

CORPORATE REPORT 2011

# UNCONVENTIONAL CHALLENGES



# UNCONVENTIONAL CHALLENGES AND OUR RESPONSES

**What makes Cheil Industries stronger is the unconventional challenges.**

We continued to move forward when competitors were at a standstill, and worked on making the company better while others were solely focused on external growth. Cheil Industries looks to push boundaries and seeks challenges and innovation even in times of great uncertainty.

This Corporate Report is a record of what Cheil Industries has done in the past, and how we have responded to crisis by taking full advantage of opportunities and boldly adopting changes. It is also a commitment to growth in the future, so that Cheil Industries can join with all of our stakeholders in becoming a stronger, better company.

# NO FUTURE WITHOUT A PAST

Cheil Industries' 57 year history has built a company of immense experience. The company has always upheld a strong set of values, resulting in today's growth and success. This is an introduction to the history of Cheil Industries – a history which also serves as the basis for the core values that will shape our future.



# we are

original

strong

creative



# original

Cheil Industries has a distinctive history and culture. As the original parent company of the Samsung Group, we share our inherent drive for innovation with people across the globe.

- 1954 Cheil Woolen Fabrics Industries founded
- 1956 Commenced plant operations and manufactured Korea's first combed yarn
- 1961 Launched Korea's first textile exports
- 1965 Became the first Korean business to secure a license to use the WOOL trademark

**A JOURNEY BEGINS**  
(1954-1969)

- 1969 Became the first Korean company to produce polyester/rayon mixed yarn  
Became the first Korean textile company to receive the Invention Award
- 1972 Became the first Korean company to produce ready-made clothes in Korea
- 1976 Became the first Korean company to be chosen as a wool textile product inspection organization by the International Wool Textile Organization

**THE CORNERSTONE**  
(1969-1983)

- 1977 Advanced into the fashion business
- 1979 Established a textile research center in Daegu
- 1980 Designated as a 'Top 10 Company with Excellence in Management Cooperation' by the Korea Productivity Center
- 1981 Established Goulburn Wool Processors Pty. Ltd., a joint venture based in Australia
- 1982 Became the first domestic textile company to be awarded the '50-Million Dollar Export Tower Prize' on the 19th Export Day
- 1983 Awarded a Certificate of Commendation from the Ministry of Labor for 2.5 million hours of operation with no accidents at the Gumi Plant  
Simultaneously opened 19 Galaxy stores in Korea

- 1984 Established the fashion industry's first customer service center
- 1985 Developed a pure wool fabric for water-based cleaning
- 1986 Launched the Senatore, men's wear brand, and the Que Je Vais, women's wear brand, and held the first men's wear fashion show in Korea
- 1987 Achieved annual clothing exports over USD 10 million
- 1988 Launched 12 fashion brands under umbrella brand "Heartist"
- 1989 Completed the Yeosu Plant and advanced into cutting-edge engineering plastics  
Awarded the domestic textile industry's first '100-Million Dollar Export Tower Prize' on the 26th Export Day

**A REFINING REVOLUTION**  
(1984-1992)

- 1991 Established Associated Wool Exporters Pty. Ltd., a subsidiary based in Sydney, Australia  
Awarded Bronze in the 'Group Technology Awards' for developing ABS resin for refrigerators  
Developed the world's 3rd 1PP fabric, and launched the premium fabric brand Lansmere  
Awarded the '1R52 Chang Young-sil Award' for developing Korea's first 120-yarn-count fabric
- 1992 Developed and launched Staron, Cheil Industries' artificial marble brand

# strong

Backed by our diversified business portfolio, Cheil Industries is well prepared to meet the challenges of the future and to deliver strong results.

- 1993 Completed the artificial marble factory at Yecheon Plant
- 1994 Succeeded in developing and commercializing EPS for casting
- 1995 Developed and launched high quality flame-retardant ABS  
Established Tianjin Samsung Wool Textile Co., Ltd. in China  
Became the first large Korean company to complete an EBO (Employee Buy-Out)  
Developed hi-impact PS (HIPS)
- 1996 Completed the EP factory at Yecheon Plant
- 1997 Developed engineering plastics for mobile phones
- 1998 Bean Pole awarded "Top Brand of the Year" at the 1998 Seoul Fashion Awards
- 1999 Absorbed SS Fashion and acquired the fashion business of Samsung Corporation  
The highly functional flame-retardant HIP resin and CMP slurry for semiconductors were chosen as "Korea's Top 100 Technologies in the 20th Century", organized by the Ministry of Science and Technology and Seoul Economic Daily
- 2000 Formed a new Business Unit for IT materials  
Acquired the Overseas Business Fashion Team of Samsung Corporation  
Cheil Industries' flame-retardant ABS was honored by the 'World Best Awards', presented by the Korea Management Association  
Cheil Industries' fashion business received the 'Korea Marketing Award' from the Korea Management Association
- 2001 Chemical R&D Center awarded 'IR52 Chang Young-sil Award' for developing eco-friendly, non-halogen, flame-retardant ABS resin
- 2002 Completed construction of the Gumi IT materials production complex; flame-retardant ABS and transparent ABS selected as two 'World's Best' products by the Ministry of Commerce, Industry and Energy  
Men's wear business awarded top prize at the 'Brand Power Awards', sponsored by the Korea Management Association  
Completed the Sink & Bowl artificial marble plant
- 2003 Opened the Milan Design Center in Italy (fashion design)  
Opened the Daegu Opera House and donated to Daegu-si
- 2005 Established the Cheil Industries-Sungkyunkwan University Advanced Materials Research Center  
The Yeosu Plant was inducted into the Hall of Fame of the National Productivity Awards  
Established Samsung Fashion Design Fund

THE BIG ACHIEVEMENTS  
(1993-1999)

REACHING NEW HEIGHTS  
(2000-2005)



# creative

Cheil Industries is a 'Creator of cutting edge materials and sensibility'. We create value for sustainable growth through unconventional challenges and creative thinking.

- 2006 Established Samsung Chemical Europe GmbH in Germany
- 2006 Incorporated the subsidiary ACE Digttech EP resin for automobiles acquired global accreditation from GM
- 2008 Completed the polycarbonate (PC) plant  
Opened the Bean Pole New York Design Studio
- 2009 Completed new plant for Engineered Stone  
Awarded the Presidential Award in the "RFID Industrialization Awards"  
Exported ABS technology to Jilin Petrochemical Company of China
- 2010 Tapped into the eco-friendly water-treatment membrane business  
Completed the construction of a synthetic resin compounding plant in Tianjin, China  
Established Samsung Chemical Hungary LLC, a subsidiary for chemical business  
Selected as a leading company of the Top 10 World Premier Materials (WPM) Development Project, designated by the Ministry of Knowledge Economy (plastic materials for flexible displays)

GOING GLOBAL, GOING GREEN  
(2006-2010)

- 2011  
January Received the 'IR52 Chang Young-sil Award' for developing a photosensitive paste for PDP electrodes
- May Received the 'IR52 Chang Young-sil Award' for developing an eco-friendly flame-retardant new platform material
- June Launched Derercuny, a high-end women's wear brand for seniors
- August Merged with Ace Digttech  
Chemical R&D Center won a major award at the Nano Korea Awards for its CNT polymer composite
- September Launched MONO+, a contemporary line from the Rogatis Collection

THE NEW MOMENTUM  
(2011)

# THE FUTURE STARTS NOW

We make a better tomorrow through our efforts today. Cheil Industries is committed to socially responsible management to create a future where more people can enjoy happiness and harmony. We faithfully fulfill our responsibilities toward customers, local communities and the environment. Based on the belief that growth can only come about when social and environmental values are pursued alongside economic growth, we do our utmost to create future-oriented value.



# you are

demanding

loving

growing



# demanding

Since its founding in 1954, Cheil Industries has always been changing and getting better. However, we have remained constant in our efforts to make our customers happy, and to put them at the center of our business. We will continue to be a customer-focused business in the future.

As a company that places the highest priority on our customers, we have achieved differentiated customer satisfaction. In 1986, Cheil Industries launched TOPFAS (Top Fashion Adviser), the domestic fashion industry's first-ever professional service organization, to provide training on advanced customer service. In 2007, this training institute became a Customer Service Center, where training is carried out on a full range of customer service issues. We provide top quality service to customers based on a vision of 'designing customer happiness' and a philosophy called the Heart Touch Service (HTS). As part of these services, Galaxy held 'The Timeless Concert' in 2011 for its customers. In addition, we enacted strict guidelines for handling customer information to ensure safe management of confidential customer information. We also undertake cyber security training, and have built a security infrastructure which guarantees the best in customer satisfaction.

## Customer Satisfaction

# 2011

Selected as 'Korea's Most Respected Company' by the Korea Management Association, and winner of first place in the clothing industry of All-Star Companies for the second straight year

### K-BPI

Galaxy ranked No. 1 brand in the K-BPI in the men's suit category for nine consecutive years from 2004 through 2012

# 14 years

First place for fourteen consecutive years since 1998, excluding 2004, in the men's suit category for the National Customer Satisfaction Index (NCSI), organized by Korea Productivity Center

Bean Pole ranked the No. 1 brand for nine consecutive years from 2004 through 2012 in the casual wear category of Korea's Brand Power Index (K-BPI)

New Concept of Customer Satisfaction

- Happiness Mileage
- Heart Touch Service
- Forget-Me-Not Service

### TOPFAS

Top Fashion Adviser, the domestic fashion industry's first-ever professional service organization providing training on service etiquette and advanced customer service



VOS  
Voice of the Customer, which actively responds to customer suggestions and complaints

One-Stop Service  
Maximizing customer satisfaction from initial purchases to after-sales service

# loving

Being a positive force for change in the communities where we live and work is an important part of who we are. We take a proactive approach to corporate social responsibility, marking our commitment to being a loving neighbor.

Based on a philosophy of sharing and co-prosperity, Cheil Industries does its best to fulfill its responsibilities as a corporate citizen. We try to design hope for tomorrow and create a happy and harmonious society through activities that embody our employees' warm hearts and passion. Cheil Industries' first Social Volunteer Team was founded in 1995 for a more systematic and effective social contribution program. Since then, we have been sponsoring children, supporting local communities in Korea and abroad, and carrying out environmental-based activities with the respective mottos, 'Design for Children', 'Design for Happiness', and 'Design for Green'. Through our volunteer work and social contributions, we are creating a new paradigm in CSR, spreading happiness among ourselves and those we are helping, while also instilling pride in our employees and enhancing their quality of life.

## Community Contribution

Established the first Social Volunteer Team of Cheil Industries

1995



359,649,849  
Donations made by employees  
(Unit: KRW)



Core Areas of CSR Activities

- Design for Children
- ...
- Design for Happiness
- ...
- Design for Green



Social contribution expenditures in 2011

(Unit: KRW)

3,063,876,087

Participation rate of employees in donation activities

72%



Heart for Eye

155

Number of children who had their eyesight restored thanks to KUHO's 'Heart for Eye' donations

8.7



Volunteer hours per employee  
(Unit: Hours/Year)

218

Number of team leaders for Social Volunteer Teams

# growing

Sustainability is fundamental to Cheil Industries' business model. It guides how we work, how we design products and how we manage our people and operations. And it leads us to create a better tomorrow for the next generation.

**Environmental Protection**

Cheil Industries is active in the Samsung Group's 'Green Management Vision 2020'. We also have established a mid- to long-term strategy to meet the goal of having our eco-friendly products account for 20% of total products and reducing greenhouse gas emission levels by 20% by 2020. In addition, Cheil Industries operates in compliance with the requirements of Korea's 'Basic Act on Low Carbon Green Growth' by submitting all the relevant reports and implementation plans, reducing our greenhouse gas emissions and saving energy. We abide strictly by all relevant regulations, and receive and retain various global certifications.

2011 Greenhouse gas emissions vs. sales in 2011  
(Unit: Tons/KRW 100 million, For all business sites of Cheil Industries)



**27.0%**

BOD emission reduction vs. sales in 2011  
(EM and chemical businesses)

**0.70**

Atmospheric dust emissions vs. sales in 2011 (Unit: Kg/ KRW 100 million)

Greenhouse gas emission reduction vs. sales in 2011  
(For all business sites of Cheil Industries)

**11.8%**



**63%**



Waste recycling ratio  
(EM and chemical businesses)

'Global Top' in Green Management  
Samsung Green Management Vision 2020

Top Two Values in the Samsung Green Management Vision 2020



Pursuing sustainable growth



Practicing social responsibility

2011 Green Management Vision 2020

Cheil Industries' mid- to long-term green management strategy

# CHEIL INDUSTRIES

## CONTENTS

### 1 MORE DIALOGUE WITH STAKEHOLDERS

- 24. Management Principles and Corporate Vision
- 26. CEO Message
- 28. Board of Directors
- 30. Corporate Governance
- 31. Stakeholder Value
- 32. Shareholder Relations

### 2 INNOVATION FROM EVERY ANGLE

- 36. Business Overview
- 38. Chemicals
- 42. Electronic Materials
- 46. Fashion
- 50. Research & Development

### 3 SUSTAINABLE ANSWERS FOR FUTURE

- 56. Vision of Sustainable Management
- 58. Ethical Management
- 60. Human Resources Management
- 62. Green Management
- 64. Social Contributions

### 4 PROFITABILITY & STABILITY

- 70. Financial Highlights
- 72. Management's Discussion & Analysis
- 76. Consolidated Financial Statements
- 84. Independent Auditors' Report
- 85. Report of Independent Accountants' Review of Internal Accounting Control System (IACS)
- 86. Global Network
- 88. Organization Chart

# MORE DIALOGUE WITH STAKEHOLDERS

Trust and cooperation with stakeholders are essential in developing a strong company. This is why Cheil Industries uses diverse communication channels to communicate with its various stakeholders, including shareholders, employees and local communities, and reflects their opinions in its management. This Report tells **THE STORY OF SUCCESS** about how Cheil Industries engages in dialogue with stakeholders and shapes the future together with them.



**WE WOULD  
LIKE TO THANK  
OUR VALUED  
SHAREHOLDERS  
FOR THEIR  
UNYIELDING  
SUPPORT FOR  
CHEIL INDUSTRIES.**

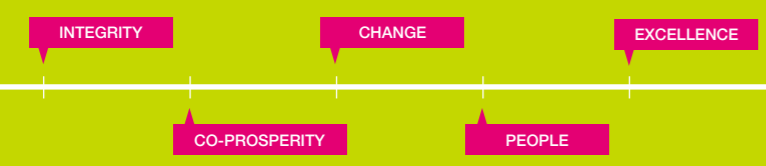
*To our shareholders,*

A very uncertain business environment, triggered by the ongoing and protracted economic crisis, is threatening the existence of many companies. Cheil Industries, however, is overcoming these challenges and trying to build drivers for its future growth through the unique competitiveness and innovation that makes us even stronger in difficult situations. Cheil Industries will become a better company from being tested through this crisis, and will create and share greater value with our shareholders.

# MANAGEMENT PRINCIPLES AND CORPORATE VISION

We will make our vision a reality based on a commitment to the very best in management philosophy.

## Samsung Values



### Value Structure of Samsung

Samsung exists to create the best products and services through talented personnel and advanced technology, ultimately contributing to all humanity. This management philosophy is both the very reason for Samsung's existence and its ultimate goal. Centered on five core values, this management philosophy establishes our identity, and defines the basis and direction of all the decisions we make in relation to the company's various activities.

### The Future Vision of Cheil Industries

Cheil Industries has established a creative and innovative corporate culture based on the value structure of Samsung. We are striving to introduce innovation in all business areas, including products, technology, marketing and processes, in order to realize our vision of becoming a leading global company.

Backed by our clear, consistent vision as well as our creative capabilities and a willingness to meet any challenge, we will actively respond to changes that take place in the market. To this end, our Chemical and EM Divisions will develop eco-friendly materials and build next-generation display business. Our fashion division will gain further momentum in China and create new brands. On the strength of growth engines for the future, we will realize our vision of becoming a truly world-class company.

The primary financial objective of a company is to make profits. Doing so through sound management is a precondition that needs to be met so that a company can continually develop and contribute to society. This belief is the entrepreneurial spirit that has made the Samsung Group what it is today. In addition to creating economic value, Samsung has a strong philosophy of contributing to the nation and the world by generating social value. This means that Samsung is placing the development of the national economy and the co-prosperity of humanity, including its employees and customers, at the center of its business operations. Samsung's philosophy is based on its entrepreneurial spirit and is its *raison d'être*, the ultimate rationale behind Samsung's drive for success since its foundation.

As the parent company of the Samsung Group and one of its main subsidiaries, Cheil Industries will continuously strive to contribute to society by developing the best products and services through our talented employees and advanced technologies in various business fields.



To our shareholders,

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## CEO MESSAGE

*Cheil Industries is becoming a leading global company, and will continue to achieve outstanding results. We will strengthen the foundations of our sustainable growth while fulfilling our wider responsibilities, so that our corporate growth can create value shared by all.*



### Dear Cheil Industries stakeholders,

My name is Jong-woo Park, and I was appointed as the new CEO of Cheil Industries this year. I would like to sincerely thank you for the unwavering support and interest you've shown to Cheil Industries, and it gives me great pleasure to have the opportunity to introduce myself in this Corporate Report.

Launched in 1954 as the parent company of the global Samsung Group, Cheil Industries has long been on the front line of industry, leading the nation's economic growth. Through our commitment to continuous innovation and by facing every challenge presented to us, we have expanded our business to include textiles, fashion, chemicals and electronic materials. Even in today's rapidly-changing business environment, we have strengthened our foundations for sustainable growth.

The global economy remained stagnant in 2011 as a result of soaring raw material prices, protracted economic risks coming from Europe, and downturns in other advanced economies. Despite these and other unfavorable conditions, Cheil Industries maintained its growth momentum, and our revenues reached a record high of KRW 5.6 trillion; this was made possible by building on the capabilities we have developed over almost six decades.

We expect that the global economy will continue to make the business environment difficult in 2012. We have, therefore, set our management goal for this year to be 'a strong company that will achieve maximum efficiency and the best results possible'. We will grow into a global company with a stronger internal structure and more market flexibility even in difficult conditions by implementing the following key strategies:

### First, we will considerably enhance our speed in business.

Cheil Industries' main businesses are cutting-edge IT materials and fashion, and the fast-developing technologies and trends in these businesses determine success or failure. A company cannot be competitive just by satisfying customer needs and following market trends – they have to be a step ahead. Only companies that anticipate what customers want, and those who set new trends, can lead the market. We will therefore improve our speed of thought and action in all corporate activities, helping us to build a strong position in our various markets and to create a virtuous cycle that will enable sustainable growth.

**Second, we will maximize the efficiency of our management.** In an ever-changing international environment and difficult economic conditions, improving our organizational structure is a vital task for the company, so that it can cope with these difficulties and increase the speed of our corporate activity. Going forward, our management activities will focus on enhancing efficiency; we will create optimal business processes and allocate resources efficiently across all aspects of our business – R&D, production, sales and support – to achieve the best results.

**Third, we will put the highest priority on achieving the best results.** The ultimate goal of business management is to generate profits. We will look closely and honestly at our company to identify and address underperforming elements, enabling us to become an organization that maximizes its business results and generates the best possible levels of profitability. A company that is set up to be truly performance-oriented can make profits irrespective of business fluctuations and achieve its corporate vision through a flexible and creative organizational culture.

### Lastly, we will fulfill our responsibilities as a corporate citizen.

We will expand our social contribution activities for the local communities around our business sites. We will also create an open corporate culture, one in which our stakeholders' opinions are listened to attentively and actively incorporated into management activities. Our drive to create economic value will enable us to share greater social and environmental value. We will do our best to be a company that grows and shares the fruits of our success with every member of society.

