Net effect	(75,112,861)	75,112,861	(92,440,076)	92,440,076

ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position either as available-for-sale or at fair value through profit or loss.

The table below summarizes the impact of increases/decreases of prices of unlisted stocks on the Group's comprehensive income for the year. The analysis is based on the assumption that the unlisted stock prices had uniformly increased/decreased by 30% with all other variables held constant:

In thousands of Korean won

	Dec. 31, 2012	Dec. 31, 2011
Equity securities (unlisted)	922,552	922,552

iii) Interest rate risk

The Group's cash flow interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash equivalents held at variable rates.

Based on the various scenarios, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

At December 31, 2012, if interest rates on Korean won-denominated borrowings had been 0.1% higher/lower with all other variables held constant, long-term borrowings (Including current portion of long-term borrowings) for the year would be ₩ 1,138 million (2011: ₩ 1,209 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If wholesale 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 regularly monitored. Sales to retail customers are settled in cash or through major credit cards.

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The analyses of the Group's credit risk as of December 31, 2012 and 2011, are as follows:

i) Book value

In thousands of Korean won

	2012	2011
Cash and cash equivalents	107,237,385	68,025,660
Financial assets at fair value through profit or loss	248,654	1,380,379
Short-term financial instruments	38,817,689	28,965,304
Trade and other receivables	1,391,947,798	1,385,476,826
Long-term financial instruments	1,523,500	2,023,500
Long-term trade and other receivables	146,888,545	126,602,212
	1,686,663,571	**1,612,473,881**

The maximum credit exposure amount is equivalent to total financial assets, less cash and equity securities.

ii) Loans and receivables for each region of the maximum exposure to credit risk

In thousands of Korean won

	Dec. 31, 2012	Dec. 31, 2011
Korea	1,481,563,630	1,474,406,420
North America	-	244,268
Asia	192,849,191	127,622,997
Europe	12,002,096	8,819,817
	1,686,414,917	**1,611,093,502**

(c) Liquidity risk

Cash flow forecasting is performed by the treasury team of the Group. 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 financial ratio targets and, if applicable external regulatory or legal requirements - for example, currency restrictions.

The analyses of the Group's liquidity risk as of December 31, 2012 and 2011, are as follows:

2012

In thousands of Korean won

	Book value	Cash flow on contract[1]	Maturity			
			Less than 6 months	Between 6 months and 1 year	Between 1 and 3 years	Over 3 years
Short-term financial liabilities	702,859,972	764,590,493	658,698,518	105,891,975	-	-
Financial liability at fair value through profit or loss	2,142,101	2,142,101	2,142,101	-	-	-
Trade payables and other liabilities	2,370,321,714	2,370,321,714	2,370,321,714	-	-	-
Long-term financial liabilities	2,311,734,550	2,659,084,705	-	-	1,110,747,285	1,548,337,420
Long-term trade payables and other liabilities	44,122,475	11,122,475	-	-	11,122,475	-
Derivative financial instruments to hedge	5,940,814	6,372,709	-	-	4,169,173	2,203,536
Financial guarantee contracts	-	32,133,000	32,133,000	-	-	-

2011

In thousands of Korean won

	Book value	Cash flow on contract[1]	Maturity			
			Less than 6 months	Between 6 months and 1 year	Between 1 and 3 years	Over 3 years
Short-term financial liabilities	1,041,234,648	1,055,240,388	851,549,875	203,690,513	-	-
Financial liability at fair value through profit or loss	2,122,711	2,122,711	2,122,711	-	-	-
Trade payables and other liabilities	2,761,175,093	2,761,175,093	2,761,175,093	-	-	-
Long-term financial liabilities	1,856,628,838	2,293,124,731	52,706,224	53,083,359	923,721,877	1,263,613,271
Long-term trade payables and other liabilities	11,780,045	11,780,045	-	-	11,780,045	-
Derivative financial instruments to hedge	4,953,277	5,432,042	-	-	3,262,989	2,169,053

[1] Includes interest amount to be paid and does not include present value discount.

4.2 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 stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities divided by total equity.

The gearing ratios as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Total liabilities	5,682,932,827	5,907,021,908
Total equity	2,761,570,410	2,591,474,609
Net gearing ratio	206%	228%

4.3 Fair Value Estimation

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

• Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
• Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
• Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's financial assets and financial liabilities that are measured at fair value as of December 31, 2012:

In thousands of Korean won

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	248,654	-	**248,654**
Financial liabilities at fair value through profit or loss	-	2,142,101	-	**2,142,101**
Derivative liabilities	-	5,940,814	-	**5,940,814**

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2011:

In thousands of Korean won

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	1,380,379	-	**1,380,379**
Financial liabilities at fair value through profit or loss	-	2,122,711	-	**2,122,711**
Derivative liabilities	-	4,953,277	-	**4,953,277**

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity within the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 consist primarily of KOSPI and KOSDAQ indexes equity investments classified as trading securities or available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where they are available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

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

Specific valuation techniques used to value financial instruments include:

• Quoted market prices or dealer quotes for similar instruments.
• The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
• The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.
• Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following table presents available-for-sale financial assets that are valued at historical cost as of December 31, 2012 and 2011:

In thousands of Korean won

	2012	2011
Equity securities (unlisted)	3,075,175	3,075,175

5. Segment Information

Management as a strategic decision-maker has determined the operating segments. The Company has only one reportable segment.

Breakdown of the Groups' segment revenue for the years ended December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Sale of goods	21,634,185,890	18,951,893,884
Sale of services	66,239,008	64,998,356
	21,700,424,898	**19,016,892,240**

No external customer contributes more than 10% of the Group revenue for the year ended December 31, 2012.

6. Financial Instruments by Category

Categorizations of financial instruments as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Loans and receivables		
Cash and cash equivalents	107,473,025	68,512,945
Short-term financial instruments	38,817,689	28,965,304
Trade and other receivables	1,391,947,798	1,385,476,826
Long-term financial instruments	1,523,500	2,023,500
Long-term trade and other receivables	146,888,545	126,602,212
Financial assets at fair value through profit or loss		
Derivative financial instruments	248,654	1,380,379
Available-for-sale financial assets		
Equity securities (unlisted)	3,075,175	3,075,175
	1,689,974,386	**1,616,036,341**

In thousands of Korean won

	2012	2011
Financial assets at fair value through profit or loss		
Derivative financial instruments	2,142,101	2,122,711
Derivative as effective hedging instrument		
Derivative financial instruments	5,940,814	4,953,277
Financial liabilities at amortized cost		
Short-term financial liabilities	702,859,972	1,041,234,648
Trade and other payables	2,370,321,714	2,761,175,093
Long-term financial liabilities	2,311,734,550	1,856,628,838
Long-term trade and other payables	44,122,475	11,780,045
	5,437,121,626	**5,677,894,612**

Income and loss of financial instruments by category for the years ended December 31, 2012 and 2011, are as follows:

2012

In thousands of Korean won

	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Derivative instruments
Interest income	-	9,219,965	-	-	-
Gain on valuation of financial assets at fair value through profit or loss	247,646	-	-	-	-
Gain on disposal of financial assets at fair value through profit or loss	52,266,270	-	-	-	-
Gain on foreign currency translation	-	738,385	-	46,354,871	-
Gain on foreign currency transactions	-	36,578,682	-	257,848,295	-
Interest expense	-	-	-	(153,154,482)	-
Loss on valuation of financial assets at fair value through profit or lossvalue through profit or loss	-	-	(2,141,093)	-	-
Loss on disposal of financial assets at fair value through profit or loss	-	-	(94,012,305)	-	-
Loss on foreign currency translation	-	(1,956,730)	-	(29,571,649)	-
Loss on foreign currency transactions	-	(81,531,131)	-	(126,505,825)	-
Bad debts expense	-	(805,085)	-	-	-
Miscellaneous bad debts expense	-	(16,712)	-	-	-

