DOOSAN HEAVY INDUSTRIES & CONSTRUCTION CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2012

(With Independent Auditors' Report Thereon)

Contents

KPMG SAMJONG

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Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
Doosan Heavy Industries & Construction Co., Ltd.:

We have audited the accompanying consolidated statements of financial position of Doosan Heavy Industries & Construction Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2012 and 2011 and the related consolidated statements of income, comprehensive income (loss), changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We did not audit the financial statements of four subsidiaries and two associates. The financial statements of the four subsidiaries reflect total assets constituting 19.82% and total revenues constituting 19.86% as of and for the year ended 2012 (2011: 17.40% and 18.00%) of the related consolidated totals before eliminating intra-group transactions. The Group's investment in the two associates at December 31, 2012 was 2,930,833 million won (2011: 2,847,677 million Won) and the Group's equity in profits of the associates was 205,324 million won (2011: 181,438 million Won). The financial statements of the four subsidiaries and the two associates were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for the four subsidiaries and the two associates, 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 6, 2013

This report is effective as of March 6, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Doosan Heavy Industries & Construction Co., Ltd. and Subsidiaries
Consolidated Statements of Financial Position
As of December 31, 2012 and 2011

(In thousands of won)	Note		2012	2011
Assets				
Cash and cash equivalents	*4,5,11*	₩	1,134,430,632	783,253,494
Short-term investments	*4,5,6,11*		27,249,138	75,743,900
Trade receivables	*4,7,11,26,35*		1,161,330,410	1,026,094,699
Due from customers for contract work	*26*		1,564,566,963	1,607,582,781
Other receivables	*4,7,11*		139,602,155	202,868,939
Prepayments	*7*		581,021,893	709,070,063
Prepaid expenses			53,361,148	39,248,720
Derivative assets including firm commitment assets	*4,10,11*		320,695,272	252,010,371
Inventories	*8*		556,354,139	457,467,194
Other current assets	*4,7,38*		179,995,388	110,311,202
Current assets			5,718,607,138	5,263,651,363
Long-term financial instruments	*4,5,11*		71,104,291	58,726,407
Long-term investments in securities	*4,9,11,33,34*		43,340,934	96,539,013
Investments in equity-accounted investees	*12,34,35*		3,367,821,583	3,825,562,505
Long-term loans	*7*		9,889,646	102,496,654
Property, plant and equipment	*13,34*		2,674,298,444	2,689,591,471
Intangible assets	*14*		1,210,835,528	1,157,876,792
Investment property	*15*		13,175,103	10,051,988
Derivative assets including firm commitment assets	*4,10,11*		223,950,557	261,312,351
Deferred tax assets	*31*		26,615,850	19,763,080
Guarantee deposits			161,732,629	69,889,675
Other non-current assets	*4,7*		3,041,913	33,707,295
Non-current assets			7,805,806,478	8,325,517,231
Total assets		₩	13,524,413,616	13,589,168,594

Doosan Heavy Industries & Construction Co., Ltd. and Subsidiaries
Consolidated Statements of Financial Position, Continued
As of December 31, 2012 and 2011

(In thousands of won)	Note		2012	2011
Liabilities				
Trade payables	*4,11,35*	₩	868,869,112	668,027,022
Short-term borrowings	*4,11,16,33*		1,017,319,627	1,699,679,954
Current portion of long-term debt	*4,11,16,33*		390,096,643	385,654,664
Other payables	*4,11*		381,769,458	414,523,778
Advanced receipts			85,028,312	113,602,351
Due to customers for contract work	*26*		1,858,635,915	2,067,922,516
Withholdings			11,956,691	9,650,522
Accrued expenses			198,562,912	339,826,153
Income tax payable			14,580,846	60,288,358
Derivative liabilities including firm commitment liabilities	*10,11*		434,592,174	259,363,285
Provisions	*18*		-	27,650,554
Other current liabilities			22,988,031	29,942,376
Current liabilities			5,284,399,721	6,076,131,533
Debentures	*4,11,16*		1,216,357,809	958,586,239
Long-term borrowings	*4,11,16,33*		1,357,772,615	528,467,353
Long-term other payables	*4,11*		27,556,966	42,592,489
Employee benefits	*17*		307,263,372	256,818,065
Deposits received			211,556,674	170,942,648
Derivative liabilities including firm commitment liabilities	*10,11*		307,557,865	310,362,357
Deferred tax liabilities	*31*		56,595,358	210,640,948
Provisions	*18*		172,490,875	140,998,312
Other non-current liabilities			73,283,117	96,700,631
Non-current liabilities			3,730,434,651	2,716,109,042
Total liabilities			9,014,834,372	8,792,240,575
Equity				
Share capital	*1,19*		529,281,335	529,217,335
Capital surplus	*19,20*		874,943,462	883,636,599
Other capital adjustments	*21*		(195,639,129)	(197,869,706)
Accumulated other comprehensive income (loss)	*22*		(216,959,008)	2,321,194
Retained earnings	*23*		3,514,295,652	3,553,289,725
Equity attributable to owners of the Controlling Company			4,505,922,312	4,770,595,147
Non-controlling interests			3,656,932	26,332,872
Total equity			4,509,579,244	4,796,928,019
Total equity and liabilities		₩	13,524,413,616	13,589,168,594

See accompanying notes to the consolidated financial statements.