The 2011 Corporate Report contains detailed information on the company's business performance last year, as well as information on our relationship with stakeholders and various sustainable management activities. I hope this Report helps you feel a greater sense of community with Cheil Industries, and I ask for your continued encouragement and support throughout this coming year.

Thank you.

May 2012

CEO and President of Cheil Industries

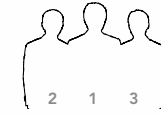
Park, Jong-woo



# BOARD OF DIRECTORS

*Cheil Industries' Board of Directors is the company's top decision-making organization consisting of three standing directors and four non-standing directors. The Board is implementing responsible management to ensure a sustainable future.*

## STANDING DIRECTORS



### 1 PARK JONG-WOO PRESIDENT & CEO

Currently President and CEO of Cheil Industries  
2009 CEO of Samsung Electro-Mechanics  
2006 President and Head of Printing Division at Samsung Electronics Digital Media  
2002 Executive Vice President and Head of Printing Division at Samsung Electronics Digital Media  
2001 Executive Vice President and Head of Printing Division at Samsung Electronics Digital

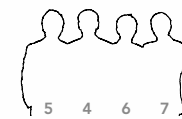
### 2 LEE JANG-JAE EXECUTIVE VICE PRESIDENT

Currently Executive Vice President in charge of Chemical Division at Cheil Industries  
2009 Executive Vice President and Head of Chemical Division at Cheil Industries  
2008 Executive Vice President of Digital Printing Business Unit at Samsung Electronics  
2007 Executive Vice President in charge of Strategic Marketing Team at Samsung Electronics  
2000 Vice President of Overseas Business Group at Samsung Electronics

### 3 LEE SEOUNG-KU EXECUTIVE VICE PRESIDENT

Currently Executive Vice President in charge of Management Support Division  
2011 Executive Vice President and Head of Samsung Electronics' SSL (LCD)  
2008 Executive Vice President and Head of Business Operation Team at Samsung Electronics' China Headquarters  
2005 Vice President in charge of Business Operation Team at Samsung Electronics' China Headquarters  
2001 Vice President in charge of Business Support Team in Digital Printing Business Unit at Samsung Electronics

## NON-STANDING DIRECTORS



### 4 KIM YOUNG-JIN OUTSIDE DIRECTOR

Currently Professor of the College of Business Administration at Seoul National University  
2007 Outside Director of Cheil Industries  
1979-1982 Associate Professor of the College of Business Administration at Bowling Green State University

### 5 KIM SUNG-JIN OUTSIDE DIRECTOR

Currently Lawyer at Bae, Kim & Lee LLC  
2009 Outside Director of Cheil Industries  
1995 Authorized to practice law in New York, USA  
1983 Passed the 25th Korean bar exam

### 6 HONG SEOK-JOO OUTSIDE DIRECTOR

Currently CEO and Managing Partner of Locus Capital Partners  
2010 Outside Director of Cheil Industries  
2006 President & CEO of Korea Investment Corporation  
2004 President & CEO of Korea Securities Finance Corporation

### 7 KIM NAN-DO OUTSIDE DIRECTOR

Currently Professor of the College of Human Ecology at Seoul National University  
2012 Outside Director of Cheil Industries  
2008 Member of the KBS Viewers' Committee  
2004 Director of the Hoam Faculty House at Seoul National University  
1997 Visiting Researcher at the Electronics and Telecommunications Research Institute



# CORPORATE GOVERNANCE

*Outstanding corporate governance is a source of corporate competitiveness and a basic requirement for stable growth.*

By engaging in quality-focused management and establishing a strong corporate governance system, we protect shareholder rights, bolster corporate competitiveness, and promote the healthy development of our markets. We have adopted the outside director system to ensure fairness and transparency in management. As of 2012, three of the seven members of the BOD are standing directors. The remaining four outside directors are experts in the fields of management, law, finance and the consumer. Pursuant to Article 382 of the Commercial Act and Article 22 of our Articles of Association, outside directors are recommended by the BOD and the Outside Director Candidate Recommendation Committee, and are appointed in a general shareholders' meeting. All outside directors have outstanding professional knowledge, considerable practical experience and a solid reputation in business and with the public.

Cheil Industries has maintained a directors and officers liability insurance policy since 1999 to insulate the company's decision-makers from undue influence from minority shareholder demands. The coverage limit as of 2012 is KRW 20 billion, the same as the previous year.

### Board Committees and Independent Auditors

**Management Committee** | Membership consists of three standing directors. The Management Committee makes resolutions on management and financial agenda items assigned by the BOD, aiming to ensure more timely and efficient decision-making on pending management agendas.

**Outside Director Candidate Recommendation Committee** | Membership consists of two standing and three outside directors. This Committee is responsible for recommending candidates to serve as outside directors.

**Audit Committee** | Membership consists of the four outside directors. The Audit Committee has the authority to audit the company's accounting records and management affairs, request information from directors, and monitor the financial status of the company.

**Independent Auditors** | Deloitte Anjin LLC. (Appointed: March 2, 2010; Contract period: 3 years)

### 2011 BOD Activities

No.	Date	Agenda	Result	Outside Directors in Attendance
1	Jan. 21, 2011	❶ Approval of 2010 financial statements and business report ❷ Approval of management plans for 2011	Approved	4/4
2	Feb. 24, 2011	❶ Call for the 57th shareholders' meeting ❷ Investment in PC polymerization expansion for the chemical business ❸ Approval of ceiling on transaction amounts with major shareholders (Reports) 1. Report on the operation of the internal accounting management system 2. Report on evaluating the operation of the internal accounting management system	Approved	3/4
3	Mar. 18, 2011	❶ Delegating the matter of director remuneration ❷ Appointment of members of the Outside Director Candidate Recommendation Committee	Approved	4/4
4	Apr. 13, 2011	❶ Merger of Ace Digitech ❷ Closing of the list of shareholders and setting of base date	Approved	4/4
5	Apr. 29, 2011	❶ Approval of 1Q 2011 financial statements	Approved	4/4
6	Jun. 1, 2011	❶ Approval of merger contract with Ace Digitech ❷ Capital increase of Gemi Plus in the fashion business	Approved	4/4
7	Aug. 1, 2011	❶ Approval of 1H 2011 financial statements ❷ Report on completion of merger with Ace Digitech	Approved	3/3
8	Oct. 28, 2011	❶ Approval of 3Q 2011 financial statements	Approved	3/3

\* Outside director Kang Hye-ryeon retired for personal reasons on June 7th, 2011, before the end of her tenure.

# STAKEHOLDER VALUE

*We will do our best to create the economic and social value that will have a positive impact on all of our stakeholders.*

Cheil Industries strives to grow alongside all our stakeholders – shareholders, investors, management, employees, suppliers, customers and local communities – through continued growth and ever-increasing corporate value. We do everything we can to make a positive impact on stakeholders, and thus establish ever-stronger cooperative relationships and open the path to mutual benefit. To this end, we have established solid and efficient communication channels for all stakeholders, enabling us to respond actively to stakeholder demands and comments.



### Communication Channels for Stakeholders

**Shareholders** | Earnings releases; Analyst Days; Site visits; Participation in domestic and international conferences and NDRs; Regular shareholders' meetings; Regular BOD meetings; Strategy and vision-sharing meetings; Disclosure of material information regarding business management; IR website; Issuance of business reports, etc.

**Business Partners** | Compliance with four major guidelines when signing a contract and use of a standard contract for subcontracting; Launch of a compliance system; Win-win portal system; Regular meetings with business partners; Ombudsman system for business partner grievance counseling; Creation of a win-win cooperation fund; Cash payment; Financial support for outstanding business partners to purchase facilities; Expansion of job training for business partners; Improvements in business partner-related events; Expansion of joint overseas businesses; Free support for business partners in relation to patents or free leases, etc.

**Employees** | CEO letter and video message; Quarterly labor-management gatherings and council meetings; Labor-management council workshops; Sharing of business reports; Ombudsman's office; Special lectures for employees; Employee Family Invitation Day; Employee satisfaction surveys; Support for club activities, etc.

**Customers** | Consumer grievance resolution and feedback program; Customer support office; Product satisfaction surveys; Corporate image surveys; Customer participation in the product development process; Company and product websites; Sex education programs for youths and women; Various seminars and symposia; On-line communication, etc.

**Local Communities** | Policies and processes to respond to community demands; Cooperation with civic groups; Social contribution activities; Social volunteering by employees' families; Sisterhood ties with the local community; Seminars and symposia; Issue monitoring, etc.

# SHAREHOLDER RELATIONS

*Maximizing shareholder value is our highest priority, and can best be achieved through transparent and accountable management.*



To repay our shareholders and investors for their continued trust and support, we make every effort to generate strong profitability through transparent management. We are proactive in our investor relations (IR) activities, creating channels that are used to collect shareholder opinions and continually providing objective and impartial information on the state of the company and its prospects. We engage in these diverse efforts to fulfill our responsibilities toward investors and to maximize shareholder value.

## Major IR Activities

**IR Conferences and Roadshows at Home and Abroad** | We are active in domestic and overseas IR events to exchange information and communicate more closely with investors. In addition to IR conferences in Korea, we participate conferences in each of the Americas, Europe, Southeast Asia and Japan at least every six months

or every quarter. We also conduct regional non-deal roadshows (NDR) to visit major investors at home and abroad and to provide them with updated management information. In 2011, Cheil Industries participated in 17 domestic and foreign conferences and NDRs, including the KIS Investors Forum and the Samsung Overseas Conference.

**Briefings on Quarterly Earnings** | Cheil Industries holds quarterly briefings to provide transparent and impartial information on important management issues and performance. The briefings take place through online conference calls, and all relevant materials are posted to Cheil Industries' website so that anyone can access the information without restrictions of time or location. The heads of IR and each business division take part in the briefings to make sure that all investor concerns can be fully dealt with.

**Internal and External Communications** | As part of our efforts to provide open communication channels to domestic and overseas investors, we actively respond to requests made by investors to visit the company. Each year, we have more than 250 company visits. Through these visits, investors are provided with quick and accurate information on the company's management and business prospects. We also publish a Corporate Report every year in both Korean and English, and distribute the report to the public in printed form and online. The report is used as a means of communicating with all stakeholders, including shareholders and customers. As part of our internal communication, we share information on stock prices and industry trends. We provide daily, weekly and monthly market information to internal stakeholders to improve management efficiency, and, starting in January 2011, we have been distributing the IR Monthly Report to internal stakeholders.

**Awards** | Cheil Industries publishes a Corporate Report which serves as one of the company's main communication channels with stakeholders. It has broken away from the standard formal format of annual reports to talk openly about the company's sustainable future and vision. The Corporate Report has even received recognition overseas: our 2009 Corporate Report earned two Gold Awards – one for the Green/Environmental Annual Report in the chemical sector, and the other for Non-English Annual Report in the electric/electronic materials sector – at the ARC Awards, a globally renowned annual report and sustainability report competition. We also received the Grand Award in the Non-English Annual Report category for the first time in our history. Our 2010 Corporate Report achieved even more: it won Gold Awards in a total of five

categories, including the Non-traditional Annual Report category. It also received the Grand Award in the Green, Environmentally Sound Annual Report category. At the LACP Awards, which is another global annual report and sustainability report competition, our Corporate Report received a gold prize in the electric and electronic materials category, and was ranked Top 32nd in Asia.

In 2011, Maeil Business Newspaper chose Outstanding IR Companies for the year 2010, using the criteria of reliability, drive and fairness in IR activities. Cheil Industries was chosen as the Best KOSPI IR Company, giving us recognition for the IR activities we carried out to provide accurate and transparent information for greater shareholder value.

**Disclosure** | In accordance with Articles 186-2 and 186-3 of the Securities Trading Act, Cheil Industries submits an annual business report based on data current as of December 31, a half-term report based on data current as of June 30, and quarterly reports based on data current to March 31 and September 30. All the foregoing reports are disclosed in accordance with the regulations of the Financial Supervisory Service with respect to the issuance of securities and public notices on securities, and Korea Stock Exchange regulations on securities market notices. The company has made voluntary disclosures of important management issues since 2002.

## Results of the Corporate Governance Evaluation

Cheil Industries is always doing its best to enhance corporate value and create an exemplary management environment by improving its corporate governance. Consequently, our company's governance rating was upgraded from Moderate to Good in 2007, and it remained at that level for four straight years through 2010. The rating was provided pursuant to the Korea Corporate Governance Stock Price Index (KOGI), which measures corporate governance standards based on stock price performance, and is calculated jointly by the Korea Corporate Governance Service and Korea Exchange. In 2011, a new evaluation method called ESG was adopted which comprehensively assesses corporate governance as well as social and environmental achievements. Cheil Industries received an A grade.

## Corporate Governance Ratings for the Past Five Years

Year	Rating
2011	A*
2010	Good
2009	Good
2008	Good
2007	Good

\* ESG consists of five grades: A+, A, B+, B and C

## Dividend Status

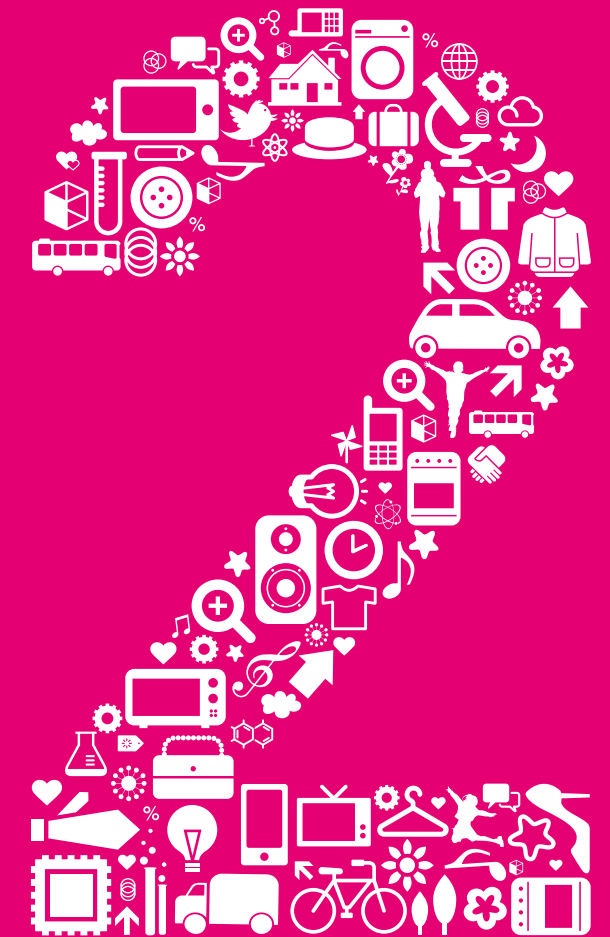
Our revenues went up in 2011 but net income fell mainly due to a difficult business environment caused by the global economic downturn. In addition, we are planning to increase investments substantially in 2012. We were, therefore, in a situation where we were under pressure to reduce dividends in order to minimize any rise in borrowings and to affirm our sound financial structure. However, we held our dividends at the previous year's levels to provide continuing value to shareholders. Moving forward, we will improve performance through active investments and efforts to curtail costs, thereby creating greater shareholder value and enhancing our corporate value.

## Dividend for the Past Five Years

	2007	2008	2009	2010	2011
Standard Stock Price (KRW)	53,100	38,363	55,550	104,800	101,000
Net Income (KRW billion)	151.3	157.5	127.0	240.4	241.1
Dividend (KRW)	750	750	750	750	750
Par Dividend Rate (%)	15.0	15.0	15.0	15.0	15.0
Dividend Yield (%)	1.4	2.0	1.4	0.7	0.7
Payout Ratio (%)	24.1	22.8	28.3	15.0	15.7

# INNOVATION FROM EVERY ANGLE

Creativity and innovation are the core values and key strengths that Cheil Industries applies throughout all of our business processes. In particular, we continue our creative innovation to provide better products and differentiated services to our customers. This Report conveys **THE STORY OF INNOVATION** from Cheil Industries, designing not just customer satisfaction but customer happiness as well.



**OUR SUCCESS HAS BEEN BUILT ON A CONSISTENT STRATEGY EMPHASIZING CONTINUOUS GROWTH IN HIGHER VALUE PRODUCTS AND A STRONGER CUSTOMER FOCUS.**

*To our customers,*

Since its founding, Cheil Industries' principle of placing highest priority on our customers has driven our change and innovation. Customer satisfaction is our raison d'être and ultimate goal, which is why we create products of top quality and value. This is what has enabled today's success. Cheil Industries is now growing into a global leader in partnership with our customers; we will go beyond customer satisfaction and move the hearts of customers by offering innovative products and optimal solutions.

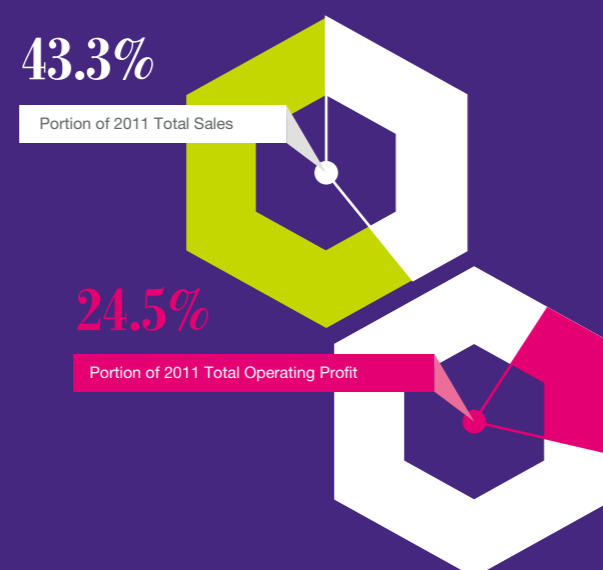
## BUSINESS OVERVIEW

### Driving change through unconventional innovation

We will further upgrade our current business by reducing costs through better raw material procurement, improving quality and yield, boosting productivity, and through increased competitiveness in manufacturing and distribution. By expanding our business to include resins for automobiles as well as resins for IT, we will build a fully stable business structure. We will also develop distinctive new products and enhance process technologies. In doing so, we will produce a greater number of the world's best products, thus developing mid- to long-term growth drivers. Construction of our new PC II production lines is slated for completion in the second half of 2012; this is expected to contribute substantially to the expansion of the company's share of the high value-added product market.

Enhance business efficiency and develop mid- to long-term growth drivers

#### Chemical Division



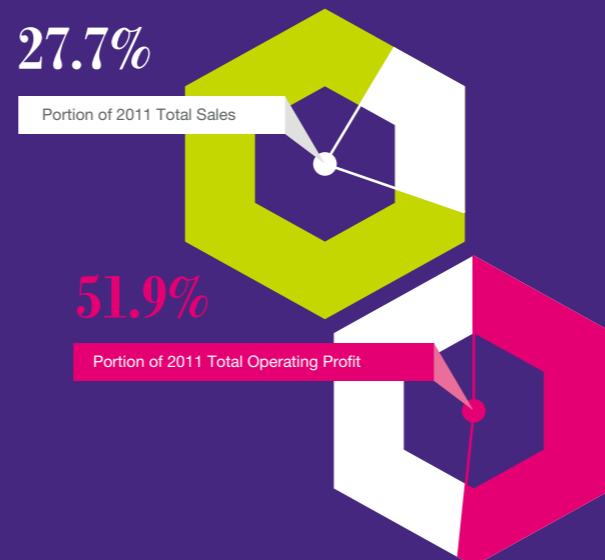
Starting as the parent company of the Samsung Group in 1954, Cheil Industries has engaged in continued corporate transformation, and has grown alongside the Korean economy, leading the market. We launched the production of fabrics back when the domestic manufacturing industry was not yet fully established, intending to localize the production of woolen textiles. Following this, we undertook a new transformation by moving into the fashion industry in the 1970s; Cheil Industries then grew into Korea's leading fashion company. However, we were never complacent; we diversified our business portfolio in the 1980s to include chemicals, regarded as new and cutting-edge materials. By developing such synthetic resins as ABS and PC, we enhanced our business competencies and established a highly-competitive market position. We went further in the 1990s and entered the electronic materials business, involving the production of semiconductor and display materials. We have thus succeeded in adopting a strategic, multi-dimensional management system.