2012

In thousands of Korean won

	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Derivative instruments
Interest income	-	10,880,969	-	-	-
Gain on valuation of financial assets at fair value through profit or loss	1,380,304	-	-	-	-
Gain on disposal of financial assets at fair value through profit or loss	140,011,126	-	-	-	-
Gain on transactions of derivative instrumentsinstruments	-	-	-	-	2,420,460
Gain on foreign currency translation	-	3,509,348	-	25,215,666	-
Gain on foreign currency transactions	-	114,822,589	-	215,370,720	-
Reversal of allowance for doubtful credit accounts	-	652,065	-	-	-
Interest expense	-	-	-	(87,025,028)	-
Loss on valuation of financial assets at fair value through profit or loss	-	-	(2,122,636)	-	-
Loss on disposal of financial assets at fair value through profit or loss	-	-	(113,987,194)	-	-
Loss on transactions of derivative instruments	-	-	-	-	(553,317)
Loss on foreign currency translation	-	(1,008,010)	-	(32,835,851)	-
Loss on foreign currency transactions	-	(104,653,061)	-	(230,615,219)	-
Bad debts expense	-	(105,548)	-	-	-

7. Restricted Financial Instruments

As of December 31, 2012, certain short-term and long-term financial instruments amounting to ₩ 4,997,853 thousand (2011: ₩ 23,500 thousand) are restricted.

8. Available-for-Sale Financial Assets

Available-for-sale financial assets as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012			2011
	Acquisition cost	Net asset value	Book value	Book value
Equity securities (unlisted)[1]	3,111,320	3,075,157	3,075,157	3,075,175

[1] Because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, these instruments are measured at cost.

9. Trade and Other Receivables

Trade and other receivables as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Trade receivables	1,183,580,656	1,225,151,608
Less: provision for impairment of trade receivables	(1,515,783)	(845,230)
Other receivables	208,420,270	159,851,409
Less: provision for impairment of other receivables	-	-
Accrued income	737,765	761,671
Less: provision for impairment of accrued income	-	-
Deposits	724,890	557,368
Less: provision for impairment of deposits	-	-
	1,391,947,798	**1,385,476,826**

The aging analyses of trade and other receivables as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Trade receivables not past due	1,347,377,236	1,342,586,387
Trade receivables past due but not impaired [1]		
Up to 6 months	43,076,928	39,263,408
Over 6 months	256,798	2,060,942
Trade receivables impaired and provided for [2]		
Up to 1 year	1,312,256	211,738
Over 1 year	1,440,363	2,199,580
	1,393,463,581	**1,386,322,055**

[1] Trade receivables are temporarily overdue.

[2] The amount of the provision set for the relevant receivables was ₩ 1,516 million as of December 31, 2012 (2011: ₩ 845 million). Total trade receivables impaired less the recoverable amount is set as provision for impairment.

Changes in the provision for impairment of trade and other receivables are as follows:

In thousands of Korean won

	Dec. 31, 2012	Dec. 31, 2011
Beginning balance	845,230	1,738,707
Provision for receivables impairment	938,718	105,548
Receivables written off during the year as uncollectible	(134,532)	(346,960)
Unused effect	(133,633)	(652,065)
Ending balance	1,515,783	845,230

Details of long-term trade and other receivables of the Group as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Long-term loans	103,747,571	94,777,161
Deposits	43,140,974	31,825,051
	146,888,545	126,602,212

10. Inventories

Inventories as of December 31, 2012 and 2011, are as follows:

2012

In thousands of Korean won

	Acquisition cost	Less allowance for valuation loss	Book value
Products	13,367	-	13,367
Finished goods	543,311,387	(887,749)	542,423,638
Work in process	233,302,927	-	233,302,927
Raw materials	517,994,910	-	517,994,910
Supplies	24,709,697	-	24,709,697
Materials-in-transit	770,548,196	-	770,548,196
	2,089,880,484	**(887,749)**	**2,088,992,735**

2011

In thousands of Korean won

	Acquisition cost	Less allowance for valuation loss	Book value
Products	20,103	-	20,103
Finished goods	509,287,945	(1,340,319)	507,947,626
Work in process	220,673,118	-	220,673,118
Raw materials	479,203,238	-	479,203,238
Supplies	12,459,286	-	12,459,286
Materials-in-transit	1,084,006,498	-	1,084,006,498
	2,305,650,188	**(1,340,319)**	**2,304,309,869**

Cost of inventories recognized are as follows:

In thousands of Korean won

	Dec. 31, 2012	Dec. 31, 2011
Cost of inventories (Cost of sales)	19,127,284,565	16,111,774,472
Losses on inventory write-down	-	1,315,239
Reversal of inventory write-down	452,570	-

11. Investments in Associates and Joint Ventures

Investments in associates and joint ventures as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	Ownership (%)	2012		2011	
		Acquisition cost	Book value	Acquisition cost	Book value
Joint Ventures					
Hyundai Cosmo Petrochemical Co., Ltd.	50	291,100,000	152,561,280	178,500,000	25,580,466
Associate					
HYUNDAI-ENR[1]	15	7,500,000	7,432,345	7,500,000	7,403,937
		298,600,000	**159,993,625**	**186,000,000**	**32,984,403**

[1] Although the Group holds less than 20% of the equity share of HYUNDAI-ENR, the Group exercises significant influence in its board of directors.

Changes in investments in associates for the years ended December 31, 2012 and 2011, are as follows:

2012

In thousands of Korean won

Investee	Beginning	Acquisition	Valuation gain	Capital adjustment	Ending
Hyundai Cosmo Petrochemical Co., Ltd.	25,580,466	112,600,000	14,902,090	(521,276)	152,561,280
HYUNDAI-ENR	7,403,937	-	36,733	(8,325)	7,432,345
	32,984,403	**112,600,000**	**14,938,823**	**(529,601)**	**159,993,625**

2011

In thousands of Korean won

Investee	Beginning	Acquisition	Valuation gain	Capital adjustment	Ending
Hyundai Cosmo Petrochemical Co., Ltd.	21,196,567	-	5,691,176	(1,307,277)	25,580,466
HYUNDAI-ENR	-	7,500,000	(96,063)	-	7,403,937
	21,196,567	**7,500,000**	**5,595,113**	**(1,307,277)**	**32,984,403**

Elimination of unrealized gains and losses for 2012 and 2011, is as follows:

December 31, 2012

In thousands of Korean won

Investee	Transaction	Beginning	Increased	Realized	Ending
Hyundai Cosmo Petrochemical Co., Ltd.	Disposal of PP&E	(116,679,899)	-	1,087,505	(115,592,394)
	Disposal of intangible asset	(235,398)	-	-	(235,398)
	Disposal of inventories	(1,995,691)	(3,621,645)	1,995,691	(3,621,645)
		(118,910,988)	**(3,621,645)**	**3,083,196**	**(119,449,437)**

December 31, 2011

In thousands of Korean won

Investee	Transaction	Beginning	Increased	Realized	Ending
Hyundai Cosmo Petrochemical Co., Ltd.	Disposal of PP&E	(117,767,404)	-	1,087,505	(116,679,899)
	Disposal of intangible asset	(235,398)	-	-	(235,398)
	Disposal of inventories	(951,151)	(1,995,691)	951,151	(1,995,691)
		(118,953,953)	**(1,995,691)**	**2,038,656**	**(118,910,988)**

Financial information of the investees as of and for the years ended December 31, 2012, follows:

In thousands of Korean won

	Assets	Liabilities	Sales	Profit (loss) for the year
Hyundai Cosmo Petrochemical Co., Ltd.	1,336,298,594	792,277,160	2,102,156,767	30,881,078
HYUNDAI-ENR	49,901,071	352,109	2,748,912	244,886
	1,386,199,665	**792,629,269**	**2,104,905,679**	**31,125,964**

12. Investment Property

Changes in investment property for the years ended December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Acquisition cost	26,634,006	26,634,006
Ending net book value	26,634,006	26,634,006

Fair value of investment property as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Land	26,634,006	26,634,006

The Group has a plan to revalue its investment property by an independent valuer on a three-year cycle. The increase in market price of the investment property after performing revaluation of the investment property in 2010 is deemed insignificant as a result of quantifying a rise in market price using the disclosed rate of increase in market price for 2012.

Income and expenses on the investment property for the years ended December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Rental income	330,000	270,032
Operating costs[1]	356,913	347,616

[1] Operating costs directly related to an investment property from which rental income was generated.

13. Property, Plant and Equipment

Changes in property, plant and equipment for the years ended December 31, 2012 and 2011, are as follows:

2012 In thousands of Korean won

	Land	Buildings	Structures	Machinery and equipment	Vehicles	Tools	Construction-in-progress	Other property, plant and equipment	Total
Opening acquisition cost	963,016,854	275,408,426	954,144,845	2,610,830,602	13,511,744	132,868,332	102,702,258	82,737,809	5,135,220,870
Opening accumulated depreciation	-	(48,131,710)	(308,619,523)	(262,635,890)	(11,103,629)	(82,844,639)	-	(64,235,476)	(777,570,867)
Opening net book value	963,016,854	227,276,716	645,525,322	2,348,194,712	2,408,115	50,023,693	102,702,258	18,502,333	4,357,650,003
Acquisitions	2,024,479	393,687	790,565	1,566,754	1,427	11,191,998	216,420,585	-	232,389,495
Disposals	(20,283,189)	(4,150,034)	(1,071,568)	(2,604,004)	(14)	(1,421,318)	-	-	(29,530,127)
Transfer	6,147,587	16,254,618	51,464,337	89,003,458	151,328	3,829,639	(170,213,810)	312,071	(3,050,772)
Depreciation	-	(6,925,549)	(27,527,324)	(187,137,548)	(732,666)	(17,314,646)	-	(8,156,141)	(247,793,874)
Exchange differences	-	-	-	-	-	(4,104)	(834,948)	-	(839,052)
Ending acquisition cost	950,905,731	285,631,241	1,003,292,480	2,698,286,770	13,270,161	142,310,397	148,074,085	82,998,404	5,324,769,269
Ending accumulated depreciation	-	(52,781,803)	(334,111,148)	(449,263,398)	(11,441,971)	(96,005,135)	-	(72,340,141)	(1,015,943,596)
Ending net book value	950,905,731	232,849,438	669,181,332	2,249,023,372	1,828,190	46,305,262	148,074,085	10,658,263	4,308,825,673

2011 In thousands of Korean won

	Land	Buildings	Structures	Machinery and equipment	Vehicles	Tools	Construction-in-progress	Other property, plant and equipment	Total
Opening acquisition cost	909,661,765	155,574,990	689,081,761	486,719,636	13,213,581	128,900,888	2,069,077,778	72,666,902	4,524,897,301
Opening accumulated depreciation	-	(44,724,106)	(290,967,017)	(96,771,539)	(10,579,630)	(81,994,871)	-	(64,479,702)	(589,516,865)
Opening net book value	909,661,765	110,850,884	398,114,744	389,948,097	2,633,951	46,906,017	2,069,077,778	8,187,200	3,935,380,436
Acquisitions	224,704	1,675,059	4,293,345	45,791,041	190,155	7,096,576	619,231,209	-	678,502,089
Disposals	(18,727,380)	(4,465,002)	(2,203,385)	(930,984)	(351,126)	(521,082)	-	(2,555)	(27,201,514)
Transfer	71,857,765	124,657,613	269,794,035	2,079,577,513	898,746	12,841,624	(2,585,625,904)	18,604,698	(7,393,910)
Depreciation	-	(5,441,838)	(24,473,417)	(166,190,955)	(963,611)	(16,299,623)	-	(8,287,010)	(221,656,454)
Exchange differences	-	-	-	-	-	181	19,175	-	19,356
Ending acquisition cost	963,016,854	275,408,426	954,144,845	2,610,830,602	13,511,744	132,868,332	102,702,258	82,737,809	5,135,220,870
Ending accumulated depreciation	-	(48,131,710)	(308,619,523)	(262,635,890)	(11,103,629)	(82,844,639)	-	(64,235,476)	(777,570,867)
Ending net book value	963,016,854	227,276,716	645,525,322	2,348,194,712	2,408,115	50,023,693	102,702,258	18,502,333	4,357,650,003

As of December 31, 2012, a certain portion of the Group's property, plant and equipment is pledged as collateral for the Group's bonds, and short and long-term borrowings, as follows:

In thousands of Korean won

Pledged to	Collateral	Currency	Amount
Korea Development Bank and other financial institutions	Land and others	KRW	1,440,000,000

14. Intangible Assets

Changes in intangible assets for the years ended December 31, 2012 and 2011, are as follows:

2012

In thousands of Korean won

	Goodwill	Development costs	Memberships	Others	Total
Book value at January 1, 2012	56,629,475	3,186,978	12,224,288	10,485,519	**82,526,260**
Additions	-	-	1,233,242	2,565	**1,235,807**
Disposals	-	-	(1,486,703)	-	**(1,486,703)**
Amortization	-	(982,571)	-	(1,663,280)	**(2,645,851)**
Transfer	-	1,046,690	490,000	1,514,034	**3,050,724**
Exchange differences	-	-	(12,798)	(95)	**(12,893)**
Book value at December 31, 2012	56,629,475	3,251,097	12,448,029	10,338,743	**82,667,344**

2011

In thousands of Korean won

	Goodwill	Development costs	Memberships	Others	Total
Book value at January 1, 2011	56,629,475	1,952,686	10,307,651	10,850,113	**79,739,925**
Additions	-	-	5,581,675	-	**5,581,675**
Disposals	-	-	(3,667,152)	-	**(3,667,152)**
Amortization	-	(1,275,437)	-	(1,634,994)	**(2,910,431)**
Transfer	-	2,509,729	-	1,270,400	**3,780,129**
Exchange differences	-	-	2,114	-	**2,114**
Book value at December 31, 2011	56,629,475	3,186,978	12,224,288	10,485,519	**82,526,260**

14-1. Impairment of Intangible Assets

The Group's goodwill as of December 31, 2012, represents the goodwill arising from past acquisition.

In thousands of Korean won

	Goodwill allocation amount
Goodwill	56,629,475

The Group performs an annual impairment test for goodwill. The recoverable amount of the cash-flow generating units has been determined based on the value-in-use calculation. Furthermore, the value in use is calculated based on the approved five-year management plan using the forecasted pre-tax cash flows. The growth rate of the sales volume for five years and beyond are stated below. The growth rate did not exceed the long-term industrial average growth rate. Also, in calculating perpetual growth rate beyond five years, constant value is used. Assumptions used in calculation are as follows:

Assumptions	Rate
Operating profit margin compared to sales volume	1.81%
Growth rate of the sales volume[1]	4.09%
Growth rate beyond 5 years[2]	3.31%
Pre-tax discount rate[3]	11.43%

[1] Weighted average of sales growth rate calculated based on historical growth rate to forecast cash flows for five years.
[2] Consistent with the growth rate beyond five years used in the Industrial Report.
[3] Pre-tax discount rate applied in forecasted cash flows.

The Group determines the sales volume growth rate by the expectation level set based on the past performance and market development. The growth rate used is consistent with the forecasts included in the industry reports.