In the 2000s, Cheil Industries continued to grow through a diversified business portfolio that encompasses chemicals, electronic materials and fashion. We are now seeking and building new businesses that will bolster our future competitiveness, focusing on developing mid- to long-term growth drivers that will continue our mission of embracing change and innovation. Based on our belief that we can shape a better future by taking on challenges, Cheil Industries is developing into a global top-tier company.

Through improvements in the profit structure of key products and the timely development of new items, we will reorganize our business structure to concentrate on areas that generate high profits. In process materials, we will respond actively to new process changes in order to maintain recent high growth trends. In film materials, we will increase the operational efficiency of under-performing items and develop new products to build a business portfolio based on high efficiency. We will also strive to secure new technologies by actively expanding strategic alliances to ensure the early commercialization of new growth engines.

Build competitiveness by realigning business structure

#### Electronic Materials Division



The chemical business is our key business, and accounted for 43.3% of the company's total revenues in 2011. Even though a growth in sales was achieved in 2011 thanks to advanced product quality, customer diversification and increasing number of applications for our products, profitability went down slightly compared to the previous year owing to weak demand in the IT industry and soaring raw material prices. Despite these challenges, however, we are prepared for growth through the development of next-generation products and the completion of new PC II production lines. Through these efforts, we expect better results in 2012.

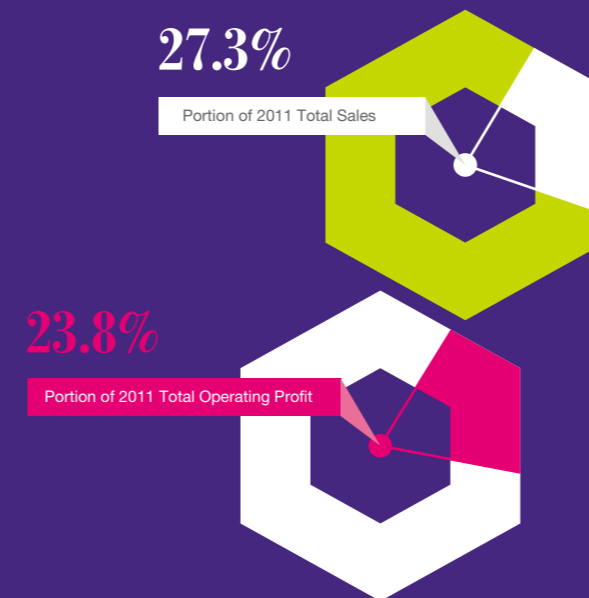
The electronic materials business is an area of strong growth. Its revenues accounted for a mere 8.3% of the company's total revenues in 2005, but surpassed the KRW 1 trillion mark for the first time in 2009, and then, from 2009 through 2011, brought in around 30% of our revenues, leading the company's overall growth. In 2011, operating income in this division accounted for 51.9% of the company total, playing a pivotal role in corporate profitability. We are focusing on developing high-margin and high-growth products to solidify our future growth drivers, thus becoming a leader in the electronic materials industry.

Renowned for its fashion business, Cheil Industries has defined the history of Korea's fashion industry. We have developed the nation's leading brands in men's wear and casual wear, and have recently expanded into women's wear, concept stores, accessories, SPA and outdoor wear. Moreover, we are building our brands in China and advanced markets like the USA. Placing the highest priority on brand value, Cheil Industries has established itself as the indisputable leader of the domestic fashion market, and is now striving to become a truly global fashion company.

We will improve both product quality and distribution, so that we can further enhance the stature of brands that already enjoy the highest market share in their respective markets, such as Galaxy and Bean Pole. In addition, our new businesses, including SPA and outdoor wear which were launched to secure future growth drivers, will be further expanded and improved. We will also actively increase our distribution channels, such as the online market, shopping malls and concept stores. In addition, we will continue to expand our presence overseas by building a firm foundation for growth in China, and then successfully completing our phased entry into advanced markets.

Solidify our leadership in the domestic market and boost global competitiveness

#### Fashion Division



To our customers,

Since its founding, Cheil Industries' principle of placing highest priority on our customers has driven our change and innovation. Customer satisfaction is our raison d'être and ultimate goal, which is why we create products of top quality and value. This is what has enabled today's success. Cheil Industries is now growing into a global leader in partnership with our customers; we will go beyond customer satisfaction and move the hearts of customers by offering innovative products and optimal solutions.

# Connecting the dots



Cheil Industries began its chemical business in 1989, as part of its business diversification, and, driven by constant innovation, we are now growing into a global chemical company. The construction of a state-of-the-art engineering plastics plant in Yeosu signified the beginning of our chemical business. In 1992, we expanded our business to include artificial marble, a cutting-edge construction material. Later on, we expanded our portfolio to encompass EP (Engineering Plastics) products, including flame-retardant ABS, sheet ABS and PC/ABS. We have thus secured competitiveness across many sectors; in particular, we became the first company in the world to develop the scratch-resistant ABS used in the exterior materials of TVs and home theaters, bringing international recognition of our technological prowess. We have also developed a reputation as an eco-sensitive company by developing PCM base materials, biomaterials, and other environmentally friendly materials. In addition, Cheil Industries is building a global management system befitting a world-leading company, based on overseas subsidiaries and manufacturing plants in the USA, Europe, China and elsewhere around the world.

*“What could be more exciting than shaping the future? Based on the belief that tomorrow is built on today, and every little success comes together to build great accomplishments, we will open a new chapter for cutting-edge materials in the 21st century.”*

**L** | Heejeen Kim, Junior Assistant  
General Affairs Group  
**R** | Wonjo Shin, Junior Assistant  
Global Operation Group, EM Division

# CHEMICALS

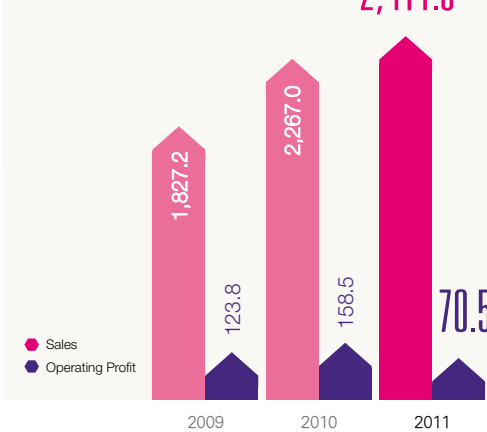
*Our high-quality chemical products contribute to a better quality of life.*



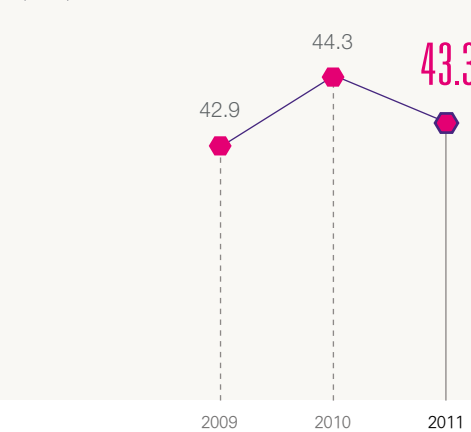
Cheil Industries' cutting-edge chemicals are the world's most competitive products. After completing the construction of a PC plant in 2007, Cheil Industries has continued to strengthen its high added-value EP business in order to become a leader in cutting-edge plastic materials. As a result, we have the world's highest market share in flame-retardant ABS for monitors and sheet ABS resins for refrigerators. Our resins for mobile phones lead the high-function resin market, with the highest market share in Korea and the second-highest in the world. We plan to develop more new materials, including high heat-resistant nylon, and expand new businesses such as resins for automobiles. This will help us to diversify our business structure, which was previously heavily focused on external materials for electronic products. Going forward, we are seeking stable growth through these multidisciplinary efforts, and growing into a global chemical company.



Sales & Operating Profit  
(Unit: KRW billion)



Sales Contribution  
(Unit: %)



## 2011 Performance Review and Outlook

Difficult conditions persisted throughout 2011, with sluggish demand showing no signs of a pick-up. This was the result of stagnation in the IT industry that has continued since the second half of 2010, coupled with unfavorable conditions around the world such as the European financial crisis and tight fiscal policies in China. There were also unexpected fluctuations in raw material prices, further increasing uncertainty in our business environment. Even in these challenging conditions, we have achieved significant results with a year-on-year 6.5% increase in revenue. This was made possible through continued efforts to lift sale prices and strong growth in some IT products such as smartphones and tablet PCs. However, other IT products, including TVs and PCs, saw very weak demand, and, with the additional pressure of raw material price increases, profitability fell slightly despite the rise in revenue.

We expect continued difficulties in the chemical market owing to fluctuations in raw material prices and global economic uncertainty. Notwithstanding this, Cheil Industries is determined to improve its competitiveness, so that we can overcome the challenges by expanding the range of high value-added products. In particular, we will achieve strong initial growth of our PC II production lines which are scheduled to be completed in the second half of 2012, and expedite the development of next-generation super EPs, thus remaining at the cutting-edge of the materials market. In addition, we will bolster the production and sales competitiveness of our subsidiaries in the USA, China, Europe and elsewhere, to ensure the timely supply of products that fully reflect the needs of local customers. This will enable us to build a competitive edge in the global market.



## Key Products

- Resins for TVs
- Resins for Monitors
- Resins for OA
- Resins for Automobiles
- Resins for Refrigerators
- Resins for Mobile Phones
- Resins for Laptops
- Staron, the Premier Artificial Marble Brand

- Resins for TVs**  
 Cheil Industries has the highest market share in the world for TV resins through its standard-setting high-gloss, scratch-resistant, flame-retardant ABS and PC resins. Our cutting-edge products enable the manufacture of durable and high-quality televisions with aesthetically beautiful exteriors.

- Resins for Monitors**  
 Cheil Industries developed the world's first non-halogen flame-retardant ABS resin, and now leads the world market for monitor resins, including our flame-retardant PC/ABS and scratch-resistant resins.

- Resins for OA**  
 Our exclusive technologies for flame-retardant ABS, HIPS and PC/ABS have made our products the most sought-after materials for the exteriors of OA devices. We have made further improvements to the physical properties of our resins by adding glass fibers that make the finished products more suitable for both home and office.

- Resins for Automobiles**  
 Our range of resins for use in the interior and exterior of automobiles is one of the most competitive in the world. We are market leaders in products such as heat-resistant ABS, super heat-resistant ASA and ABS for plating.

- Resins for Refrigerators**  
 Sheet ABS resin is a core component in the interior of refrigerators. It possesses excellent mechanical properties, sheet safety and vacuum sealing capabilities, enabling manufacturers to carry out sophisticated sheet metal forming operations using just a thin sheet. ABS's high chemical resistance helps to expand its range of applications, and has lifted Cheil Industries to the top in terms of market share in sheet ABS for refrigerators worldwide.

- Resins for Mobile Phones**  
 Our mobile phone resins have excellent shock absorption and high workability, making them suitable for small electronic devices. We have the highest market share in Korea and the second-highest market share in the world for mobile phone resins. We will lead the next-generation mobile phone resins market by developing eco-friendly resins from sustainable sources such as corn starch.

- Resins for Laptops**  
 Our exclusive flame-retardant technology was applied to the development of non-halogen flame-retardant PC/ABS and scratch-resistant resins. These resins have high processability, excellent mechanical properties during post-processing and a fine external appearance, making them ideal for mobile devices such as laptops.

- Staron, the Premier Artificial Marble Brand**  
 Staron is a cutting-edge construction material developed by our exclusive technology, and is widely used both for home and office interiors. Staron has received many international quality and safety certifications, including ISO 9002, an international quality specification, and ISO 14000, an international environmental management specification. In addition, our process in safety and the environment were reaffirmed by our acquiring certification for NSF51 Food Zone use compliance.



# Redefining state-of- the-art

After the success of our chemical business, we responded to the sharp growth in the IT industry by launching our EM (Electronic Materials) business, beginning in 1996 with the development of EMC, which is used for semiconductor circuit protection. We then expanded our production base, including CMP Slurry plants, beginning with the construction of an EM manufacturing complex at our Gumi business site in 2002. We also completed a merger with Ace Digitech and undertook mass production of a wide variety of EMs, resulting in high-speed growth. We are quickly becoming a major player in high-function EM products, thus going beyond our existing strongholds in textiles, fashion and plastics. By developing the most advanced materials, Cheil Industries will grow into a world-leading IT materials company, and will take the lead in achieving digital innovation for a more convenient and dynamic tomorrow.



*“State-of-the-art means more than developing the latest in technology. It means coming up with ideas before anyone else does, and using our creativity to see daily life differently, seeking solutions for better life. State-of-the-art begins with creative thinking.”*

Jongjin Kim, Junior Assistant, HR Group

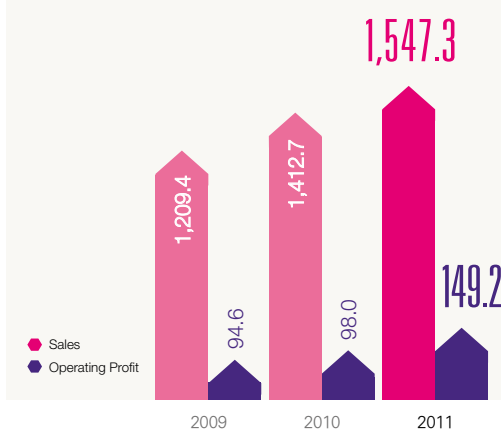
# ELECTRONIC MATERIALS

*Our green, cutting-edge IT technology opens up an exciting digital world.*

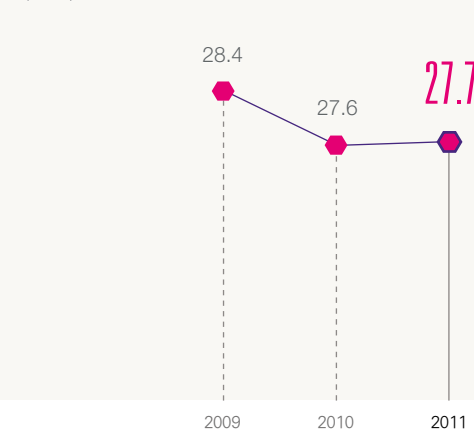


The EM business has improved its global competitiveness by developing distinctive products through continuous R&D and investment ever since Cheil Industries first entered this field. In particular, Korea has recently been leading the global IT expansion through various products such as TVs, semiconductors and smartphones, where our EM products are used as key materials. Recognized for innovative technology and outstanding quality, our EM products have boosted the company's overall growth, while contributing to enhance the nation's status as a leading player in digital technology. This is the result of our continuous efforts to advance the portfolio of our EM business, and to secure drivers of growth for the future. It is forecasted that this growth momentum will be maintained, as the OLED sector, in which the company has made steady investment, begins to show the fruits of those efforts in the near future. We will develop more products for both next-generation markets, such as OLED and secondary cells, and for existing markets, including semiconductors and smartphones. In doing so, we will win the key materials markets of the future.

Sales & Operating Profit  
(Unit: KRW billion)



Sales Contribution  
(Unit: %)



## 2011 Performance Review and Outlook

Despite continued stagnation in the IT market throughout 2011, the EM business achieved growth both in revenue and profitability by offering distinctive products. Revenues for films had a year-on-year drop owing to sluggish demand for displays. However, in the key process materials for semiconductors and displays, we achieved more than 40% growth in revenue over the previous year, thanks to steady improvements in quality and increased market share through new products. The merger with ACE Digitech which produces polarizer films, has helped us to integrate production and R&D, resulting in greater manufacturing competitiveness. We also saw the first revenue from OLEDs, a next-generation display – a significant accomplishment and an indication of a new business taking shape.

In 2012, Cheil Industries will advance R&D performance and bolster production efficiency. We will focus on developing next-generation technologies and on increasing overall competitiveness to lead the market. In the films business, we will return it to high profitability by improving the profit structure of key items and reorganizing the portfolio of under-performing items. Process materials are expected to maintain strong revenue growth and profitability through the timely development of new processes and expanding applications. We will establish the foundation for our continued growth by focusing on R&D and developing differentiated key materials.

## Key Products

- EMC (Epoxy Molding Compound)
- CMP Slurry (Chemical Mechanical Polishing Slurry)
- DAF (Die Attach Film)
- SWC (Specialty Wet Chemicals)
- Polarizer
- CR (Color Resist)
- PI (Polyimide)
- Diffuser Plate
- MAS (Multi Angle Sheet)
- ACF (Anisotropic Conductive Film)
- Paste

- EMC (Epoxy Molding Compound)  
EMC is a circuit protector that effectively protects semiconductor circuits from external damage and contamination.
- CMP Slurry (Chemical Mechanical Polishing Slurry)  
CMP Slurry is a material used in polishing wafers to remove the stepped pulley when configuring the micro-scale patterns and laminated circuits of semiconductors.

- DAF (Die Attach Film)  
This material functions as an adhesive for mounting chips on wafers in the packaging process for semiconductors.

- SWC (Specialty Wet Chemicals)  
SWC removes impurities, and thus ensure the seamless execution of semiconductor manufacturing processes.

- Polarizer  
Polarizers are fundamental to the functioning of LCD displays; they polarize the emissions generated by LCD light sources.

- CR (Color Resist)  
CR comprises of red, green, blue, black and a transparent body. It is a photosensitive color dispersing agent that is used in the manufacture of color filters, a core component in LCDs.

- PI (Polyimide)  
This is a material that controls the shutting-off of light by orienting the liquid crystal inside an LCD into a single direction.

- Diffuser Plate  
Used in the backlight unit within LCD TV panels, the diffuser plate is a highly transparent material that delivers light uniformly from the lamp to the screen.

- MAS (Multi Angle Sheet)  
MAS is a material that makes LCD light brighter and richer.

- ACF (Anisotropic Conductive Film)  
ACF is an adhesive film that is essential in forming connections to the minute circuits of flat panel displays. It acts by dispersing minute electrical conductive particles.

- Paste  
Paste is a high-viscosity liquid-conductive or insulating substance, used to form insulating bodies and components of electrodes in PDPs.



# Walking in the customer's shoes



Our fashion business has served as the foundation for today's Cheil Industries and, furthermore, the Samsung Group. Cheil Industries started its fabrics business in 1954, and grew into a major textiles maker before stepping into the fashion business in 1977. We have since steadily expanded our business to the point where we operate around 30 brands in men's wear, casual wear, women's wear, accessories, SPAs and outdoor clothing. Today, Cheil Industries is a Korea's leading fashion company. Our main brand, Bean Pole, was launched in 1989, and has diversified to include men's, women's and children's wear, as well as golf clothing, accessories and outdoor wear. In 2010, it became the first domestic brand to exceed KRW 500 billion in annual revenue, and Bean Pole is now going beyond domestic boundaries to extend into overseas markets including China and the USA. Cheil Industries will strive to become a truly global fashion company by strengthening its presence in global markets while maintaining its dominant position at home.