15. Trade and Other Payables

Accounts payable and other liabilities as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Current		
Trade payables	1,839,694,367	2,136,031,013
Non-trade payables	509,588,542	602,121,614
Accrued expenses	21,038,805	23,022,466
	2,370,321,714	2,761,175,093
Non-current		
Long-term non-trade payables	33,000,000	-
Long-term withholdings	11,122,475	11,780,045
	44,122,475	11,780,045
Total	2,414,444,189	2,772,955,138

16. Short and Long-term Financial Liabilities

Details of short-term financial liabilities as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Short-term borrowings	400,523,755	590,605,906
Current portion of long-term borrowings	152,359,500	847,000
Current portion of bonds	149,976,717	449,781,742
	702,859,972	**1,041,234,648**

Details of long-term financial liabilities as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Long-term borrowings	1,065,171,180	1,208,105,000
Bonds	1,246,563,370	648,523,838
	2,311,734,550	**1,856,628,838**

Details of short-term borrowings as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

Account	Banks	Interest (%)	2012	2011
Commercial paper	Woori I&S and others	-	-	240,000,000
Banker's usance	Woori Bank and others	0.66% ~ 1.03%	400,523,755	350,605,906
			400,523,755	**590,605,906**

Details of long-term borrowings as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

Account	Banks	Interest (%)	2012	2011
Energy Invest Loan	KDB	1.75%	5,419,000	6,266,000
Syndicated Loan	KDB and others	4.80%	1,200,000,000	1,200,000,000
Environmental improvement loan	KDB	3.04%	2,686,000	2,686,000
Shipbuilding loan	Suhyup-bank	Libor (3m)+4.4%	9,425,680	-
			1,217,530,680	1,208,952,000
Less: Current maturities			(152,359,500)	(847,000)
Total			**1,065,171,180**	**1,208,105,000**

Details of bonds as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

Series	Issuance date	Maturity date	Interest (%)	2012	2011
98th	2007.02.02	2014.02.02	5.44%	99,923,780	99,853,423
99th	2007.03.27	2012.03.27	5.23%	-	99,983,883
101st	2008.03.20	2013.03.20	6.05%	149,976,716	149,837,017
102nd	2009.01.22	2012.01.22	7.65%	-	150,000,000
103rd	2009.07.03	2014.07.03	6.80%	99,860,950	99,768,250
104th	2009.09.30	2012.09.30	5.79%	-	99,905,933
105th	2010.06.28	2015.06.28	5.75%	199,568,093	199,389,373
106th	2011.04.14	2014.04.14	4.36%	99,819,875	99,675,775
107th	2011.10.25	2012.10.25	3.92%	-	99,891,926
108th	2012.01.25	2015.01.25	3.98%	149,558,467	-
109th	2012.03.27	2015.03.27	4.08%	99,679,117	-
110th	2012.07.20	2017.07.20	3.52%	298,908,660	-
111-1st	2012.10.23	2016.10.23	3.24%	99,617,125	-
111-2nd	2012.10.23	2019.10.23	3.52%	99,627,304	-
				1,396,540,087	1,098,305,580
Less: Current maturities				(149,976,717)	(449,781,742)
Total				**1,246,563,370**	**648,523,838**

17. Defined Benefit Liability

Defined benefit liabilities recognized in the statements of financial position as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Present value of defined benefit liability	129,685,200	101,383,248
Fair value of plan assets	(112,643,032)	(89,714,715)
Contribution to National Pension Fund	(570,285)	(639,347)
Liability in the statement of financial position	16,471,883	11,029,186

Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Beginning balance	101,383,248	90,439,014
Current service cost	17,526,054	11,396,667
Interest expense	4,466,164	4,947,945
Gains or losses on settlements	-	(4,706,008)
Actuarial gains and losses (before income tax)	15,464,754	53,677,188
Benefits paid	(9,466,627)	(5,025,787)
Settlements	-	(48,750,949)
Transfer in (out)	311,607	(594,822)
Ending balance	129,685,200	101,383,248

The changes in the fair value of plan assets for the years ended December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Beginning balance	89,714,715	70,329,820
Expected return on plan assets	3,142,507	2,988,367
Employer contribution	27,610,260	42,979,239
Actuarial gains and losses (before income tax)	604,623	(607,357)
Benefits paid	(8,429,073)	(25,975,354)
Ending balance	112,643,032	89,714,715

The amounts recognized on the statements of income for the years ended December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Current service cost	17,526,054	11,396,667
Interest expense	4,466,164	4,947,945
Expected return on plan assets	(3,142,507)	(2,988,367)
Gains or losses on settlements	-	(4,706,008)
Total included in salaries expense	18,849,711	8,650,237

In thousands of Korean won

	2012	2011
Cost of goods sold	12,049,929	1,377,602
Transfer to construction in progress	1,354	3,574,134
Selling and administrative expenses	6,798,428	3,698,501
Total included in salaries expense	**18,849,711**	**8,650,237**

Actual return on plan assets for the years ended December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Expected return on plan assets	3,142,507	2,988,367
Actuarial gains and losses	604,623	(607,357)
Actual return on plan assets	3,747,130	2,381,010

Accumulated actuarial gains and losses as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Recognized accumulated actuarial gains (losses)	(83,066,722)	(68,206,590)

Plan assets as of December 31, 2012 and 2011, consist of:

In thousands of Korean won

	2012	2011
Cash and cash equivalents	68,963,785	52,885,585
Receivables and securities	42,503,465	35,575,043
Severance benefits	1,175,782	1,254,087
	112,643,032	**89,714,715**

Adjustments for the differences between initial assumptions and actual figures as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Present value of defined benefit liability	129,685,200	101,383,248
Fair value of plan assets	112,643,032	89,714,715
Deficit (Surplus) of the funded plans	17,042,168	11,668,533
Experience adjustments on defined benefit liability	1,826,961	42,847,821
Experience adjustments on plan assets	604,623	(607,357)

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The principal actuarial assumptions as of December 31, 2012 and 2011, are as follows:

	2012	2011
Discount rate at year-end	3.93%	4.80%
Expected rate of return on plan assets	3.28%	4.01%
Future salary increases	4.13% ~ 5.18%	3.39% ~ 5.45%
Death rate (male, above 45 years old)	0.29%	0.29%

Retirement rates are based on the historical rate of retirement. As for the death rate, the NSO's published death rate is applied for the years ended December 31, 2012 and 2011.

18. Provisions, Contingent Liabilities and Commitments

Provisions

Changes in provisions for the years ended December 31, 2012 and 2011, are as follows:

2012

In thousands of Korean won

	January 1	Increase	Decrease	December 31
Provision for environmental restoration cost	24,394,644	-	(9,674,755)	14,719,889

2011

In thousands of Korean won

	January 1	Increase	Decrease	December 31
Provision for environmental restoration cost	10,425,400	15,739,000	(1,769,756)	24,394,644

Contingent Liabilities

In billions of Korean won

	Description	Amount
Lawsuit as the defendant	Damage claim suit[1, 2] (The Ministry of National Defense)	167.0
	Damage claim suit (The Fair Trade Commission)	10.2
	Damage claim suit (Soil pollution)	14.8
Lawsuit as the plaintiff	Revocation suit[1] (Alleged collusive oil price-fixing)	9.3
	Revocation suit[1] (Alleged collusive LPG price-fixing)	26.3
	Revocation suit[1] (The domicile of origin fixing)	75.4
	Revocation suit[1] (Restitution for reimbursement of Petroleum import levy)	9.7
	Pay claim suit[3] (Claims for payment of fuel against Defense Acquisition Program Administration)	9.3

[1] Reflected as loss in the financial statements of the previous period.

[2] In 2011, withholding was recognized for the collected deposits amounting to ₩ 35,000 million (the Group's share of the total claims of ₩ 167,000 million against four oil refinery companies during the previous year).