*“When we design a little boy's back pack for his first day at school, we share his excitement. For a Mother's Day gift, we thank our parents for their love and dedication. We go beyond designing products – we create happiness.”*

Sunah Park, Junior Assistant, Finance Group

# FASHION

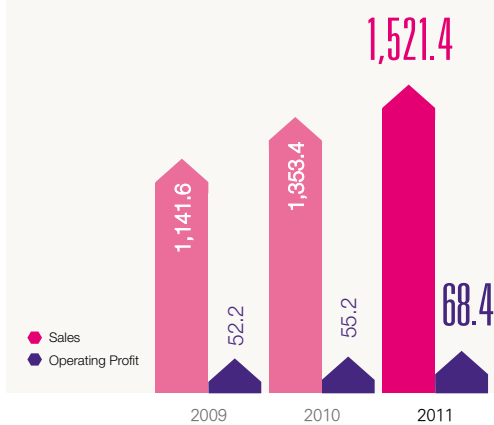
*Cheil Industries believes that true luxury is to design happiness.*



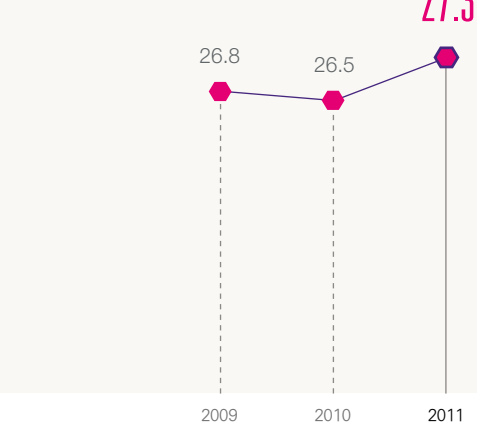
Our fashion business embodies the expertise and pride that we have developed over nearly 60 years. After achieving great success in our men's wear and casual wear businesses, we have diversified our brand portfolio to include women's wear, accessories, children's wear and outdoor clothing, which has helped us to maintain growth. We are also setting trends in areas such as high-end brands, SPA brands in fast fashion and concept stores. The secret behind our success is putting top priority on brand value – by upholding a brand philosophy that increases customer loyalty and continuing to unveil distinctive designs, Cheil Industries has become the leader among fashion companies in Korea. We are now ready to expand our runway to the global stage. We will further strengthen our market position in China, where brands such as Bean Pole, Galaxy and Rapido are already established, while also taking on advanced markets like the USA in a phased manner. In doing so, we will grow into a genuinely global fashion company.



Sales & Operating Profit  
(Unit: KRW billion)



Sales Contribution  
(Unit: %)



## 2011 Performance Review and Outlook

In 2011, the fashion industry saw difficulties owing to the global economic downturn and fierce competition. Cheil Industries, however, was able to strengthen its market position by building on core competencies and aggressively expanding its business. Galaxy and Bean Pole enjoyed a steady rise in revenues. We place great emphasis on identifying market trends ahead of our competitors to ensure the timely launch of brands that satisfy market demand; as a result, revenues from imported brands, such as theory and Tory Burch, grew sharply. We further diversified our brand portfolio by launching Derercuny, a high-end women's wear brand, and Thom Browne, a classic modern men's wear brand, and by acquiring Colombo, an Italian luxury brand. We thus further strengthened our lineup to advance into a total fashion company.

In 2012, purchases of clothing are expected to decrease as a result of a decline in consumer sentiment. However, Cheil Industries will reaffirm its position as a leading fashion company in Korea by enhancing its product quality and bolstering distribution competitiveness. We will increase revenues and profitability based on the strong growth of existing brands, while doing our utmost to complete successful settlement of our new SPA and outdoor brands. New brands will continue to be introduced for future growth drivers. In addition, we will build a localized product portfolio and advanced distribution channels that are suitable for the Chinese market, where demand is expected to increase in tandem with a rise in income levels. In doing so, we will solidify our competitiveness and establish the foundations for continued growth.

## Key Products

### CASUAL

Bean Pole  
Fubu

### MEN'S WEAR

Galaxy  
Rogatis  
MVIO  
Thom Browne

### WOMEN'S WEAR

KUHO  
theory  
Lebeige  
Issey Miyake  
Tory Burch  
Derercuny  
Colombo

### Bean Pole

This is a family brand that includes Bean Pole Men's, Ladies, Golf, Jeans, Kids, Accessory and Bean Pole Outdoor. Taken as a single brand, Bean Pole has the strongest brand power in Korea, and now, after entering the Chinese market in 2005, it is becoming a truly global brand.

### Fubu

Fubu is a global brand that was launched in New York in 1992, and is now available in around 60 countries across the globe. Its urban-style street casual clothes target consumers in their teens and twenties.

### Galaxy

Galaxy has consistently ranked at the top of domestic brand preference surveys for many years, and has made a successful entry into the Chinese market. By expanding its line to include the business casual brand, Galaxy Lifestyle, Galaxy has cemented its prestige and value as a total brand for men.

### Rogatis

Rogatis was launched in 1980. Over the years it has steadily improved quality and expanded its line to include the blue label, which is a classic suit line, and the green label, a high-end casual line for men, thereby attracting high praise in Korea and overseas.

### MVIO

MVIO is an urban-centered casual wear brand that targets men in their twenties. Since its launch in 1995, MVIO has been a consistent favorite of customers, thanks to its modern, refined style and unique look.

### Thom Browne

Thom Browne is an American fashion designer who is well known for his classic and modern men's wear designs. He signed an exclusive contract with Cheil Industries in August 2011, and has subsequently opened his first overseas store in Korea.

### KUHO

Managed by Cheil Industries' Managing Director Jung Kuho, who is in direct charge of design management, KUHO is a luxury brand that matches high-quality materials and classic lines with simple and sophisticated design. The brand has a great number of female fans, and is now growing into a premium international fashion brand.

### theory

Featuring an urban, sophisticated and authentic New York style, theory is gaining attention in major fashion centers around the world, including New York, Tokyo, Paris and London.

### Lebeige

Lebeige represents traditions and leisure. It proposes a new concept-based fashion for seniors, with the harmony of naturally flowing silhouettes, luxurious materials, feminine patterns and attention to detail.

### Issey Miyake

Issey Miyake is a designer who has performed a leading role in publicizing Japanese fashion throughout the world. The brand showcases Miyake's artistry as a designer of premium fashion labels.

### Tory Burch

This brand was launched in 2004 by Tory Burch, a top American fashion icon. It is a distinguished luxury brand that is loved by many for offering luxurious yet practical designs at reasonable prices.

### Derercuny

Derercuny offers elegant femininity to its predominantly senior customers. It is known for an elegant style that is both classical and luxurious.

### Colombo

This luxury brand was created by Augusto Colombo in Milan in 1937. Cheil Industries acquired Colombo in 2011, and it will be the basis for the company's full entry into the global luxury market.

# Shrinking our footprint



The world's first and the world's best products of Cheil Industries were not created in a day. They are the result of continued investment in R&D, the recruitment of outstanding research personnel and ceaseless R&D performance. In 2011, investment totaling KRW 161.8 billion went into various R&D activities, representing year-on-year growth of 6.8%. To ensure in-depth research and development, each division has a development team helping with systematic efforts to develop a wider variety of the world's best products. We will continue to expand investment and support for R&D so as to significantly enhance our R&D competitiveness and develop next-generation products and key technologies, thereby creating the drivers of our long-term growth and making sure we lead the future market.

*“I learned that the earth is sick, and so polar bears are losing their homes because the glaciers are melting, and people are getting hurt in floods and storms. My dream is to become a scientist, so I can help the earth stay healthy.”*

Changhwi Kim, 3rd Grade,  
Seongnam Pangyo Elementary School

# RESEARCH & DEVELOPMENT

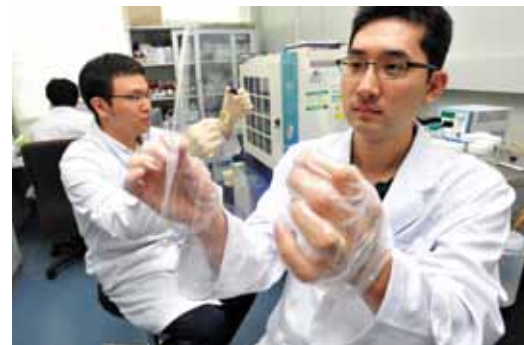
*Cheil Industries' advanced R&D is the key to a brighter, greener future.*



## Chemicals

### Shaping a new future for chemicals

Our Chemical Division established the Chemical R&D Center in 1988. The Center had engaged in key R&D activities for our chemical business and was reorganized into a development team within the Chemical Division in 2012, to generate synergy effects with production, sales, strategy and purchasing teams. Our focus on developing high added-value and high-function products as well as differentiated new products over the last 23 years has resulted in many achievements, including 1,500 patent applications. In particular, we became the first company in the world to develop eco-friendly non-halogen flame-retardant ABS resins. We also developed new products in various fields, including ultra-thin ABS resins for refrigerator sheets that guarantee outstanding vacuum sealing capabilities, flame-retardant HIPS, shock-absorbing HIPS and PCs for the external materials of mobile phones. We continue to expedite the development of next-generation products that overcome the restrictions of existing technologies, such as heat conduction resins and high heat-resistant nylon resins. We are also putting significant efforts into researching core base technologies, including polymerizing and compounding.



## Electronic Materials

### Leading creative technological innovation

The EM R&D Center is now a development group within the Process Materials Business Team and Film Materials Business Team, thus establishing the optimal structure for maximizing synergy through more efficient R&D activities. EM R&D concentrates on our technological strength in existing business areas, such as patterning, packaging, display and solar cell materials. The group is also focusing on the development of various new materials for next-generation products, such as LED encapsulation materials and AMOLED. In addition to recruiting experts, we will operate a consultative body that will include the development, production, quality, marketing and sales groups. We will also establish a network among our base technology groups to ensure the best R&D results, thereby creating a new frontier for the EM industry.

## Corporate Research Institute

### Building a foundation for future growth

Cheil industries established the Corporate Research Institute in early 2012 for the systematic execution of a wide range of development projects, ranging from base technology to the latest in cutting-edge technology. It carries out development projects which are at the previous stage of being transferred to relevant divisions; it thus serves as an incubator of new materials. Rather than short-term performance or results, the Institute extensively reviews and develops promising new business areas that may function as drivers for our sustainable growth. The Institute has bases in Uiwang, Yokohama and San Jose, and researches various materials, including flexible displays, secondary cells and polymer chemicals.

## Major R&D Achievements in 2011

### Chemicals

**Heat-conducting materials for heat insulating board of LED lighting** | High-power LED consumes a great amount of electricity and has a high heat output. The

absence of suitable heat protection can result in the heating of chips and packaging resins, leading to deterioration in the intensity of illumination and luminous efficiency. Therefore, we developed heat-conducting materials that is RoHS free and provides excellent electrical insulation.

**Materials for LED reflectors** | Korea previously imported all its LED reflector materials. However, for the first time in the domestic market, we were able to develop, mass produce and apply a material for LED reflectors. Applications are expected to include all areas related to display, such as indoor and outdoor lighting, automotive lighting and LCDs.

**Flame-retardant material to replace metal** | Metallic materials used for the front top chassis of TVs can now be replaced by GF-reinforced resins for a highly rigid and strong exterior.

**Optical material for light guide plates** | The LCDs used in smartphones and multi-function devices are becoming larger and thinner. We have, therefore, developed a product that minimizes deviation in color coordinates between different LCD areas.

### Electronic Materials

**EMC for MUF (Molded Under Fill)** | We developed an EMC that is appropriate for next-generation packaging and has acquired qualification from clients, thus expecting to lead the new technology and relevant markets.

**Green EMC for Sys LSI and D/D2-PAK** | We have secured the base technology for an eco-friendly EMC that is also cost-competitive. We will actively advance into domestic and overseas markets using this technology.

**Hybrid-type CR** | We became the first company in the world to develop a hybrid color CR for LCD TVs. This was in response to a major market shift in color CR materials, and will enable us to build a position as an industry leader.

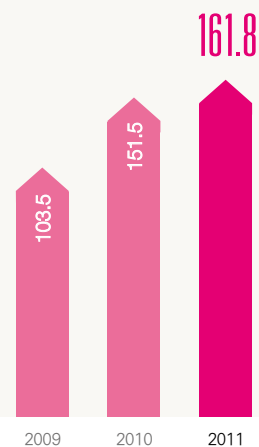
**Highly efficient paste electrode for PDP** | We successfully developed a highly efficient, low density electrode which significantly reduces costs.

**Lenticular light guide plates for LED TVs** | We have developed a lenticular light guide plate for LED TVs which has increased the directivity of LED lighting.

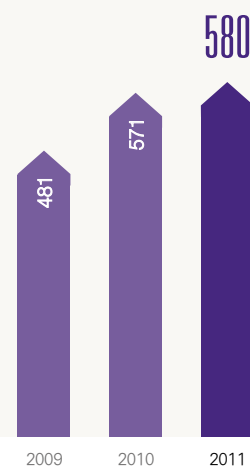
**High transmission polarizer for IT products** | We developed a polarizer film for monitors and laptops that can significantly reduce electricity consumption.

**Ag paste for shallow emitters** | We developed a highly efficient front electrode and high-performance rear Ag electrode for crystalline solar cells.

R&D Investment  
R&D Expenditures  
(Unit: KRW billion)



R&D Workforce  
(Unit: Individuals)



Patents (Unit: No. of Patents)

		2009	2010	2011
Applications	Domestic	264	320	340
	Overseas	105	126	166
Registrations	Domestic	164	124	82
	Overseas	30	55	91



**MORE THAN A  
RESPONSIBILITY,  
WE BELIEVE THAT  
SUSTAINABILITY  
IS PIVOTAL TO  
OUR FUTURE.  
WE STRIVE TO  
ENSURE A BETTER  
TOMORROW,  
FULL OF HOPE  
AND HAPPINESS.**

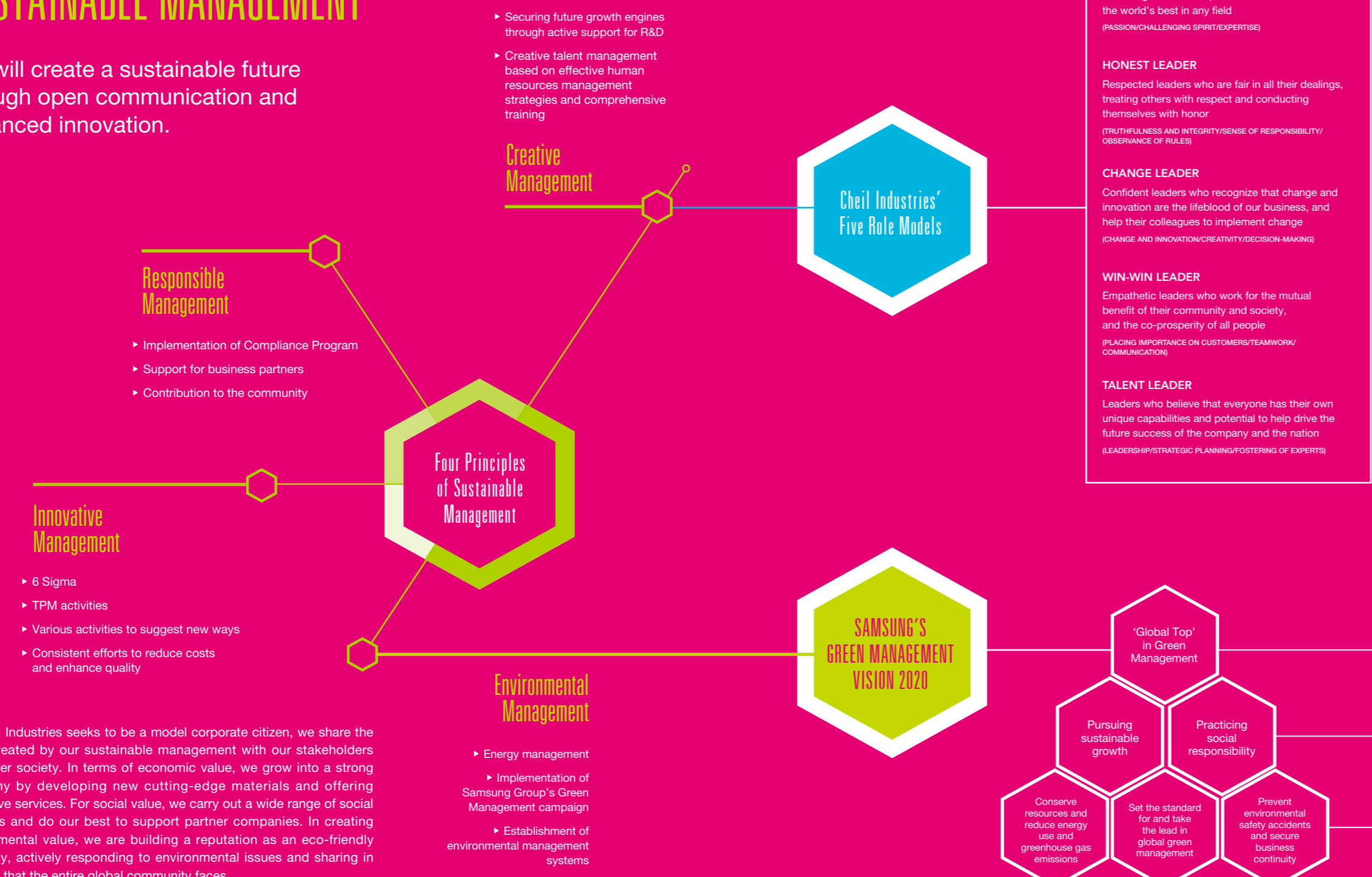
*To our communities,*

A future of true hope and happiness for all can only come about when companies are open, transparent and accountable. Cheil Industries addresses the important issues of modern society with a great sense of duty, and practices sustainable management. Green management is one of our solutions for a sustainable future. Cheil Industries is helping society and the Earth to remain beautiful and green. We will join hands with our local communities as a reliable partner and take the path toward a brighter future.



# VISION OF SUSTAINABLE MANAGEMENT

We will create a sustainable future through open communication and advanced innovation.



As Cheil Industries seeks to be a model corporate citizen, we share the value created by our sustainable management with our stakeholders and wider society. In terms of economic value, we grow into a strong company by developing new cutting-edge materials and offering distinctive services. For social value, we carry out a wide range of social activities and do our best to support partner companies. In creating environmental value, we are building a reputation as an eco-friendly company, actively responding to environmental issues and sharing in the duty that the entire global community faces.

Cheil Industries is building the foundations of a highly successful, global company by creating distinct economic, social and environmental value. The company has four major principles of sustainability – creative, innovative, environmental and responsible management. We share these principles with all our employees, and knowing that sustainable management is the basis of our continued long-term growth, everyone at Cheil Industries is working together to open the door to a strong future.

To our communities,

A future of true hope and happiness for all can only come about when companies are open, transparent and accountable. Cheil Industries addresses the important issues of modern society with a great sense of duty, and practices sustainable management. Green management is one of our solutions for a sustainable future. Cheil Industries is helping society and the Earth to remain beautiful and green. We will join hands with our local communities as a reliable partner and take the path toward a brighter future.



# ETHICAL MANAGEMENT

*A transparent, fair management system is the source of our true competitiveness.*

All employees at Cheil Industries act impartially and transparently, so that the company's activities are always in line with its ethical values, and strenuous efforts are made so that corporate value is not damaged as a result of unethical choices or behavior. To build a more transparent corporate culture, we have an Audit Team with specific responsibility for ethical management. The company also provides employee training on ethical management, so that all employees are aware of its importance, making it an entrenched part of our corporate culture. We further strengthened our ethical management in 2011 by creating a division in charge of win-win cooperation and compliance.

Staff for Ethical Management  
(Unit: Individuals)

Compliance Program Unit  
2 legal staff + 2 working-level staff



Compliance Program Committee  
CCO, Executive officer in charge of business administration



Compliance Support Personnel  
Including overseas subsidiaries and affiliates



## Objective of Ethical Management

The purpose of our ethical management is to ensure that we observe the laws of the nation and society and satisfy global ethical standards while carrying out profit-seeking activities, thus fulfilling our economic, ethical and legal responsibilities in conducting our business activities. With integrity as a core value, we are actively implementing our commitment to ethical management.

## Enacting the Code of Ethics

Cheil Industries enacted its Code of Ethics to ensure real customer satisfaction and create a sound, healthy organizational culture. The Code also serves as a code of conduct for all employees and specifies our basic responsibilities toward all stakeholders, including customers, shareholders, investors, the market, the nation and society. It also requires us to respect the fundamental rights of all employees and specifies measures on protecting customer interests, including customer satisfaction management and quality management.

## Organization

**Audit Team** | The Audit Team is exclusively responsible for Cheil Industries' ethical management. To ensure fairness in its activities, the team was placed under the direct control of the CEO and is run with complete independence. The team investigates any and all corruption that might take place in the management process and trains employees in ethical management. It also operates a 'Cyber Audit Team' on the company intranet to present clear criteria on decision making in relation to corruption and to provide relevant behavior guidelines. The team is also used as a means for employees to report unfair handling of work or corrupt behavior anonymously.

**Legal Affairs Group (Compliance Program)** | To prevent incidences of unfair trade or collusion, Cheil Industries adopted a Compliance Program (CP) in 2006, and has actively implemented the CP ever since. In addition, in 2011, an organization dedicated to CP was created under the Legal Affairs Group to give further momentum to compliance management. After the compliance management declaration ceremony in April 2011, we established CP operation standards and appointed approximately 100 compliance support personnel across all business sites. We also opened a CP portal system, resulting in the establishment of a comprehensive system for compliance management. Compliance training was provided to approximately 1,000 employees, and included training on subcontracting/fair trade, the Fair Trade Act and compliance training for our subsidiaries in China. Our plan for 2012 is to conduct regular monitoring activities and to continue training programs that will fully establish the CP as an intrinsic part of our corporate culture.

## Purchase Planning Group (Win-Win Cooperation)

Cheil Industries pursues sustainable growth with the goal of becoming a leading global company for the long-term. By practicing the values of sharing and mutual benefit, we also prepare ourselves for innovation and change. As one of the leading large companies in Korea, Cheil Industries provides support for small- to mid-sized companies so that they can develop into top-quality partners. We make strenuous efforts to fulfill our role as a leader of joint growth; to this end, we will build a system of close cooperation between all divisions and employees, with the Purchase Planning Group performing a central role, thereby maximizing the synergy of win-win cooperation. We will enable quick decision-making, strong execution capability and a differentiated competitiveness that will continue the flow of mutual benefits even in an era of rapid change. We will further strengthen financial support, technological cooperation and training, and communication with partner companies. We will also continually look for measures to support not only our primary partners, but also secondary and tertiary partner companies so that we can provide them with practical benefits. All of this will enable Cheil Industries to grow into a leading global company alongside its partner companies.

## Main Activities of Win-Win Cooperation

### Ensure transparency by observing regulations

- ▶ Comply with four major guidelines and use standard contracts for subcontracting
- ▶ Launch a compliance system

### Promote communication

- ▶ Operate a win-win portal system
- ▶ Hold regular meetings with partner companies

### Support SMEs to bolster their competitiveness

- ▶ Establish a win-win cooperation fund worth KRW 50 billion
- ▶ Make payments in cash
- ▶ Provide financial support to outstanding partner companies to purchase facilities

### Provide support for technology and training

- ▶ Expand vocational training for partner companies
- ▶ Improve partner company-related events
- ▶ Expand joint overseas businesses
- ▶ Provide free support or leases to partner companies in relation to patents

## Number of Partner Companies in 2011

	Number of Partner Companies
Chemicals	1,221
Electronic Materials	1,022
Fashion	1,282
Textile	68
<b>Total</b>	<b>3,593</b>

\* Excludes companies with which only a single transaction took place

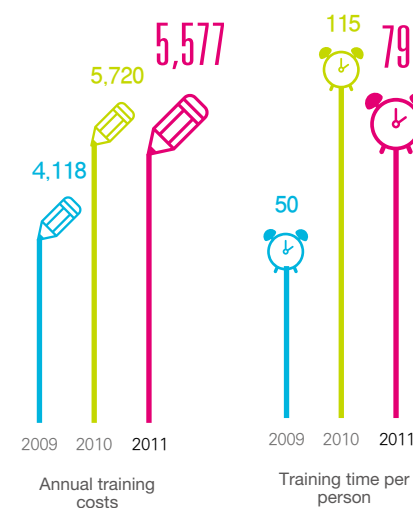


# HUMAN RESOURCES MANAGEMENT

*Creative, passionate and professional talent will make Cheil Industries stronger.*

Recruiting outstanding personnel and creating a corporate culture that enables them to generate the best outcomes are essential for a company's sustainable growth. Cheil Industries implements a talent management program to recruit, retain and foster excellent talent. Our talent management activities are aimed at developing top-level experts; these activities include the Great Work Place campaign which promotes a vibrant work environment, family-friendly management that considers the needs of family members of employees, and various training programs designed in accordance with employees' specific roles and needs. Thanks to these efforts, Cheil Industries' employees are becoming next-generation leaders, driving the company's growth.

Investments in Training  
(Unit: KRW million, Hours)



### Workforce Overview

As of December 31st, 2011, Cheil Industries had 4,770 employees. The number of employees has risen steadily in line with the expansion of the business, from 3,299 in 2009 to 3,853 last year, and then up again to its current level. In particular, the number of employees rose substantially when continuing employment was guaranteed to all employees in the process of the merger with Ace Digitech in August 2011. Women in our workforce currently number 1,225, making up about 26% of employees, up from 982 persons a year earlier. We provide an environment that is free from any discrimination based on gender, academic background, age, or any other background or qualifications. We hire talented people and engage in personnel evaluations based solely on an individual's abilities.

### Compensation System & Employee Welfare

**Compensation System** | We provide fair salaries so that all employees can be compensated appropriately in line with the abilities that they demonstrate and the contributions they make.

**Employee Welfare** | Cheil Industries subscribes to four basic health insurance schemes and all other employee welfare systems specified in laws. We also operate other employee welfare programs to improve the health and quality of life of employees and their family members; to provide education for children; to increase the financial security of our retired workers; to achieve a balance between work and personal life; and to build trust between labor and management. In doing so, we are enabling all our employees to enjoy a more stable and happy life.

Category	Welfare
Health care	Health insurance, industrial injury insurance, employment insurance, support for medical treatments of children's heart disease and leukemia, financial support for medical expenses, comprehensive health checkups, use of fitness club
Retirement	National pension, personal pension, compensation for disasters and accidents
Education	Kindergarten expenses, support for educational expenses for employee's children and family
Family & leisure	Financial support for housing loans, public transit expenses, premarital counseling, passes for Caribbean Bay theme park, resort condominiums, support for clubs

### Making a Great Workplace

**Communication through Open Channels** | Open communication is essential for building a creative, constructive and open corporate culture; recognizing this, we have built various channels for our employees

to facilitate open communication. In 2010, we launched the ILMO TALK site for active internal communication. We also conducted the I'm Smart (Innovative Meeting: Space, Method, Attendance, Result, Time) campaign to improve the effectiveness of meetings. In addition, we established the OASIS counseling office, which is staffed by professional counselors ready to assist employees with any type of personal or professional problems. The 'Pit-a-Pat Tomorrow Seminar' series, featuring professional guest speakers from inside and outside the company, presents employees with valuable opportunities to gain first-hand knowledge on a variety of topics. We also hold corporate basketball and table tennis tournaments to increase exchange and cooperation between divisions.

### An Open Workplace that Enhances Creativity

The former Chemical R&D Center was the first unit of Cheil Industries to introduce the flexible working-hours system in 2010; since then, the system has been applied throughout the company. This flexible working-hours system contributes to the establishment of a free, creative corporate culture, where employees manage their own time and can concentrate fully on their jobs during their own working hours. The Development Team of the Chemical Division significantly improved work space by making it fully open with no team divisions. This enables researchers to communicate with other divisions freely and creatively.

### A Great Workplace of Trust and Self-esteem

Cheil Industries has established a Great Work Place (GWP) system to foster a sense of mutual trust, pride and enjoyment at work. GWP is essentially an integrated management system that aligns activities that reinforce the corporate culture throughout the company, improving on the previous system that used to manage all of these separately at each business site. It has provided a systematic basis for driving improvements in HR, management and support, and has created abundant opportunities for employees to participate in culture-building activities. Thanks to GWP, Cheil Industries won the Grand Prize at the 2007 Korea Great Work Place Awards, hosted by the JoongAng Daily and GWP Korea.

### A Happy Workplace that Cares for the Family

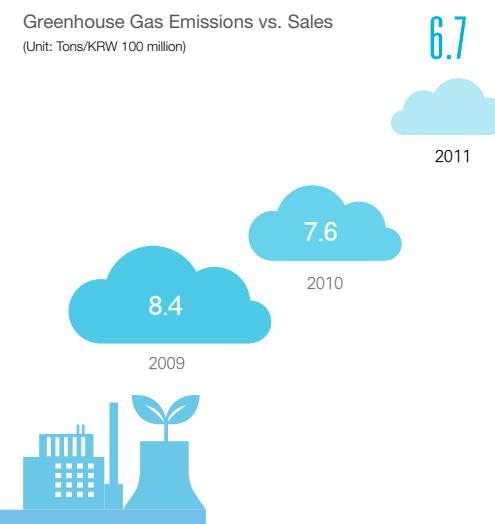
Cheil Industries has put in place various family-oriented programs in line with its commitment to respecting the value of family as the very foundation of happiness. For example, there is Movie Day, where employees' families are invited every month for a day of shared food and entertainment; an annual Children's Day event for employees' families; and volunteer work that is shared by employees and their families. By holding these events, we help employees to achieve a better balance between work and family life. Our 'vacation recommendation system' encourages employees to spend quality time with family before and after national holidays, at the end of the year and other special occasions.



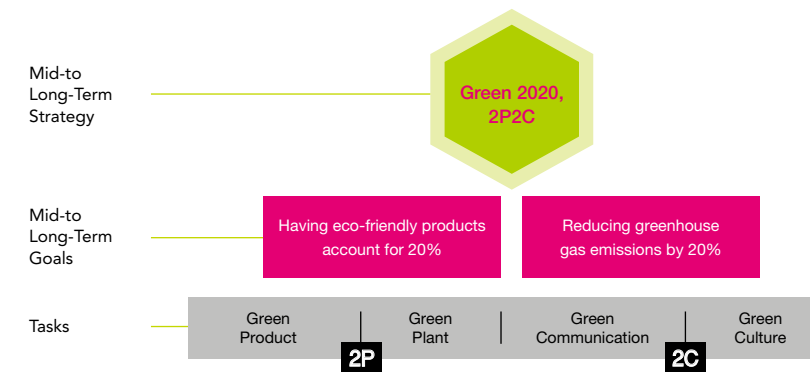
# GREEN MANAGEMENT

*We pursue green growth to protect the dreams of future generations.*

Greenhouse Gas Emissions vs. Sales  
(Unit: Tons/KRW 100 million)



\* For all business sites of Cheil Industries



## Establishing a Mid- to Long-Term Green Management Strategy

In order to become a truly green company, Cheil Industries has formulated a mid- to long-term green management strategy called 'Green 2020, 2P2C'. This has established the goals of having eco-friendly products account for 20% of all our products and of reducing our greenhouse gas emissions by 20% before 2020. '2P' (Green Products, Green Plants) and '2C' (Green Communication, Green Culture) will be our tasks for realizing these goals. We have identified what we need to do across our different fields of activity and established a detailed plan.



ISO 50001



OHSAS 18001



ISO 14001

## Greenhouse Gas and Energy Target Management and Reduction

Cheil Industries is subject to the Basic Act on Low Carbon Green Growth and, based on the Guidelines on Greenhouse Gas and Energy Target Management, we were assigned a 2012 greenhouse gas emission quota by the Korean Government in September 2011. We then submitted our plan for achieving this quota to the Government that December. Our greenhouse gas emissions for 2011 were 354,062 tons of CO<sub>2</sub>, and our energy usage amounted to 6,171 TJ.

Despite putting great efforts into controlling our greenhouse gas emissions, they tend to trend upwards over time due to facility investments and increased total production. Our greenhouse gas emissions versus revenue saw a year-on-year rise of 6.0% in 2008, following the start-up of the Yeosu PC plant which brought about a substantial rise in energy usage. However, this measure has now decreased continually since peaking at 8.9 tons of CO<sub>2</sub> per KRW 100 million of revenue in 2008. We also built an integrated greenhouse gas and energy management system in 2011 to manage greenhouse gas emissions at their root.

Cheil Industries acquired the Energy Management System certification (ISO 50001) for all its business sites, becoming the first company in Korea to do so in our industries. This helps us in our drive to reduce greenhouse gas emissions to global levels, as does our active participation in the Carbon Disclosure Project.

## Comprehensive Environmental Management Activities

All the business sites of Cheil Industries have the ISO 14001 environmental management system certification. We appropriately treat and discharge environmental pollutants within the legally-permitted levels. Using our TMS (Tele Monitoring System), we frequently check pollutant discharge concentrations, and whether major prevention facilities and waste-water treatment equipment are functioning properly. We also use the best available regenerative thermal oxidizers and filtering facilities for the appropriate treatment of air pollutants. We discharge less than 30% of the legal limit for particulates, thereby avoiding surcharges imposed by the Government. We treat waste-water both by operating our own waste-water treatment facilities and using the services of professional treatment companies. We have also set up blockage and collection facilities as well as monitoring systems, including CCTVs at the outlets and discharge points of the general drainage channels, so that we are prepared for emergency situations.

We separate and store waste pursuant to the standards set forth in the Waste Management Act. We enter our waste treatment data into the Government's 'Allbaro' system and continuously invest in storage facilities. The Yeosu site has adopted the LDAR (Leak Detection and Repair) system to improve air quality and to ensure the continued reduction of emissions or leaks of toxic chemicals. As a result, the level of toxic chemicals discharged in 2011 fell by almost 50%, from 56.6 tons in 2010 to 28.5 tons in 2011.

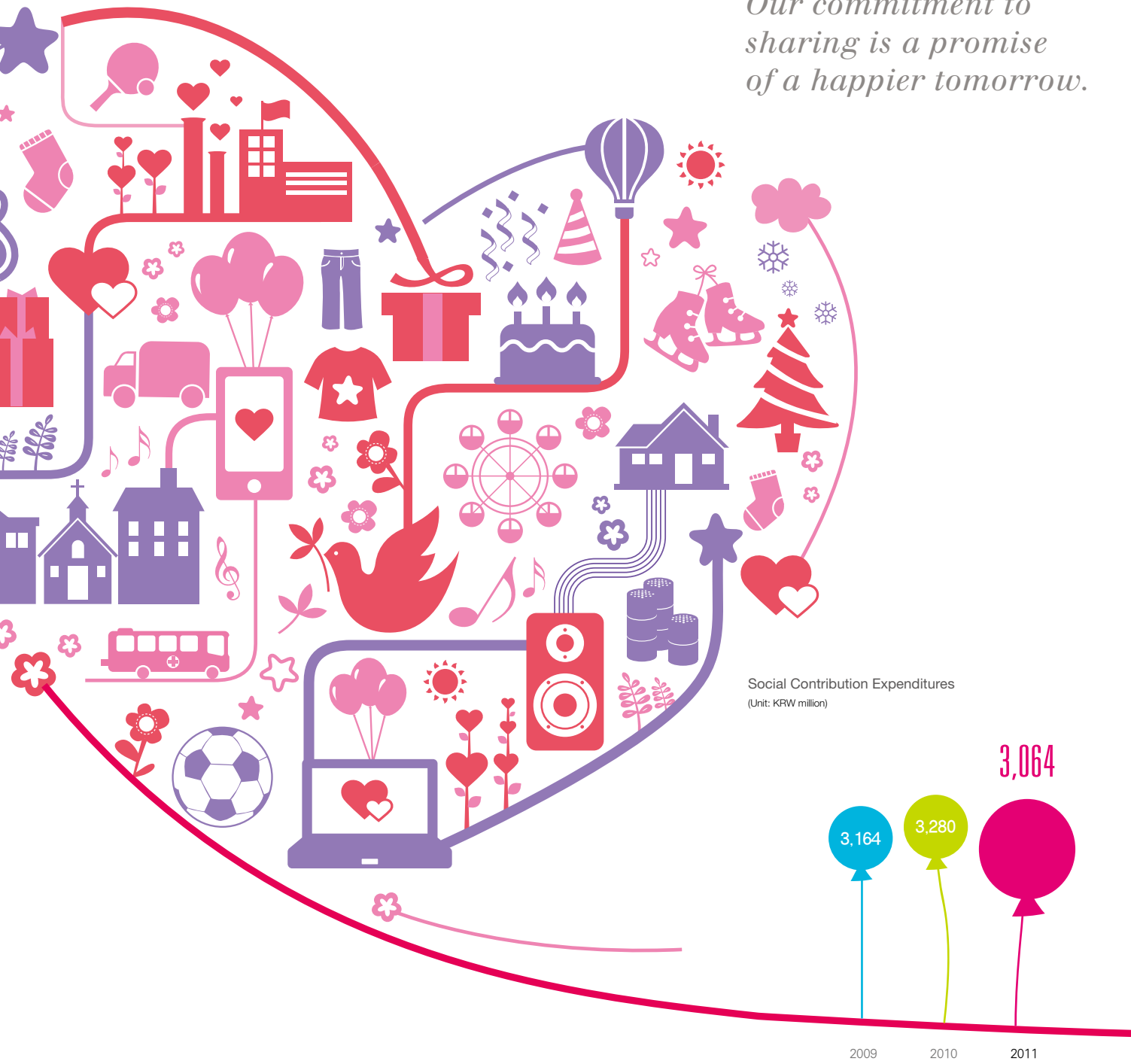
## Responding to International Chemical Substance Regulations

Cheil Industries responds actively to global regulations, including the EU's REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) regulatory framework. To do so, we have put into place systematic, company-wide measures. We have completed pre-registration and first registration (more than 1,000 tons/year), and now we are preparing for second registration (more than 100 tons/year).

Cheil Industries builds an IT system for the management of chemical substance information, including information on raw material suppliers, so that we can effectively respond to the impacts of regulations in China, Taiwan and Turkey, and the effects of the adoption of the Act on Chemical Substance Registration and Evaluation in Korea. We also held REACH presentations and one-on-one advisory sessions for suppliers and partner companies, so that they understand the relevant regulations, and we can build seamless cooperation with them.

# SOCIAL CONTRIBUTIONS

*Our commitment to sharing is a promise of a happier tomorrow.*



### Design for the Hope!

Cheil Industries engages in various corporate social responsibility activities through a sense of duty to improve the lives of our neighbors by contributing to the balanced growth of society. These activities are about more than a corporate culture in which employees voluntarily take part: they are the means to communicate with residents of the local community, and to spread the joy of sharing throughout the year. In 2011, we undertook a wide variety of programs, including 'Creating a Green World through Sharing', our main social contribution campaign, and drew closer to an ever-greater number of our neighbors. We conduct systematic and comprehensive activities rather than just providing temporary help or financial support. Our social contribution activities are unique in that they bring together the great sincerity and passion of our employees with the company's corporate philosophy of pursuing mutual benefit as a core value. These activities design a better tomorrow, for greater hope throughout society.