[3] The Group filed a lawsuit against the Defense Acquisition Program Administration regarding the receivables offset by the Defense Acquisition Program Administration for a restitution to an unjust enrichment in October 2012.

Commitments

The Group has entered bank overdraft agreements with Korea Exchange Bank and others for up to ₩ 50,000 million (2011: ₩ 50,000 million), agreement for a discount note with Shinhan Bank for the amount of ₩ 50,000 million (2011: ₩ 50,000 million) as of December 31, 2012.

The Group has entered an import letter of credit arrangement of US$4,010 million (2011: US$ 2,670 million) with the Korea Exchange Bank. Payment of ₩ 614 million has been made as of December 31, 2012, to the beneficiary.

The Group has entered into a factoring agreement with Hana Bank for up to ₩ 400,000 million and ₩ 26,183 million has been paid as of December 31, 2012.

The Group entered into a long-term freight contract with chartering company in order to ensure the subsidiaries' stable operations.

The Group has entered into a purchase agreement with non-controlling shareholders for non-controlling interests of its subsidiary, Hyundai Oil Terminal Co., Ltd. Under the agreement, non-controlling shareholders have the option to request the purchase of relevant shares for the duration of one year from June 2017.

Guarantees Provided

In thousands of US dollars

Guarantor	Details	Amount	Holder
Hyundai oil Refinery Co., Ltd.	Payment guarantees of Borrowings	USD 30,000	Hyundai Cosmo Petrochemical Co., Ltd.

19. Derivative Financial Instruments

As of December 31, 2012, the Group has entered into foreign exchange forward contracts to hedge foreign exchange fluctuation risk and into commodity forward contracts to hedge price fluctuation risk related to the crude oil. The Group used valuations provided by financial institutions for fair values of all derivative financial instruments.

Details of derivative financial instruments as of December 31, 2012, are as follows:

In thousands of Korean won

Purpose	Type of contract	Details of contract	Contract unit	Contract value
Cash flow hedge	Interest swap contract	Floating rate risk hedge	KRW	80,000,000

Derivative financial instruments as of December 31, 2012 and 2011, are as follows:

2012

In thousands of Korean won

	Type of contract	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss	Derivative financial liabilities
Cash flow hedge	Interest swap contract	-	-	5,940,814
Trading purpose	Foreign exchange forward contracts	27,508	1,266,691	-
	Commodity forward contracts	221,146	875,410	-
		248,654	**2,142,101**	**5,940,814**

2011

In thousands of Korean won

	Type of contract	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss	Derivative financial liabilities
Cash flow hedge	Interest swap contract	-	-	4,953,277
Trading purpose	Foreign exchange forward contracts	1,002,097	1,854,568	-
	Commodity forward contracts	378,282	268,143	-
		1,380,379	**2,122,711**	**4,953,277**

For the years ended December 31, 2012 and 2011, realized and unrealized gain (loss) from derivative instruments transactions are as follows:

2012

In thousands of Korean won

	Gain/Loss	Disposal of financial instruments at fair value through profit or loss	Valuation of financial instruments at fair value through profit or loss
Trading purposes			
Foreign exchange forward	Gain	49,546,519	26,500
contracts	Loss	88,965,336	1,265,683
Commodity forward	Gain	2,719,751	221,146
contracts	Loss	5,046,969	875,410

2011

In thousands of Korean won

	Gain/Loss	Transaction of derivative instruments	Disposal of financial instruments at fair value through profit or loss	Valuation of financial instruments at fair value through profit or loss
Trading purposes				
Foreign exchange forward	Gain	2,420,460	86,297,043	1,002,022
contracts	Loss	(553,317)	(109,688,928)	(1,854,494)
Commodity forward	Gain	-	53,714,083	378,282
contracts	Loss	-	(4,298,266)	(268,142)

20. Equity

The Company's number of authorized shares is 500,000,000 shares. Total number of common stocks issued is 245,082,422 shares, and the par value per share is ₩ 5,000.

21. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) as of December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Cash flow hedge gain/loss on valuation of derivative financial instruments	(4,503,137)	(3,754,584)
Currency translation differences	(588,362)	23,111
Share of other comprehensive income of associates	(4,318,796)	(3,789,195)
	(9,410,295)	**(7,520,668)**

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2012 and 2011, are as follows:

2012

In thousands of Korean won

	Before tax	Tax effect	After tax
Beginning balance	(9,641,882)	2,121,214	(7,520,668)
Changes	(2,250,131)	360,504	(1,889,627)
Ending balance	(11,892,013)	2,481,718	(9,410,295)

2011

In thousands of Korean won

	Before tax	Tax effect	After tax
Beginning balance	7,691,931	(1,692,225)	5,999,706
Changes	(17,333,813)	3,813,439	(13,520,374)
Ending balance	(9,641,882)	2,121,214	(7,520,668)

22. Retained Earnings

Retained earnings as of December 31, 2012 and 2011, consist of:

In thousands of Korean won

	2012	2011
Legal reserves[1]	25,058,572	25,058,572
Unappropriated retained earnings	1,508,855,814	1,348,524,595
	1,533,914,386	**1,373,583,167**

[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 cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

23. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Salaries	90,045,869	79,526,820
Freight expenses	77,359,993	76,211,191
Advertising expenses	12,958,477	14,882,544
Service costs	38,372,602	49,907,669
Promotional expenses	10,298,477	8,596,971
Commission expenses	23,500,210	23,015,075
Rental expenses	19,901,466	14,354,342
Depreciation and amortization	23,565,557	24,884,966
Bad debts expense	805,085	105,548
Others	60,634,333	44,260,463
	357,442,069	**335,745,589**

24. Expenses by Nature

Expenses by nature for the years ended December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Changes in inventories	215,317,134	(365,222,354)
Purchase of inventories	18,911,967,431	16,476,996,826
Depreciation	247,793,874	221,656,454
Amortization	2,645,851	2,910,431
Salaries	189,593,025	162,147,453
Others	1,825,895,611	1,923,448,381
	21,393,212,926	**18,421,937,191**

25. Finance Income and Expenses

Finance income and expenses for the years ended December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Finance Income		
Interest income	9,219,965	10,880,969
Foreign currency translation gain	9,131,170	3,319,580
Foreign currency transaction gain	87,621,547	61,919,382
	105,972,682	**76,119,931**
Finance Expenses		
Interest expense	153,154,482	87,025,028
Foreign currency translation loss	-	1,013,109
Foreign currency transaction loss	33,478,814	69,691,306
	186,633,296	**157,729,443**

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26. Other Non-Operating Income and Expenses

Other non-operating income and expenses of the Group for the years ended December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Other non-operating income		
Gain on transactions of derivative instruments	-	2,420,460
Gain on disposal of financial assets at fair value through profit or loss	52,266,270	140,011,126
Gain on valuation of financial assets at fair value through profit or loss	247,646	1,380,304
Foreign currency translation gain	37,962,086	25,405,434
Foreign currency transaction gain	206,805,430	268,273,927
Gain on disposal of property, plant, and equipment	2,344,736	4,499,860
Gain on disposal of intangible assets	-	11,561
Reversal of allowance for doubtful accounts	-	652,065
Miscellaneous income	11,007,894	15,793,258
	310,634,062	**458,447,995**
Other non-operating expenses		
Loss on transactions of derivative instruments	-	553,317
Loss on disposal of financial assets at fair value through profit or loss	94,012,305	113,987,194
Loss on valuation of financial assets at fair value through profit or loss	2,141,093	2,122,636
Foreign currency translation loss	31,528,379	32,830,753
Foreign currency transaction loss	174,558,142	265,576,974
Loss on disposal of property, plant, and equipment	5,146,853	5,527,260
Loss on disposal of intangible assets	121,113	612,278
Other bad debts expense	16,712	-
Donations	19,961,038	28,084,048
Miscellaneous expenses	1,934,842	78,041,858
	329,420,477	527,336,318
Total	**(18,786,415)**	**(68,888,323)**

27. Income Tax

Income tax expense for the years ended December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Current income tax	29,941,597	70,700,762
Refund of prior year's income tax	-	(3,672,920)
Deferred income tax due to temporary differences	281,501	(6,559,375)
Deferred income tax due to tax losses	(194,361)	-
Deferred income tax due to tax credit	17,452,788	6,503,311
Deferred income tax charged to equity	3,835,136	16,738,206
Income tax expense	51,316,661	83,709,984

The tax on the Group's taxable income differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group as follows:

In thousands of Korean won

	Dec. 31, 2012	Dec. 31, 2011
Net income	171,387,105	366,342,343
Income tax expense	51,316,661	83,709,984
Income before income taxes	222,703,766	450,052,327
Income taxes based on statutory rate	49,806,495	98,987,512
Effect of non-taxable income	(143,764)	(5,575,776)
Effect of non-deductible expenses	465,253	22,540,854
Effect of tax exemptions	1,189,108	(27,392,622)
Effect of change in tax rate	-	(3,597,925)
Others	(431)	(1,252,059)
	51,316,661	**83,709,984**

Deferred income tax assets and liabilities resulting from the tax effect of temporary differences including available tax credit carryforwards and tax loss carryforwards as of December 31, 2012 and 2011, are as follows:

2012

In thousands of Korean won

Type	Temporary differences			Deferred assets (liabilities)
	Beginning	Changes	Ending	
Depreciation	18,990,505	(3,264,033)	15,726,472	3,805,806
Construction-in-progress	(1,072,622)	860,509	(212,113)	(51,331)
Contingent liabilities	32,733,896	-	32,733,896	7,921,603
Donations	1,036,000	1,433,000	2,469,000	597,498
Bad debts expense	12,816,645	(3,609,523)	9,207,122	2,228,123
Impairment of financial assets	436,145	-	436,145	105,547
Accrued income	(761,671)	46,887	(714,784)	(172,278)
Provisions	85,375,504	(28,363,280)	57,012,224	13,796,958
Loss on valuation of inventories	5,978,047	(797,560)	5,180,487	1,253,678
Gain (Loss) on disposal at property, plant, and equipment	1,924,471	(144,651)	1,779,820	430,716
Defined Benefit Liability	20,663,068	4,593,853	25,256,921	6,112,175
Plan assets	(88,869,659)	(14,891,581)	(103,761,240)	(25,110,220)
Gain (Loss) on valuation of derivative instruments	4,843,137	1,751,942	6,595,079	1,596,009
Promotion expense	2,021,277	(443,006)	1,578,271	381,942
Revaluation of assets	(495,074,677)	29,137,945	(465,936,732)	(112,756,689)
Advanced depreciation provision	(97,798,225)	-	(97,798,225)	(23,667,170)
Actuarial gains and losses	68,206,590	14,860,132	83,066,722	20,102,147
Accrued expenses	8,146,557	(2,338,949)	5,807,608	1,405,681
Tax losses	-	-	-	194,361
Tax credit carryforwards	-	-	-	39,283,184
	(420,405,012)	**(1,168,315)**	**(421,573,327)**	**(62,542,260)**

2011

In thousands of Korean won

Type	Temporary differences			Deferred assets (liabilities)
	Beginning	Changes	Ending	
Depreciation	20,698,042	(1,707,537)	18,990,505	4,595,702
Construction-in-progress	17,628,015	(18,700,637)	(1,072,622)	(259,575)
Contingent liabilities	32,233,896	500,000	32,733,896	7,921,603
Donations	-	1,036,000	1,036,000	250,712
Bad debts expense	14,425,346	(1,608,701)	12,816,645	3,101,628
Impairment of financial assets	436,145	-	436,145	105,547
Accrued income	(1,735,399)	973,728	(761,671)	(184,324)
Accrued salaries	45,954,594	(45,954,594)	-	-
Provisions	71,822,181	13,553,323	85,375,504	20,660,872
Loss on valuation of inventories	(8,052,673)	14,030,720	5,978,047	1,446,687
Foreign currency translation gain (losses)	953,512	(953,512)	-	-
Gain (Loss) on disposal at property, plant, and equipment	2,074,595	(150,124)	1,924,471	465,722
Defined Benefit Liability	44,467,189	(23,804,121)	20,663,068	5,000,463
Plan assets	(70,329,820)	(18,539,839)	(88,869,659)	(21,506,457)
Gain (Loss) on valuation of derivative instruments	16,650,842	(11,807,705)	4,843,137	1,172,039
Promotion expense	1,396,805	624,472	2,021,277	489,149
Revaluation of assets	(520,566,962)	25,492,285	(495,074,677)	(119,808,072)
Advanced depreciation provision	(97,798,225)	-	(97,798,225)	(23,667,170)
Actuarial gains and losses	13,922,045	54,284,545	68,206,590	16,505,995
Accrued expenses	6,234,979	1,911,578	8,146,557	1,971,467
Tax credit carryforwards	-	-	-	56,735,971
	(409,584,893)	**(10,820,119)**	**(420,405,012)**	**(45,002,041)**

Details of deferred income tax charged to equity are as follows:

In thousands of Korean won

	2012	2011
Gain on valuation of derivative instruments	1,437,677	1,198,693
Actuarial gains (losses)	20,102,147	16,505,995
	21,539,824	**17,704,688**

28. Earnings per Share

Basic earnings per ordinary share for the years ended December 31, 2012 and 2011, is as follows:

In thousands of Korean won, except per share amount

	2012	2011
Profit for the year	171,595,199	366,342,343
Profit attributable to ordinary shares	171,595,199	366,342,343
Weighted average number of ordinary shares in issue	245,082,422 Shares	245,082,422 Shares
Basic earnings per share (Korean won)	700	1,495

Diluted earnings per share is equal to basic earnings per share.

29. Cash Generated from Operations

Cash generated from operations for the years ended December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Adjustments for:		
Severance and retirement benefits	18,848,357	5,076,103
Depreciation	247,793,874	221,656,454
Amortization	2,645,851	2,910,431
Losses on valuation of inventories	-	1,315,239
Bad debts expense	805,085	105,548
Miscellaneous bad debts expense	16,712	-
Interest expense	153,154,482	87,025,028
Foreign currency translation losses	31,528,379	33,843,862
Loss on transaction of derivative instruments	-	553,317
Loss on disposal of financial assets at fair value through profit or loss	94,012,305	113,987,194
Loss on valuation of financial assets at fair value through profit or loss	2,141,093	2,122,636
Reversal of loss on valuation of inventories	(452,570)	-
Loss on disposal of property, plant, and equipment	5,146,853	5,527,260
Loss on disposal of intangible assets	121,113	612,278
Income tax expense	51,316,661	83,709,984
Foreign currency translation gain	(47,093,256)	(28,725,014)
Gain on transaction of derivative instruments	-	(2,420,460)
Gain on disposal of financial assets at fair value through profit or loss	(52,266,270)	(140,011,126)
Gain on valuation of financial assets at fair value through profit or loss	(247,646)	(1,380,304)

In thousands of Korean won

	2012	2011
Gain on equity method	(14,938,823)	(5,595,113)
Other reversal of allowance for doubtful accounts	-	(652,065)
Gain on disposal of property, plant, and equipment	(2,344,736)	(4,499,860)
Gain on disposal of intangible assets	-	(11,561)
Interest income	(9,219,965)	(10,880,969)
	480,967,499	**364,268,862**
Changes in operating assets and liabilities		
Financial instruments at fair value through profit or loss	(42,488,367)	27,291,393
Trade receivables	25,463,743	(217,672,059)
Other receivables	(48,753,170)	(65,394,546)
Inventories	215,769,750	(690,394,965)
Other current assets	(8,918,822)	(21,537,746)
Trade payables	(276,177,780)	781,996,510
Other payables	(94,796,526)	86,295,599
Other current liabilities	22,457,970	23,412,918
Long-term trade and other payables	(636,471)	(486,857)
Defined benefit liability	(28,265,792)	(70,957,825)
Long-term provisions	(9,674,755)	13,969,244
Deferred income	(16,169,948)	1,729,078
	(262,190,168)	**(131,749,256)**