### Major Social Contribution Activities

#### Creating a Green World through Sharing

Since 2006, Cheil Industries has run 'Creating a Green World through Sharing', a public interest campaign aimed at spreading a culture of donating. The campaign is organized jointly by Cheil Industries and the Beautiful Store, a non-profit public entity, and is sponsored by the Ministry of the Environment. As part of this campaign, we hold a bazaar with clothing and other items donated by employees and the company, helping to spread a culture of donation and recycling. The main theme

of the campaign in 2011, the sixth anniversary of the campaign, was 'education for children from low-income families'. Proceeds from the bazaar were used to fund environmental education for children from low-income families. This was part of our commitment to strategic social contributions, encompassing sharing, the environment and education.

### Design for Children

#### Heart for Eye, Delivering the Light of Hope

KUHO, one of Cheil Industries' leading fashion brands, has run the 'Heart for Eye' donation project for children suffering from visual impairments since 2006. Celebrities design T-shirts with a heart motif, and proceeds from sales are donated to pay for operations to restore the children's' eyesight. The project entered its eighth year in 2011, and so far, a total of 155 children have regained their eyesight through the program, thereby experiencing and sharing the beauty of fashion.

#### Nanuri Marathon, Creating Happiness through Sharing

Cheil Industries has held the Nanuri Marathon for seven years. The funds raised go toward financing the college education of children from low-income families in Uiwang-si. Around 500 employees took part in the marathon in 2011, and the funds donated, along with the funds that Cheil Industries contributed through a matching grant system, amounted to KRW 20 million. The funds were given to college students in need to help them begin their college education.

Vision and Mission of Cheil Industries' Social Contribution Activities							
<b>Vision</b>	Following a management philosophy that prioritizes co-prosperity, we work passionately to design social contribution programs that foster a harmonious society and build hope for tomorrow.						
<b>Mission</b>	Through our volunteer work and social contributions, we: <ul style="list-style-type: none"> <li>▶ Spread happiness while instilling pride in our employees and raising their quality of life.</li> <li>▶ Enhance our corporate image by creating a history of sharing.</li> <li>▶ Foster mutually beneficial relationships in the community, and support community developments that tangibly improve quality of life.</li> </ul>						
<b>Slogan</b>	Design for the Hope!						
<b>Major CSR Activity</b>	A public campaign to spread the culture of donating						
<b>Core CSR Areas</b>	<table border="1"> <tr> <td>Design for Children</td> <td>Children's and youth education</td> </tr> <tr> <td>Design for Happiness</td> <td>Social welfare for underprivileged neighbors</td> </tr> <tr> <td>Design for Green</td> <td>Environmental preservation</td> </tr> </table>	Design for Children	Children's and youth education	Design for Happiness	Social welfare for underprivileged neighbors	Design for Green	Environmental preservation
Design for Children	Children's and youth education						
Design for Happiness	Social welfare for underprivileged neighbors						
Design for Green	Environmental preservation						

Social Volunteer Organization				
Team Leader for Social Volunteer Teams of Cheil Industries: CEO				
Secretariat for Social Volunteer Teams				
Secretariat at Headquarter	Fashion Volunteer Center	Gumi Volunteer Center	Yeosu Volunteer Center	Ochang Volunteer Center
81 Teams	90 Teams	13 Teams	16 Teams	18 Teams



## Unconventional Challenge III

### Talent Support Company, A Friend Who Helps to Build Dreams

The Development Team of the Chemical Division (former Chemical R&D Center) carried out the 'Talent Support Company' program, together with the Heart to Heart Foundation, to help disabled children and teenagers from low-income families. Through this program, we have provided scholarships to seven developmentally and visually-impaired children with a talent for music.

### Support for Figure Skaters at Dong-Chun Community, Giving Wings to Angels on Ice

Ever since January 2005, Cheil Industries has been sponsoring a figure skating team of nine children from Dong-Chun Community, a school for the disabled. In 2011, thanks to the sponsorship, the figure skaters passed an evaluation for advancement to a higher level of performance, receiving recognition for their skills. They were also invited to a ceremony to appoint PR Ambassadors for the 2013 Special Olympics Winter Games.

### Kids Science Lab, A Fun and Exciting Science Lab

The Kids Science Lab helps children from low-income families improve their academic abilities by providing fascinating science education. In 2011, the children created a cleaning robot and learned how it works. In addition, Cheil Industries' science class volunteer team provides regular classes to under-privileged children in their local communities.

### Inviting Elementary School Students from Jeju Island, An Exciting Outing to Seoul

The Fashion Volunteer Center held a one-week event that involved inviting all the students of Gapa Elementary School on Jeju Island to Seoul. This school was selected because it is in a village that has a sisterhood relationship with the Center. The volunteer team made sure that the children had a wonderful trip with a visit to the Everland theme park, an aquarium and the Unification Observatory.



### Design for Happiness

#### Volunteer Festival at Farming Villages, Times of Sharing and Feasting

The Yeosu, Gumi and Ochang Volunteer Centers have been involved in large-scale local welfare programs since 2004, in partnership with volunteer organizations in the Yeosu area. In 2011, the Centers visited sisterhood villages in Yeosu and took part in work including painting wall murals, replacing flooring and wallpaper, and operating a community festival called Eoullim Hanmadang.

#### International Volunteer Activities, Sharing Love with Cambodia

Cheil Industries donated 2,500 articles of clothing and held a 'hope-sharing ANABADA (from the Korean words for saving, sharing, exchanging and reusing)' charity bazaar. Proceeds from the bazaar were used to fund homeland visits for 16 Cambodian women living in Korea along with their Korean family members. In total, 53 people benefited from these trips. In addition, we supplied educational equipment and food to schools at the Cambodian Don Bosco Center, and we continued with our medical treatment support program for multicultural families.

#### Meals on Wheels, Feasting on Joy and Hope

Since September 2009, the Yeosu Volunteer Center has designated the third Friday of every month as our 'Day of Sharing through Meals on Wheels'. We also hold recreational activities and events for the elderly living alone and provide meals for seniors who need them, to show our commitment to those in need.

#### Red Love Donation, The Beauty of Sharing

Red Love Donation is a program whereby Cheil Industries makes cash donations to the Korean Red Cross in the name of blood donors, rather than following the traditional practice of giving donors souvenirs. The program, which has been in place since 2009, achieves the dual goals of saving lives through blood donation and doubling the significance of sharing through giving. The money gathered through the program is used for the socially marginalized in the local community.

#### Food Program for Those in Need, Prepared with a Warm Heart

Since 2008, the Yeosu Volunteer Center has designated the third Tuesday of every month as its 'Day for Providing Food to the Underprivileged', when our volunteer groups cook and deliver food to those in need. In 2011, we delivered food to 130 households every month, and we also provided food to senior citizens living alone in Uiwang-si, where the company's headquarters are located.



#### Support for Disabled Children in the Local Community, Showing Our Love of Family

Every week, the Gumi Volunteer Center supports mentally disabled children at child care centers with which we have sisterhood relationships. In 2011, on Korea's annual Children's Day, we held a Family Sports Day. In addition, the support we provide enables the visually impaired to go bowling every week, disabled children to take soccer classes, and the disabled to enjoy regular mountain-climbing activities. As such, we play a key role in promoting activities enjoyed by disabled children in our local communities.

#### Pro Bono Volunteering, A Happy Way of Sharing Talent

Cheil Industries' employees undertake a full range of volunteer activities that make best use of their diverse talents with the addition of leisure activities. For example, 'Manjirak, Kkum★jirak', launched in 2007, is an arts & culture club – employees learn balloon art, origami, face painting and clay ceramics, and use their skills to provide enjoyment to under-privileged children. 'Party & Joy' is a volunteer team formed in 2008 to organize surprise birthday parties for the housebound disabled and the disabled living alone. The 'Noreunja' jazz club and the 'Mago' magic trick volunteer team have been visiting seniors' centers in Jongno-gu, Seoul every two months since 2009, where they showcase a variety of artistic programs such as magic performances, dance classes and strength shows. The talent volunteer team at the Yeosu Volunteer Center has been helping with ocean purification through skin and scuba diving since 2006. They also carry out house repairs and visit seniors to give them baths in specially designed vehicles.

### Design for Green

#### Contest to Provide Environmental Education to Underprivileged Children, Sharing for a Green Tomorrow

'Creating a Green World through Sharing' is Cheil Industries' main social contribution campaign. Using the funds raised, we sponsor the 'Growing Trees' program, which provides environmental education to underprivileged children. A public contest is held to choose and support environmental education programs for low-income families, multi-cultural families and disabled children's groups, and 17 groups were chosen for support last year. The support amounts to around KRW 50 million, provided over six months to a year, depending on the program.

#### Green Movements, Giving More Meaning to Environment Day

On June 5th 2011, World Environment Day, Cheil Industries conducted its 'Green Movements' campaign. Eco-friendly detergents and acrylic sponges made by employees were delivered to senior citizens who live on their own, and we also cleaned up nearby streams.

#### Skin & Scuba Diving Volunteers Clean the Ocean, Protecting Our Beautiful Ocean

A skin & scuba diving volunteer team has been cleaning the ocean near the Yeosu business site since 1995, taking the lead in protecting the environment and helping local fishing villages. In 2011, approximately 70 volunteers carried out ocean purification activities on ten occasions.

#### One Company One River Campaign, Beautify Our Rivers

Cheil Industries has run the 'One Company One River' campaign since 2009, through which we undertake activities to clean the Anyang River, located near our headquarter in Uiwang-si. The Gumi and Yeosu business sites also cleaned up nearby rivers and coasts on World Water Day 2011.



# PROFITABILITY & STABILITY

Each division at Cheil Industries is strong, independent and competitive, with the flexibility to be able to respond quickly to rapid changes in the market. This enables us to achieve efficient and stable growth, maximizing our company's value. CHEIL INDUSTRIES' STORY OF **SUCCESS**, **INNOVATION** AND HOPE will continue into a brighter tomorrow.



# FINANCIAL HIGHLIGHTS

## Summarized Statement of Financial Position

(Unit: KRW billion)

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Total assets	4,930.8	4,038.8	3,133.8
Current assets	1,434.7	1,234.1	1,169.8
Non-current assets	3,496.1	2,804.7	1,964.0
Total liabilities	1,714.1	1,272.3	1,172.2
Current liabilities	864.0	874.3	674.4
Non-current liabilities	850.1	398.0	497.8
Total shareholders' equity	3,216.7	2,766.5	1,961.6

## Summarized Statement of Income

(Unit: KRW billion)

	2011	2010
Sales	5,581.0	5,113.0
Gross profit	1,583.9	1,537.9
Selling and other expenses	1,361.4	1,194.7
Other operating income	108.9	58.6
Other operating expenses	44.2	71.9
Operating income	287.2	329.9
Gain (Loss) on valuation of investments in associates	12.5	40.3
Financial income (expenses)	(24.0)	(25.1)
Income before income tax	275.7	345.1
Net income	259.1	272.8
EPS (KRW)	527.4	581.1

## Summarized Statement of Cash Flow

(Unit: KRW billion)

	2011	2010
Cash flows from operating activities	194.6	425.6
Cash flow from investing activities	(333.0)	(255.9)
Cash flow from financing activities	201.8	(228.6)
Net increase (decrease) in cash and cash equivalents	63.4	(58.9)
Cash and cash equivalents, beginning of year	33.4	92.3
Effect of exchange rate changes on cash and cash equivalents	(0.4)	-
Cash and cash equivalents, end of year	96.4	33.4

## Financial Soundness Indicators

(Unit: %)

	2011	2010
Current ratio	166.1	141.2
Debt-to-equity ratio	53.3	46.0
Equity-to-asset ratio	65.2	68.5

## Profitability Indicators

(Unit: %)

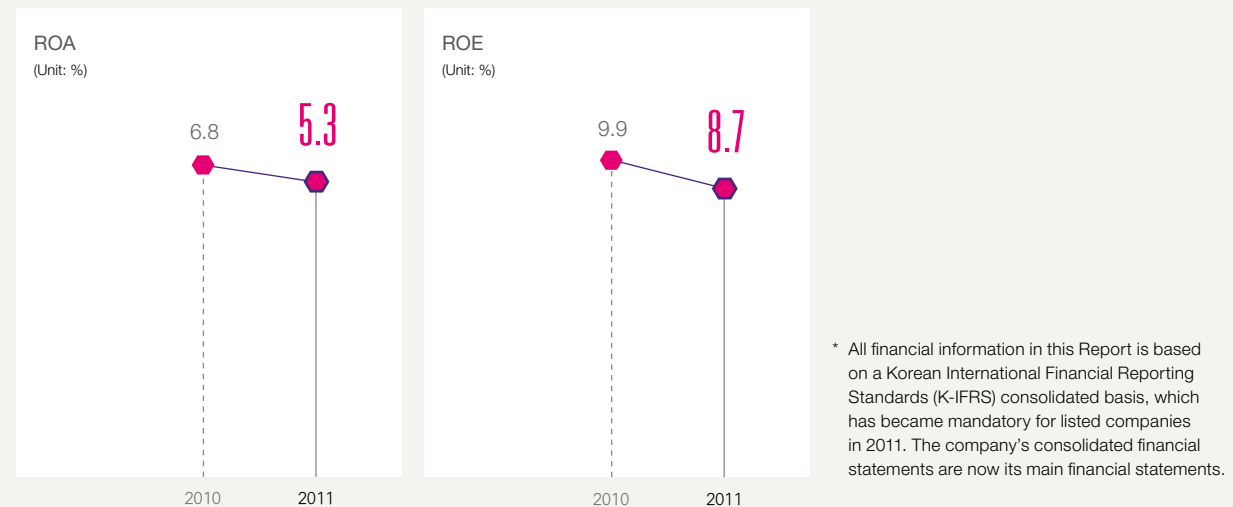
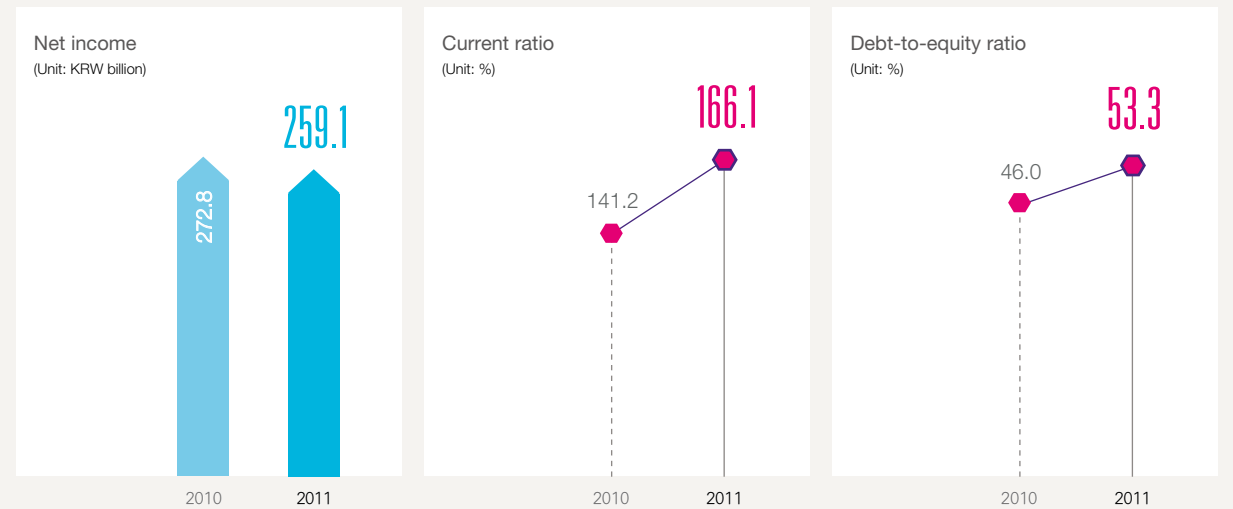
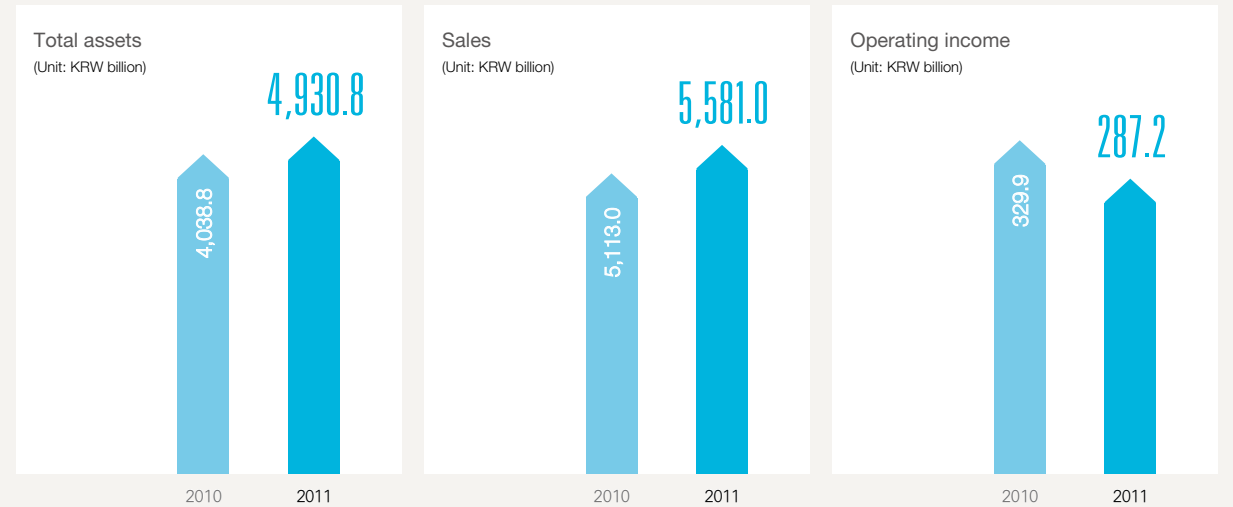
	2011	2010
Operating profit margin	5.1	6.5
ROA	5.3	6.8
ROE	8.7	9.9

## Growth Indicators

(Unit: %)

	2011	2010*
Growth rate of total assets	22.1	28.9
Growth rate of total shareholders' equity	16.3	41.0

\* Growth rate from the beginning of the year (Jan. 1, 2010)



\* All financial information in this Report is based on a Korean International Financial Reporting Standards (K-IFRS) consolidated basis, which has become mandatory for listed companies in 2011. The company's consolidated financial statements are now its main financial statements.



# MANAGEMENT'S DISCUSSION & ANALYSIS

## Summary of Business Performance

Since 2008, the global economy has been indicating slow growth, attributable to a decline in the real economy triggered by the global economic crisis. The global economy remained stagnant in 2011 owing mainly to the European financial crisis, the downgrade of the US credit rating and natural disasters such as the East Japan Earthquake. Oil and raw material prices have soared as a result of instability in international affairs, which in turn led to greater uncertainty in the business environment.

Despite the continued uncertainties that have threatened the very survival of many companies, Cheil Industries has increased its corporate value by bolstering the competitiveness of each division and seeking to develop future growth drivers. As a result, revenues in 2011 were the highest ever, at KRW 5,581 billion. We recorded operating income and net income of KRW 287.2 billion and KRW 259.1 billion, respectively.