Significant non-cash investing and financing activities for the years ended December 31, 2012 and 2011, are as follows:

In thousands of Korean won

	2012	2011
Transferred from construction-in-progress to other property, plant and equipment and intangible assets accounts	170,213,810	2,585,625,904
Reclassification from long-term bonds payable to short-term bonds payable	150,000,000	449,781,742
Reclassification of current maturities for borrowings	152,359,500	847,000

30. Related Party Transactions

As of December 31, 2012, details of the related parties are as follows:

Ultimate parent company	Hyundai Heavy Industries Co., Ltd.	91.13%
Joint Venture	Hyundai Cosmo Petrochemical Co., Ltd.	50%
Associate	HYUNDAI-ENR	15%

Significant transactions with related parties for the years ended December 31, 2012 and 2011, and the related account balances as of December 31, 2012 and 2011, are as follows:

2012

In thousands of Korean won

	Sales	Purchases	Receivables	Payables
Controlling party	4,093,840	73,627,879	2,588,275	100,010
Equity-method investee	-	-	-	-
Joint Venture	2,028,205,441	1,287,382,469	173,919,104	125,360,907
Other related parties	826,146,834	75,097,050	46,450,163	4,658,892
	2,858,446,115	**1,436,107,398**	**222,957,542**	**130,119,809**

2011

In thousands of Korean won

	Sales	Purchases	Receivables	Payables
Controlling party	1,582,001	54,817,857	295,442	12,535
Equity-method investee	6,115	-	-	-
Joint Venture	1,869,171,077	1,133,008,124	167,986,931	96,944,892
Other related parties	777,726,725	85,334,442	50,209,911	5,582,781
	2,648,485,918	**1,273,160,423**	**218,492,284**	**102,540,208**

Key management includes directors (executive and non-executive) and members of the Executive Committee. The compensation paid or payable to key management for employee services consists of:

In thousands of Korean won

	2012	2011
Short-term salaries	772,592	613,700
Post-employment benefits	261,555	114,376
	1,034,147	**728,076**

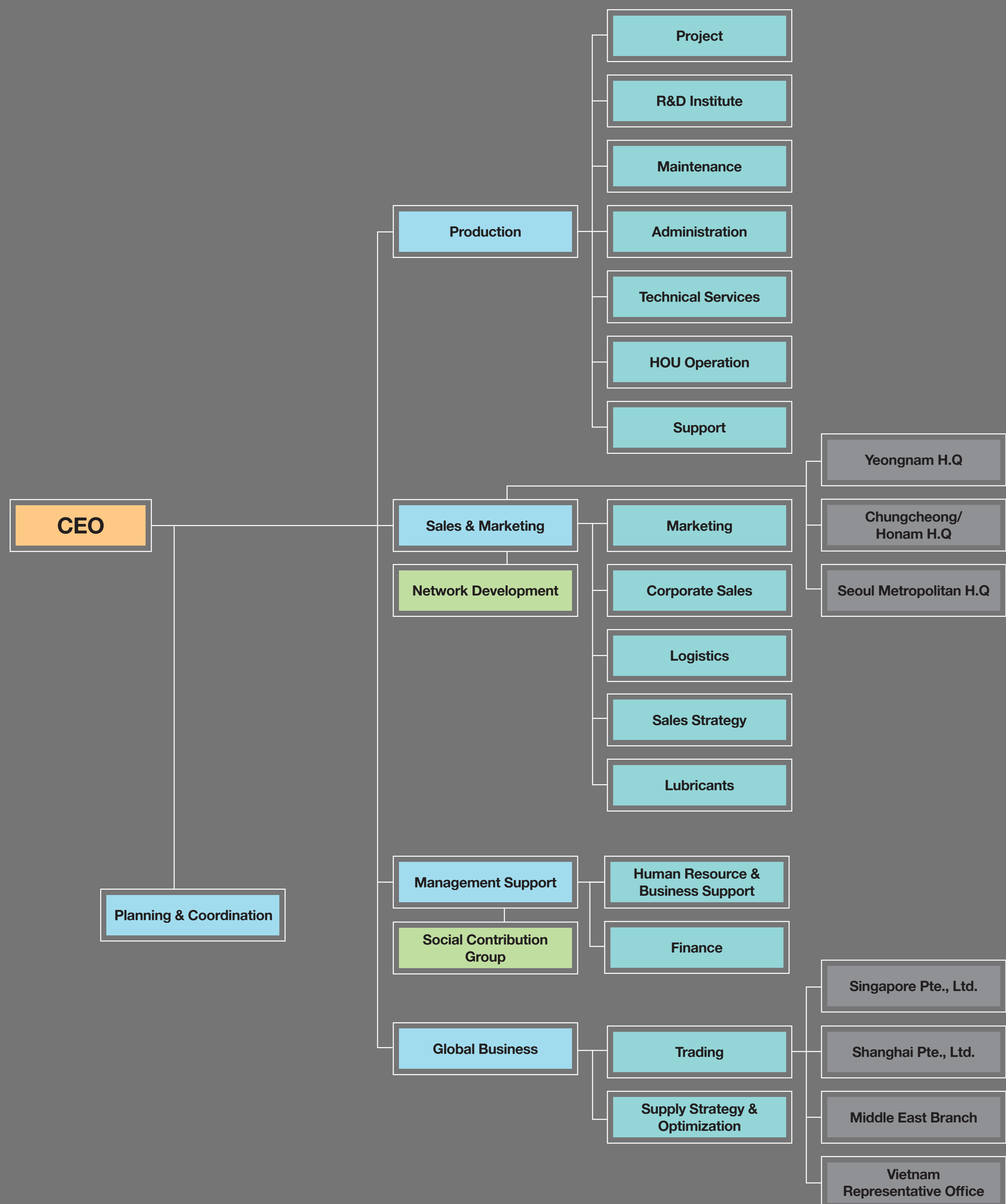
31. Transactions with Non-controlling Interests

Disposal of interest in a subsidiary without loss of control:

In thousands of Korean won

	2012
Carrying amount of non-controlling interests disposed of	22,593,028
Consideration received from non-controlling interests	33,000,000
Gain on disposal recorded within parent's equity	10,406,972

Organization



Corporate History

2012

2012. 12 Received USD 8 billion Export Tower on Trade Day from Korea International Trade Association (KITA)
2012. 12 President & CEO Kwon Oh-gap received Silver Tower Industrial Medal on Trade Day
2012. 11 Achieved mechanical completion of #2 BTX
2012. 11 Ranked first in KS-CQI in the entire industry category and KS-SQI in refinery category
2012. 10 Received Presidential Award at 1st Korea Knowledge Awards
2012. 09 Completed FBC
2012. 07 President & CEO Kwon Oh-gap received Dasan Management Award from Korea Economic Daily
2012. 04 Completed Hanmaeum Hall for business partners
2012. 04 Launched Hyundai and Shell Base Oil, a joint venture with Shell
2012. 02 Launched Hyundai Oilbank 1% Nanum Foundation
2012. 02 Launched collaboration for lubricant base oil business with Shell

2011

2011. 11 Established Hyundai Oilbank R&D Institute
2011. 10 Began construction of oil terminal at Ulsan New Port
2011. 09 Signed an agreement on 1% sharing, a first among large companies in Korea
2011. 09 Completed #2 HOU plant
2011. 07 Began construction of #2 BTX plant
2011. 03 Launched Customer Advisory Panel
2011. 01 Achieved mechanical completion of #2 HOU plant