In 2011, Cheil Industries began applying the Korean International Financial Reporting Standards (K-IFRS) in its financial statements to enhance the transparency of its corporate financial information and increase the benefits that stakeholders can get from using the information. We expect this change in the corporate accounting standards to improve the credibility of our financial information and the convenience of stakeholders.

Our summarized statement of income is as follows:

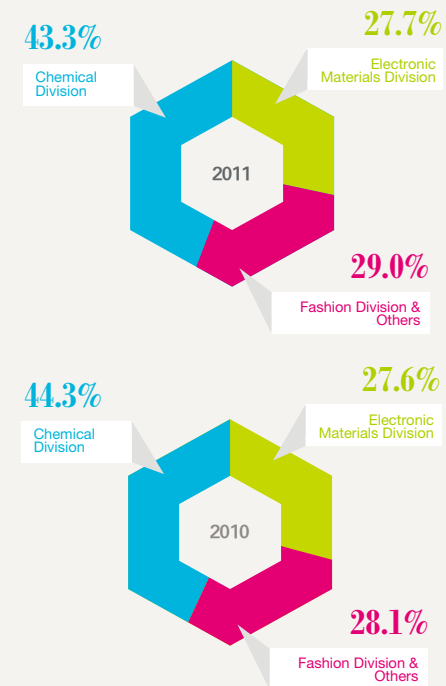
### Summarized Statement of Income

(Unit: KRW million)

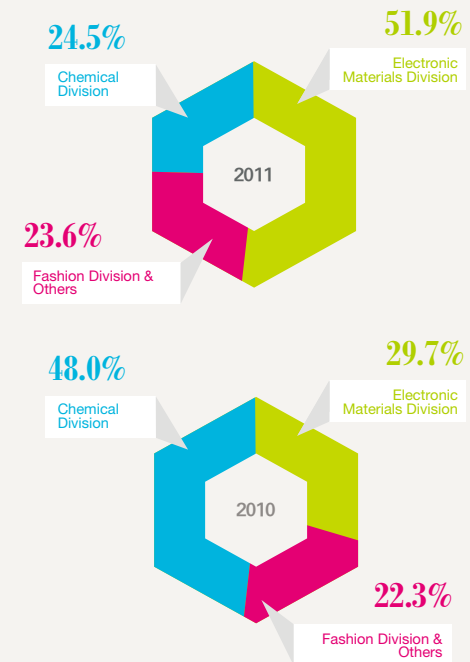
	2011	2010	Change	Change (%)
Sales	5,580,979	5,113,037	467,942	9.2
Cost of sales	3,997,062	3,575,085	421,977	11.8
Gross profit	1,538,917	1,537,952	965	0.1
Selling and other expenses	1,361,422	1,194,715	166,707	14.0
Other operating income	108,898	58,612	50,286	85.8
Other operating expenses	44,193	71,931	(27,738)	(38.6)
Operating income	287,200	329,918	(42,718)	(12.9)
Gain (Loss) on valuation of investments in associates	12,494	40,348	(27,854)	(69.0)
Financial income (expenses)	(24,018)	(25,097)	1,079	-
Income before income tax	275,676	345,169	(69,493)	(20.1)
Income tax expense	16,555	48,542	(31,987)	(65.9)
Net income	259,121	272,847	(13,726)	(5.0)
Earnings per share (KRW)	5,274	5,811	(537)	(9.2)
Operating profit margin (%)	5.1	6.5		(1.4)%p
Pre-tax profit margin (%)	4.9	6.8		(1.9)%p
Net profit margin (%)	4.6	5.3		(0.7)%p

Revenues went up 9.2% year-on-year to reach KRW 5,581 billion, but the cost of sales also rose by 11.8% over the figure for 2010 due to soaring international raw material prices. As a result, our gross profit rose just 0.1% to stand at KRW 1,538.9 billion.

### Sales by Business Division



### Operating Profit by Business Division



Details of selling expenses and other expenses are as follows:

(Unit: KRW million)

	2011	2010	Change	Change (%)
Selling expenses	630,636	553,850	76,786	13.9
Administrative expenses	598,739	520,330	78,409	15.1
Research and development expenses	132,047	120,535	11,512	9.6
Total	1,361,422	1,194,715	166,707	14.0

Selling expenses increased by KRW 76.8 billion from the KRW 553.8 billion recorded in 2010 to stand at KRW 630.6 billion. Administrative expenses went up KRW 78.4 billion to KRW 598.7 billion. This is attributable to a rise in commissions paid and rent for the opening of new fashion stores, and an increase in employee benefit expenses resulting from an increase in the number of employees and the strengthening of employee benefit policies.

Other operating income went up 85.8% year-on-year as a result of an increase in gains on the disposal of available-for-sale financial assets and gains on the disposal of investments in associates. This includes a KRW 19.2 billion gain from selling part of the company's shares in iMarketKorea.

Other operating expenses fell 38.6% year-on-year to stand at KRW 44.2 billion through a sharp drop in impairment losses on available-for-sale financial assets and a drop in impairment losses on intangible assets.

A decrease in the gross profit margin and an increase in expenses, including selling expenses, resulted in declines in the operating profit margin, pre-tax profit margin and net profit margin.

### Performance by Business Division

The Chemical Division had to overcome a difficult business environment, the result of a downturn in the IT sector that has lasted since the second half of 2010 and an increase in key raw material prices. The sales volume dropped slightly compared to the previous year due to weak demand for IT products such as TVs and PCs, but sales revenues actually went up thanks to continued efforts to lift prices. Soaring raw material prices in the second half depressed profitability and, as a result, the chemical business' operating income fell more than 50% over the previous year. We expect profitability to improve as business conditions change steadily for the better in 2012, resulting from a rise in demand for IT as the global economy stages a recovery.

The Electronic Materials Division saw growth in both revenues and operating income, notwithstanding the economic downturn and a delay in the consumption recovery of the IT sector. As such, the electronic materials business continues to be a driver of our corporate growth. Revenues from film materials fell from the previous year's levels, but revenues from the key process materials of semiconductors and displays increased substantially, by more than 40%, to lead the growth of the electronic materials business. Operating income from key process materials also went up 22% year-on-year.

The Fashion Division built on its market dominance in Korea through ever-improving product competitiveness and aggressive expansion amidst fierce competition and continuing low consumer confidence levels triggered by unfavorable market conditions at home and abroad. We continued to grow thanks to the increasing success of existing brands and good sales of new ones. For 2012, we plan to establish our new outdoor and SPA brands in the market and further bolster the competitiveness of our existing products, thereby securing mid- to long-term growth drivers.

## Financial Position

Our summarized statement of financial position is as follows:

### Summarized Statement of Financial Position

(Unit: KRW million)

	2011	2010	Change	Change (%)
Current assets	1,434,657	1,234,074	200,583	16.3
Non-current assets	3,496,145	2,804,683	691,462	24.7
<b>Total assets</b>	<b>4,930,802</b>	<b>4,038,757</b>	<b>892,045</b>	<b>22.1</b>
Current liabilities	864,011	874,305	(10,294)	(1.2)
Non-current liabilities	850,044	397,968	452,076	113.6
<b>Total liabilities</b>	<b>1,714,055</b>	<b>1,272,273</b>	<b>441,782</b>	<b>34.7</b>
Equity attributable to the owners of the parent Company	3,216,153	2,765,891	450,262	16.3
Non-controlling interests	594	593	1	0.2
<b>Total shareholders' equity</b>	<b>3,216,747</b>	<b>2,766,484</b>	<b>450,263</b>	<b>16.3</b>
<b>Total liabilities and shareholders' equity</b>	<b>4,930,802</b>	<b>4,038,757</b>	<b>892,045</b>	<b>22.1</b>
Current ratio (%)	166.1	141.2		24.9%p
Debt-to-equity ratio (%)	53.3	45.8		7.5%p

Total assets at year-end 2011 were up 22.1% over the 2010 year-end figure, rising from KRW 4,038.8 billion to KRW 4,930.8 billion.

In current assets, accounts receivable and inventories were KRW 485.2 billion and KRW 743.2 billion respectively, showing year-on-year increases of KRW 26.0 billion and KRW 130.6 billion. As a result, current assets were up 16.3% year-on-year.

Non-current assets rose 24.7% year-on-year, attributable to a KRW 386.4 billion rise in intangible assets and a KRW 369.6 billion increase in property, plant and equipment resulting from new investments and facility expansion. Intangible assets rose substantially because of an increase in business rights of KRW 368.9 billion as a result of the merger with Ace Digitech in August 2011.

Current liabilities fell by 1.2% owing to repayments of the current portion of long-term liabilities and a decline in accounts payable despite an increase in short-term borrowings. Non-current liabilities went up 113.6% from KRW 398 billion at the end of 2010 to KRW 850 billion at the end of 2011 as a result of the issuance of corporate bonds and the underwriting of bonds associated with the Ace Digitech merger in 2011.

Shareholders' equity amounted to KRW 3,216.7 billion as of the end of 2011, up 16.3% from the KRW 2,766.5 billion recorded at the end of 2010. This is attributable to a KRW 281.5 billion rise in capital in excess of par value, resulting from the issuance of new shares from the Ace Digitech merger, and an increase in retained earnings as reserves for facilities improvement for our business in the future.

The liability ratio went up from 45.8% in 2010 to 53.3% in 2011 owing to the underwriting of the corporate bonds of Ace Digitech and the issue of corporate bonds ahead of large-scale investments. The liability ratio is expected to fall in line with the targeted growth in net income and the steady repayment of borrowings.

## Cash Flows

Our summarized statement of cash flows is as follows:

### Summarized Statement of Cash Flows

(Unit: KRW million)

	2011	2010	Change	Change (%)
Cash flows from operating activities	194,607	425,602	(230,995)	(54.3)
Cash flows from investing activities	(332,977)	(255,953)	(77,024)	-
Cash flows from financing activities	201,772	(228,579)	430,351	-
Cash flows from operating activities/ Total assets (%)	3.9	10.5		(6.6)%p

Total cash flows from operating activities fell KRW 231 billion year-on-year. This was mainly the result of a sharp decrease in the changes in operating assets and liabilities that are deducted from net income, from minus KRW 44.7 billion in 2010 to minus KRW 155 billion in 2011, which in turn was caused by a rise in inventories and a decline in accounts payable. Cash flows were also affected by a year-on-year increase of KRW 67.6 billion in the gains on disposal of available-for-sale financial assets and gains on disposal of investments in associates.

Cash expenditures on investment activities went up KRW 77 billion year-on-year. This was due to a year-on-year increase of KRW 70.9 billion in the acquisition of property, plant and equipment for new business and the expansion of existing businesses.

Cash flows from financing activities saw an inflow of KRW 201.8 billion, a year-on-year positive change of KRW 430.4 billion. This was the result of the inflow of funds totaling KRW 1,126.7 billion from the issuance of corporate bonds and other new borrowings. KRW 900 billion worth of borrowings were redeemed during the year.

## Dividend Policy

We were in a situation where we had to reduce the dividend due to a fall in profitability and an increase in borrowings resulting from the challenging business environment of 2011 and the investments planned for 2012. However, as part of our efforts to enhance our shareholder's value, we declared a dividend of KRW 750 per share, which we have maintained for the previous six years. This dividend reflects a par dividend rate of 15% and a payout ratio of 15.7%, up 0.7%p from 2010. Total dividends paid amounted to KRW 37.9 billion for the year.

Our yearly dividend performance can be summarized as follows:

	2011	2010	2009	2008
Net income (KRW billion)	241.1	240.4	127.0	157.5
Dividend per share (KRW)	750	750	750	750
Dividend yield (%)	0.7	0.7	1.4	2.0
Payout ratio (%)	15.7	15.0	28.3	22.8

\* K-IFRS non-consolidated basis

## Future Outlook

There is still concern in the market that the global economy will continue to be weak for some time to come with economic downturn and financial crisis in advanced economies, as well as the risk of a hard landing of the Chinese economy. Against this backdrop, a further slowdown in demand for IT materials and consumer goods and an additional rise in raw material prices are likely to lead to continuing unfavorable conditions for our business environment.

Cheil Industries, however, is fully committed to facing the challenges ahead. We will strive to achieve growth based on our company goal for 2012 – 'Cheil Industries, a strong company that will achieve maximum efficiency and the best results possible'. To this end, we will improve the speed of our business and make organizational improvements so that we can lead our markets. We will also ensure that we grow as a company that is not only strong and performance-oriented, but also shares its success with all of its stakeholders, thereby achieving sustainable growth.

# CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Statements of Financial Position

As of December 31, 2011, 2010 and January 1, 2010

CHEIL INDUSTRIES INC. AND  
ITS SUBSIDIARIES

(Unit: KRW thousand)

	2011	2010	JANUARY 1, 2010
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	₩ 96,432,778	₩ 33,388,517	₩ 92,269,271
Short-term financial instruments	182,510	-	10,568,801
Trade receivables	485,171,034	459,164,264	453,429,685
Due from customers for contract work	794,216	-	-
Loans and other receivables	57,614,561	68,268,266	51,123,166
Derivative assets	-	12,115,256	1,285
Inventories	743,192,247	612,570,215	527,313,049
Current tax assets	524,643	397,324	325,093
Other current assets	50,745,766	41,594,713	34,768,549
Assets held for sale	-	6,575,840	-
Total current assets	1,434,657,755	1,234,074,395	1,169,798,899
Non-current assets:			
Long-term trade receivables	5,040,231	5,106,151	60,732
Long-term loans and other receivables	83,510,881	76,279,159	76,386,823
Available-for-sale financial assets	1,359,741,685	1,396,712,204	656,510,384
Held-to-maturity financial assets	100,000	-	-
Investments in associates	116,162,502	150,728,970	112,916,611
Property, plant and equipment	1,490,932,769	1,121,326,859	1,014,050,544
Intangible assets	431,771,080	45,356,930	79,669,004
Derivative assets	-	-	14,121,077
Deferred income tax assets	1,596,081	1,558,469	1,268,661
Other non-current assets	7,289,667	7,613,840	9,059,836
Total non-current assets	3,496,144,896	2,804,682,582	1,964,043,672
<b>Total assets</b>	<b>₩ 4,930,802,651</b>	<b>₩ 4,038,756,977</b>	<b>₩ 3,133,842,571</b>

(Unit: KRW thousand)

	2011	2010	JANUARY 1, 2010
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Trade payables	₩ 279,675,366	₩ 354,400,727	₩ 308,905,659
Due to customers for contract work	2,646,208	-	-
Other payables and debts	206,324,774	190,663,730	141,709,559
Short-term borrowings	158,657,268	32,442,423	82,119,611
Current maturities of long-term debts	112,812,682	190,737,174	62,442,132
Provision	4,695,331	5,452,142	6,067,229
Deferred income	16,203,116	15,355,275	13,090,449
Income tax payable	12,058,127	34,308,788	22,555,370
Other current liabilities	70,938,257	44,368,830	37,536,467
Liabilities directly associated with assets held for sale	-	6,575,840	-
Total current liabilities	864,011,129	874,304,929	674,426,476
Long-term liabilities:			
Long-term incentives	₩ 5,168,945	₩ 4,844,700	₩ 4,159,680
Long-term borrowings	23,066,879	4,225,000	90,000,000
Debentures	558,169,232	99,828,113	291,978,952
Defined benefit obligation	32,879,815	34,029,223	21,175,902
Deferred income tax liabilities	230,468,887	255,041,222	90,530,923
Other non-current liabilities	290,031	-	-
Total non-current liabilities	850,043,789	397,968,258	497,845,457
Total liabilities	1,714,054,918	1,272,273,187	1,172,271,933
Shareholders' equity:			
Equity attributable to the owners of the parent Company			
Capital stock	262,188,255	250,000,000	250,000,000
Other contributed capital	419,152,604	136,229,690	134,525,169
Revaluation reserve	231,884,465	231,884,465	231,884,465
Accumulated other comprehensive income	916,488,184	973,996,112	395,300,265
Retained earnings	1,386,439,945	1,173,780,532	943,635,364
Non-controlling interests	594,280	592,991	6,225,375
Total shareholders' equity	3,216,747,733	2,766,483,790	1,961,570,638
<b>Total liabilities and shareholders' equity</b>	<b>₩ 4,930,802,651</b>	<b>₩ 4,038,756,977</b>	<b>₩ 3,133,842,571</b>

## Consolidated Statements of Income

For the Years Ended December 31, 2011 and 2010

CHEIL INDUSTRIES INC. AND  
ITS SUBSIDIARIES

(Unit: KRW thousand, except per share amounts)

	2011		2010	
SALES	₩	5,580,979,504	₩	5,113,037,698
COST OF SALES		3,997,062,016		3,575,085,439
GROSS PROFIT		1,583,917,488		1,537,952,259
Selling expenses		630,636,102		553,850,232
Administrative expenses		598,738,927		520,329,753
Research and development expenses		132,046,969		120,535,369
Other operating income		108,897,585		58,612,290
Other operating expenses		44,192,800		71,930,718
OPERATING INCOME		287,200,275		329,918,477
Gain on valuation of investments in associates		29,595,152		41,178,088
Financial income:				
Interest income		4,704,183		4,132,939
Gain on foreign currency transactions		68,176,462		71,589,718
Gain on foreign currency translation		6,765,953		4,819,147
		79,646,598		80,541,804
Loss on valuation of investments in associates		17,100,498		830,326
Financial expenses:				
Interest expense		28,501,196		26,668,475
Loss on foreign currency transactions		69,276,424		74,854,142
Loss on foreign currency translation		2,912,426		1,820,825
Loss on valuation of derivatives		-		2,296,000
Loss on derivative transactions		2,975,000		-
		103,665,046		105,639,442
INCOME BEFORE INCOME TAX		275,676,481		345,168,601
INCOME TAX EXPENSE		16,555,566		48,542,777
INCOME FOR THE YEAR FROM CONTINUING OPERATIONS		259,120,915		296,625,824
LOSS FOR THE YEAR FROM THE DISCONTINUED OPERATIONS		-		23,778,377
NET INCOME	₩	259,120,915	₩	272,847,447
NET INCOME ATTRIBUTABLE TO:				
Owners of the parent Company	₩	259,086,037	₩	278,657,695
Non-controlling interests		34,878		(5,810,248)
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY:				
Basic earnings per share	₩	5,274	₩	5,811
Diluted earnings per share	₩	5,266	₩	5,786

## Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2011 and 2010

CHEIL INDUSTRIES INC. AND  
ITS SUBSIDIARIES

(Unit: KRW thousand)

	2011		2010	
NET INCOME	₩	259,120,915	₩	272,847,447
OTHER COMPREHENSIVE INCOME (LOSS):				
Gain on valuation of available-for-sale financial assets		(59,156,565)		575,144,628
Loss on valuation of available-for-sale financial assets		(10,535)		3,499,185
Gain on valuation of equity method investees		(60,281)		60,281
Loss on valuation of equity method investees		(41,439)		(44,970)
Gain on valuation of derivatives		-		(974)
Loss on valuation of derivatives		1,130,742		219,955
Gain (loss) on foreign operations translation		609,134		(105,132)
Change in equity method investees with retained earnings		-		(381,308)
Actuarial loss		(10,544,545)		(12,229,817)
		(68,073,489)		566,161,848
TOTAL COMPREHENSIVE INCOME	₩	191,047,426	₩	839,009,295
COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the parent Company	₩	191,033,565	₩	844,742,417
Non-controlling interests		13,861		(5,733,122)

## Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2011 and 2010

CHEIL INDUSTRIES INC. AND ITS SUBSIDIARIES

(Unit: KRW thousand)

	Capital stock	Other contributed capital	Revaluation reserve	Accumulated other comprehensive income	Retained earnings	Non-controlling interests	Total
January 1, 2010	₩ 250,000,000	₩ 134,525,169	₩ 231,884,465	₩ 395,300,265	₩ 943,635,364	₩ 6,225,375	₩ 1,961,570,638
Dividend	-	-	-	-	(35,901,402)	(24,290)	(35,925,692)
Change in equity method investees with retained earnings	-	-	-	-	(381,308)	-	(381,308)
Balance after appropriations	250,000,000	134,525,169	231,884,465	395,300,265	907,352,654	6,201,085	1,925,263,638
Net income	-	-	-	-	278,657,695	(5,810,248)	272,847,447
Changes in shares of subsidiaries	-	(54,989)	-	-	-	125,028	70,039
Disposal on treasury stock	-	2,118,517	-	-	-	-	2,118,517
Exercise of stock options	-	(359,007)	-	-	-	-	(359,007)
Gain on valuation of available-for-sale financial assets	-	-	-	575,144,628	-	-	575,144,628
Loss on valuation of available-for-sale financial assets	-	-	-	3,499,185	-	-	3,499,185
Gain on valuation of equity method investees	-	-	-	60,281	-	-	60,281
Loss on valuation of equity method investees	-	-	-	(44,970)	-	-	(44,970)
Gain on valuation of derivatives	-	-	-	(974)	-	-	(974)
Loss on valuation of derivatives	-	-	-	219,955	-	-	219,955
Loss on foreign operations translation	-	-	-	(182,258)	-	77,126	(105,132)
Actuarial loss	-	-	-	-	(12,229,817)	-	(12,229,817)
December 31, 2010	₩ 250,000,000	₩ 136,229,690	₩ 231,884,465	₩ 973,996,112	₩ 1,173,780,532	₩ 592,991	₩ 2,766,483,790
January 1, 2011	₩ 250,000,000	₩ 136,229,690	₩ 231,884,465	₩ 973,996,112	₩ 1,173,780,532	₩ 592,991	₩ 2,766,483,790
Dividend	-	-	-	-	(36,015,402)	(12,572)	(36,027,974)
Balance after appropriations	250,000,000	136,229,690	231,884,465	973,996,112	1,137,765,130	580,419	2,730,455,816
Net income	-	-	-	-	259,086,037	34,878	259,120,915
Issue of share due to business combination	12,188,255	281,548,691	-	-	-	-	293,736,946
Acquisition of treasury share due to business combination	-	(241)	-	-	-	-	(241)
Acquisition of treasury stock	-	(349,628)	-	-	-	-	(349,628)
Exercise of stock options	-	1,724,092	-	-	-	-	1,724,092
Gain on valuation of available-for-sale financial assets	-	-	-	(59,156,565)	-	-	(59,156,565)
Loss on valuation of available-for-sale financial assets	-	-	-	(10,535)	-	-	(10,535)
Gain on valuation of equity method investees	-	-	-	(60,281)	-	-	(60,281)
Loss on valuation of equity method investees	-	-	-	(41,439)	-	-	(41,439)
Loss on valuation of derivatives	-	-	-	1,130,742	-	-	1,130,742
Gain on foreign operations translation	-	-	-	630,150	-	(21,017)	609,133
Changes in scope of consolidation	-	-	-	-	133,323	-	133,323
Actuarial loss	-	-	-	-	(10,544,545)	-	(10,544,545)
December 31, 2011	₩ 262,188,255	₩ 419,152,604	₩ 231,884,465	₩ 916,488,184	₩ 1,386,439,945	₩ 594,280	₩ 3,216,747,733

## Consolidated Statements of Cash Flows

For the Years Ended December 31, 2011 and 2010

CHEIL INDUSTRIES INC. AND ITS SUBSIDIARIES

(Unit: KRW thousand)

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash flows from operations		
Net income	₩ 259,120,915	₩ 272,847,447
Income tax expense	16,555,566	48,542,777
Financial income	(11,470,136)	(8,952,086)
Financial expense	34,388,622	30,785,300
Dividend income	(14,870,166)	(12,148,665)
Reversal of allowance for bad debts	(794,059)	(3,053,664)
Gain on disposal of available-for-sale financial assets	(24,028,798)	(1,039,633)
Gain on valuation of investments in associates	(29,595,152)	(41,178,088)
Gain on disposal of investments in associates	(44,591,290)	-
Gain on disposal of property, plant and equipment	(395,591)	(850,013)
Return on plan assets	-	(2,331,485)
Severance benefits	22,296,387	18,762,930
Provision for doubtful accounts	120,347	4,108
Depreciation	155,762,033	128,232,177
Amortization	5,918,515	7,992,688
Other bad debt expense	3,293,200	56,477
Impairment of available-for-sale financial assets	-	5,308,164
Loss on disposal of available-for-sale financial assets	-	542,952
Loss on valuation of investments in associates	17,100,498	830,326
Loss on disposal of property, plant and equipment	3,280,012	6,038,489
Loss on disposal of intangible assets	-	1,838,244
Impairment of intangible assets	13,901,815	35,712,012
Warranty expenses	87,487	-
Payroll (long-term incentives)	5,777,842	2,801,382
Loss for the year from discontinued operations	-	23,778,377
Changes in operating assets and liabilities:		
Increase in trade receivables	(20,065,160)	(20,094,557)
Increase in due from customers for contract work	(794,216)	-
Decrease (increase) in loans and other receivables	16,117,069	(15,956,686)
Increase in inventories	(68,718,999)	(94,001,201)
Increase in other current assets	(1,578,979)	(4,532,894)
Decrease (increase) in long-term trade receivables	91,362	(5,011,061)
Increase in long-term loans and other receivables	(334,624)	(1,675,171)

CHEIL INDUSTRIES INC. AND  
ITS SUBSIDIARIES

(Unit: KRW thousand)

	2011	2010
Increase in other non-current assets	₩ (3,169,188)	₩ (175,727)
Increase (decrease) in trade payables	(61,378,852)	57,535,758
Increase in due to customers for contract work	2,646,208	-
Increase in other payables and other debts	177,151	49,075,854
Decrease in provision	(798,678)	(614,504)
Increase in deferred income	847,841	2,264,826
Increase in other current liabilities	26,716,888	7,527,625
Decrease in long-term incentives	(3,163,385)	-
Payment of severance benefits	(11,413,846)	(10,528,866)
Increase of plan assets	(30,205,011)	(8,508,790)
	(155,024,419)	(44,695,394)
	256,833,628	469,824,822
Interest received	2,053,576	1,744,858
Dividend received	17,009,316	14,287,818
Income tax refunds	56,963	620,603
Interest paid	(31,078,160)	(28,645,146)
Income taxes paid	(50,268,228)	(32,230,936)
	194,607,095	425,602,019
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collection of short-term financial instruments	₩ -	₩ 15,106,392
Collection of loans and other receivables	1,273,610	1,307,776
Collection of long-term loans and other receivables	1,747,607	274,014
Proceeds from disposal of available-for-sale securities	19,226,163	2,338,733
Proceeds from disposal of property, plant and equipment	2,054,304	1,803,263
Proceeds from disposal of intangible assets	1,345,702	-
Proceeds from business combination	1,454,973	-
Increase in short-term financial instruments	(171,500)	(4,537,591)
Increase in loans and other receivables	(1,571,414)	(282,195)
Increase in long-term loans and other receivables	(8,789,450)	(351,164)
Acquisition of held-to-maturity financial assets	(100,000)	-
Acquisition of available-for-sale securities	-	(111,690)
Acquisition of property, plant and equipment	(327,271,465)	(256,390,986)
Acquisition of intangible assets	(22,175,740)	(13,468,229)
Classified as held for sale	-	(1,640,960)
	(332,977,210)	(255,952,637)

CHEIL INDUSTRIES INC. AND  
ITS SUBSIDIARIES

(Unit: KRW thousand)

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	618,987,731	30,590,100
Proceeds from issuance of debentures	498,124,300	-
Proceeds from long-term borrowings	9,555,263	2,011,907
Paid-in capital increase	-	70,040
Decrease in derivative instruments	10,632,000	-
Redemption of borrowings	(900,533,005)	(226,487,749)
Acquisition of treasury stock	(349,628)	-
Exercise of stock options	1,383,254	1,162,260
Payment of dividends	(36,027,974)	(35,925,692)
	201,771,941	(228,579,134)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	63,401,826	(58,929,752)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	33,388,517	92,269,271
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(357,565)	48,998
CASH AND CASH EQUIVALENTS, END OF YEAR	₩ 96,432,778	₩ 33,388,517

## Independent Auditors' Report

### To the Shareholders and Board of Directors of Cheil Industries Inc. and Its Subsidiaries:

We have audited the accompanying consolidated financial statements of Cheil Industries Inc. and its subsidiaries (the "Group"). The financial statements consist of the consolidated statements of financial position as of December 31, 2011, and the related consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows, all expressed in Korean won, for the years ended December 31, 2011. The Group's management is responsible for the preparation and fair presentation of the consolidated financial statements and our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain subsidiaries, including Samsung Chemical U.S.A. Inc., whose statements reflect 4.53% of the consolidated total assets as of December 31, 2011, and 9.58% of the consolidated total sales for the year ended December 31, 2011. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2011, and the results of its operations and its cash flows for the year ended December 31, 2011, in conformity with Korean International Financial Reporting Standards ("K-IFRS").

In addition to the comparative consolidated financial statements as of December 31, 2010, included in the accompanying consolidated financial statements, the Group's management prepared the consolidated statements of financial position of the Group as of December 31, 2010, and the related consolidated statements of income, consolidated statements of appropriations of retained earnings, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the year then ended in accordance with previous generally accepted accounting principles in the Republic of Korea ("previous KGAAP"). We conducted audits on these financial statements and was expressed on its' independent auditor's report dated as of March 30, 2011. The financial statements with our opinion as of December 31, 2010 are not adjusted for the K-IFRS adjustments stated in Note 4, but the accompanying consolidated financial statements of 2010 is adjusted for the transition to K-IFRS.

March 8, 2012

**Notice to Readers** This report is effective as of March 8, 2012, the audit report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to the auditors' report.

## Report of Independent Accountants' Review of Internal Accounting Control System (IACS)

### To the President of Cheil Industries Inc.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of Cheil Industries Inc. (the "Company") as of December 31, 2011. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on the assessment of the operations of the IACS as of December 31, 2011, the Company's IACS has been designed and is operating effectively as of December 31, 2011 in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

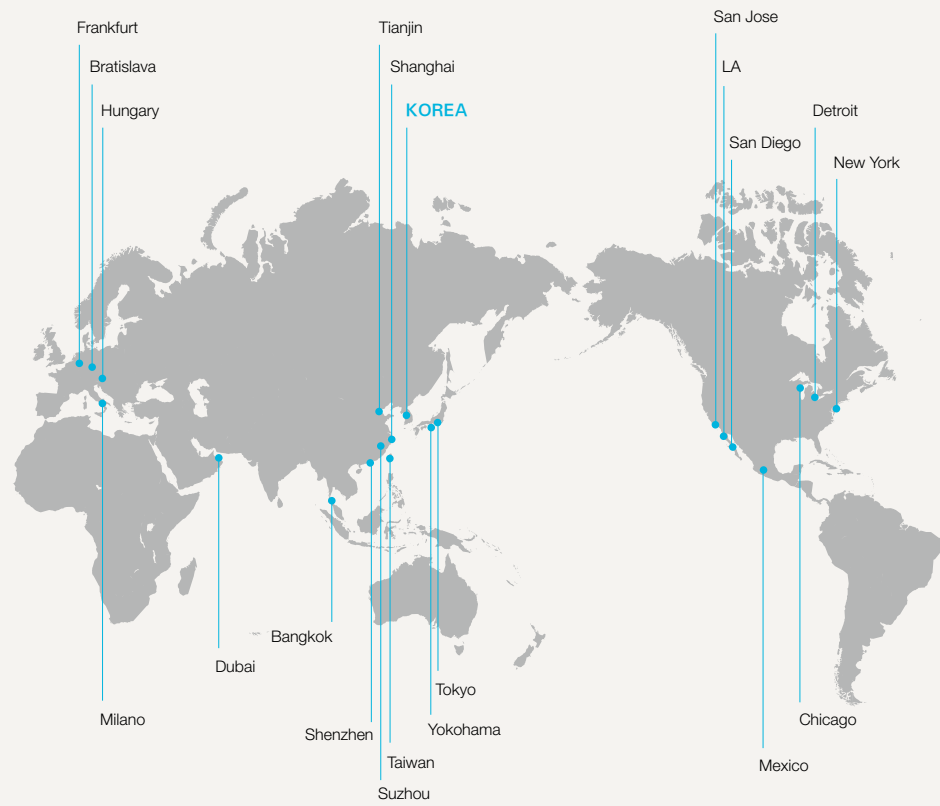
A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as of December 31, 2011, and we did not review management's assessment of its IACS subsequent to December 31, 2011. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

February 21, 2012

# GLOBAL NETWORK



## Domestic Business Sites

### Chemicals and Electronic Materials

#### Uiwang R&D Center

332-2 Gocheon-dong, Uiwang-si,  
Gyeonggi-do, Korea  
Tel: +82-31-596-4114  
Fax: +82-31-596-3249

#### Gumi Business Site

290, Gongdan-dong, Gumi-si,  
Gyeongsangbuk-do, Korea  
Tel: +82-54-468-2345  
Fax: +82-54-468-2319

#### Yeosu Business Site

62 Pyeongyeo-dong, Yeosu-si,  
Jeollanam-do, Korea  
Tel: +82-61-689-1242  
Fax: +82-61-689-1243

#### Ochang Business Site

441-1 Gooryong-ri, Ochang-eup,  
Cheongwon-gun, Chungcheongbuk-do, Korea  
Tel: +82-43-200-0039  
Fax: +82-43-217-6991

### Fashion

#### Geumcheon Center

60-49, Gasan-dong,  
Geumcheon-gu, Seoul, Korea  
Tel: +82-2-860-6153  
Fax: +82-2-860-6149

#### Fashion Seoul Office

83-1, Susong-dong, Jongno-gu, Seoul, Korea  
Tel: +82-2-2076-6666  
Fax: +82-2-2076-6966

#### Fashion Horim Art Center

651-16, Sinsa-dong, Gangnam-gu,  
Seoul, Korea  
Tel: +82-70-7130-7859

## Overseas Business Sites

### Chemicals and Electronic Materials

#### Samsung Chemical Material Trading(Shanghai) Co., Ltd. (S.C.S.C)

Room No. 2701 Shanghai International Trade Center, 2201 Yanan Rd(W)  
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#### Tianjin Samsung Engineering Plastics Co., Ltd. (T.S.E.P)

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Fax: +86-22-5868-0299  
Email: mc007.jeon@samsung.com

#### Samsung Chemical(Thailand) Co., Ltd. (S.C.T)

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#### Samsung Chemical USA, Inc. (S.C.I)

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#### Starex Compounding America, Inc. (S.C.A)

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#### Samsung Chemical Europe GmbH (S.C.E.G)

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#### Slovakia Office

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#### Samsung Chemical Hungary LLC (S.C.H)

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Email: c77.song@samsung.com

#### Samsung Chemical Electronic Materials(Suzhou) Co., Ltd. (S.C.E.S)

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### Fashion

#### Samsung Fashion Trading(Shanghai) Co., Ltd. (S.F.T.C)

16F, 1018 Changning Road, Shanghai, China  
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#### Cheil America, Inc. (C.A.I)

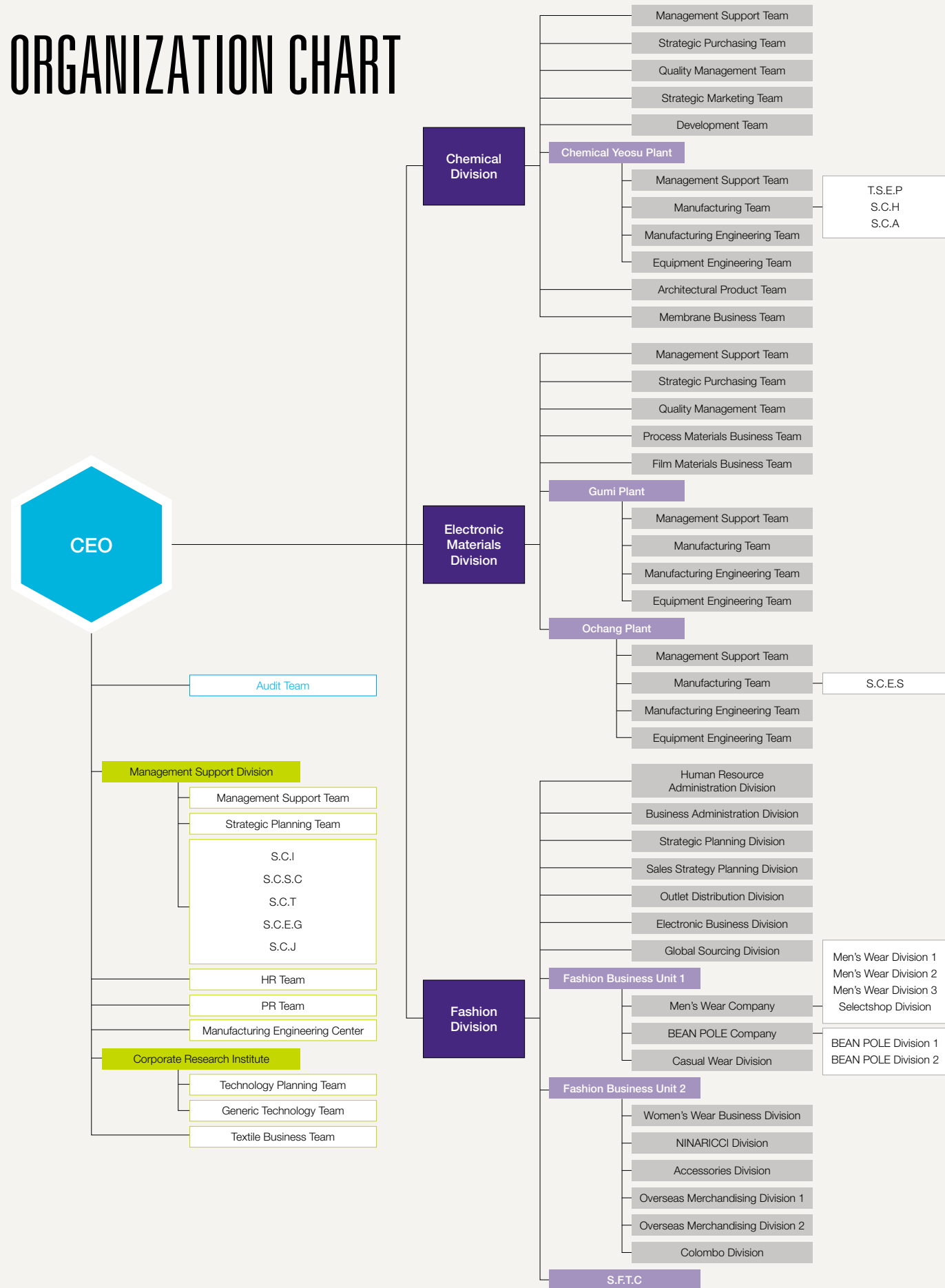
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Email: cho34@samsung.com

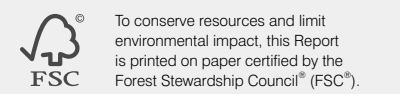


# ORGANIZATION CHART



If you need additional information about this Report or have questions, please contact us at the following:

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**SAMSUNG** CHEIL INDUSTRIES