2010

2010. 08 Kwon Oh-gap appointed president and CEO
2010. 08 Became an affiliate of the Hyundai Heavy Industries Group
2010. 07 Ranked No. 1 on the Korea Service Quality Index (KSQI) survey conducted by Korea Management Association Consulting
2010. 06 Won the Korea Great Workplace award from Hankyung Magazine

2000s

2009. 12 Received USD 5 billion Export Tower award on Trade Day from Korea International Trade Association (KITA)
2009. 07 Ranked first in the Korean Standard-Service Quality Index (KS-SQI) survey by Korea Management Consulting (KMAC) in the refinery call center category
2009. 06 Finalized construction plans of BTX plant with annual production capacity of 910,000 tons of p-Xylene and other petrochemical products with Cosmo Oil of Japan
2009. 03 Received Grand Prix at the "7th Ethical Management Awards" from the New Industry Management Academy
2008. 12 Received Prime Minister Award at the 15th Corporate Innovation Awards from Korea Chamber of Commerce and Industry
2008. 11 Signed agreement on #2 HOU project plant construction for Daesan refinery
2008. 04 Signed agreement on strategic alliance for oil refinery business with Cosmo Oil of Japan
2007. 06 Received A2+ rating for commercial paper
2007. 03 Began operation of Jeju Oil Storage of 52,000 barrels
2007. 01 Received A rating in compliance program
2006. 03 Received grand prize in Best Ethical Management Company Awards from the Ministry of Commerce, Industry, and Energy (MOCIE) in the manufacturing category
2005. 11 Completed Clean Fuel Project
2004. 11 Named Good Company for New Management-Employees Culture by the Ministry of Labor
2002. 04 Changed company name to Hyundai Oilbank Co., Ltd.

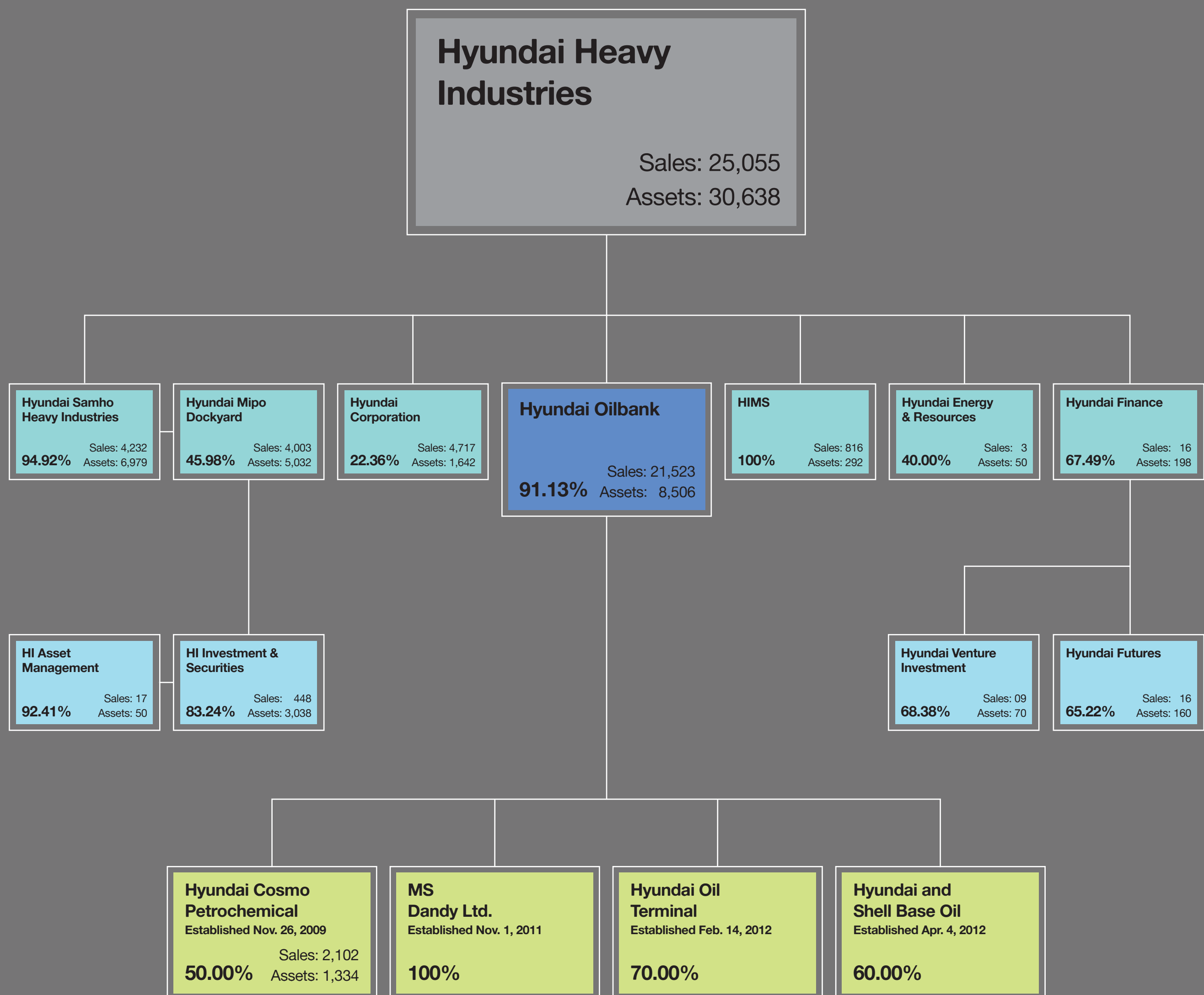
1960s ~ 1990s

1999. 12 Acquired Hanwha Energy and merged with Hanwha Energy Plaza
1998. 05 Completed #1 BTX plant (400,000 tpa)
1996. 05 Completed oil refining facility at the Daesan plant (200,000 bpd)
1994. 06 Launched the Oilbank brand
1993. 07 Changed company name to Hyundai Oil Refinery Co., Ltd.
1989. 11 Obtained approval for additional crude refining capacity (100,000 bpd)
1989. 07 Completed Daesan plant (Awarded Presidential Citation)
1988. 11 Changed company name to Kukdong Oil Refining Co., Ltd.
1988. 08 Launched commercial operation of atmospheric distillation plant (60,000 bpd)
1978. 08 Completed crude refining facility (10,000 bpd)
1977. 05 Changed company name to Kukdong Oil Co., Ltd.
1969. 01 Changed company name to Kukdong Shell Oil Co., Ltd.
1964. 11 Established as Kukdong Oil Industrial Company (Licensed as a petroleum refinery)

Hyundai Heavy Industries

As a member of the world-renowned Hyundai Heavy Industries Group, we are now expanding beyond our core oil refining business and diversifying our business portfolio as we develop new engines that will drive our future growth. In the years ahead, we are committed to becoming a world-class total energy company, meeting the energy needs of Korea and the world.

In KRW billions



- Sales and assets are as of December 31, 2012.
- Sales and assets of Hyundai Oilbank are based on non-consolidated K-IFRS.
- Sales and assets of Hyundai Futures, HI Investment & Securities, and HI Asset Management are as of March 31, 2012.

Global Network

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North Gyeonggi Branch	15th Fl. Neo Tower Bldg, 486-11,12 Uijeongbu-dong, Uijeongbu, Gyeonggi-do, Korea	Tel: +82-31-837-9155
South Gyeonggi Branch	16th Fl. Seyoung Bldg, 1038-2 Ingye-dong, Paldal-gu, Suwon, Gyeonggi-do, Korea	Tel: +82-31-221-5189
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