Doosan Heavy Industries & Construction Co., Ltd. and Subsidiaries
Consolidated Statements of Income
For the years ended December 31, 2012 and 2011

(In thousands of won, except per share information)	Note		2012	2011 Restated
Continuing operations				
Revenue	*24,25,26,35*	₩	9,627,183,611	8,495,506,109
Cost of sales	*26,35*		(8,240,844,790)	(7,250,464,580)
Gross profit			1,386,338,821	1,245,041,529
Selling and administrative expenses	*28*		(791,499,761)	(718,884,690)
Results from operating activities	*24*		594,839,060	526,156,839
Finance income	*29*		889,470,586	442,471,363
Finance costs	*29*		(1,143,413,901)	(677,471,602)
Other income	*30*		50,678,044	100,095,704
Other expenses	*30*		(103,293,840)	(35,706,676)
Net costs			(306,559,111)	(170,611,211)
Share of profit (loss) of equity - accounted investees	*12*		(300,739,873)	504,914,453
Profit (loss) before income tax			(12,459,924)	860,460,081
Income tax expense (benefit)	*31*		(27,192,055)	119,276,381
Profit from continuing operations			14,732,131	741,183,700
Discontinued operations				
Loss from discontinued operations	*31,37*		-	(479,488,358)
Profit for the year	*24*	₩	14,732,131	261,695,342
Profit (loss) attributable to :				
Owners of the Controlling Company		₩	38,044,984	274,781,302
Non-controlling interests			(23,312,853)	(13,085,960)
Profit for the year		₩	14,732,131	261,695,342
Earnings per share				
Basic earnings per share (won)	*32*	₩	427	3,063
Diluted earnings per share (won)	*32*		427	3,062
Earnings per share - Continuing operations				
Basic earnings per share (won)	*32*	₩	427	8,382
Diluted earnings per share (won)	*32*		427	8,381

See accompanying notes to the consolidated financial statements.

Doosan Heavy Industries & Construction Co., Ltd. and Subsidiaries Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2012 and 2011

(In thousands of won)	**Note**		**2012**	**2011**
Profit for the year		₩	14,732,131	261,695,342
Other comprehensive income (loss)				
Net change in unrealized fair value of available-for-sale financial assets	*9*		(37,391,249)	34,883,416
Effective portion of changes in fair value of cash flow hedges	*10*		(90,478,252)	18,823,489
Defined benefit plan actuarial losses	*17*		(13,054,120)	(141,931,183)
Changes in unrealized gain (loss) on valuation of equity method investments	*12*		(125,902,521)	114,042,298
Foreign currency translation differences for foreign operations			2,816,515	(57,605,836)
Changes in the scope of consolidation	*12*		-	(94,964,691)
Income tax on other comprehensive loss	*31*		35,201,526	3,007,065
Other comprehensive loss for the year, net of income tax			(228,808,101)	(123,745,442)
Total comprehensive income (loss) for the year		₩	(214,075,970)	137,949,900
Total comprehensive income (loss) attributable to:				
Owners of the Controlling Company			(191,501,054)	178,449,004
Non-controlling interests			(22,574,916)	(40,499,104)
Total comprehensive income (loss) for the year		₩	(214,075,970)	137,949,900

See accompanying notes to the consolidated financial statements.

Doosan Heavy Industries & Construction Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
For the year ended December 31, 2011

(In thousands of won)		Controlling Interests							
		Share capital	Capital surplus	Other capital adjustment	Accumulated other comprehen-sive income (loss)	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2011	₩	529,082,335	956,958,238	(134,427,447)	(26,988,153)	3,471,525,934	4,796,150,907	380,053,308	5,176,204,215
Annual dividend		-	-	-	-	(67,375,866)	(67,375,866)	-	(67,375,866)
Profit (loss) for the year		-	-	-	-	274,781,302	274,781,302	(13,085,960)	261,695,342
Defined benefit plan actuarial losses		-	-	-	-	(50,740,197)	(50,740,197)	-	(50,740,197)
Share-based compensation		135,000	1,688,584	2,222,147	-	-	4,045,731	-	4,045,731
Acquisition of treasury stock		-	-	(49,999,638)	-	-	(49,999,638)	-	(49,999,638)
Changes in retained earnings arising from equity method investments		-	-	-	-	(74,901,448)	(74,901,448)	-	(74,901,448)
Net change in unrealized fair value of available-for-sale financial assets		-	-	-	26,156,227	-	26,156,227	-	26,156,227
Changes in unrealized gain on valuation of equity method investments		-	-	-	114,042,298	-	114,042,298	-	114,042,298
Effective portion of changes in fair value of cash flow hedges		-	-	-	14,268,205	-	14,268,205	-	14,268,205
Foreign currency translation differences for foreign operations		-	-	-	(56,067,428)	-	(56,067,428)	(1,538,408)	(57,605,836)
Changes in the scope of consolidation (note 12)		-	(76,707,781)	(15,694,339)	(69,089,955)	-	(161,492,075)	(339,096,068)	(500,588,143)
Others		-	1,697,558	29,571	-	-	1,727,129	-	1,727,129
Balance at December 31, 2011	₩	529,217,335	883,636,599	(197,869,706)	2,321,194	3,553,289,725	4,770,595,144	26,332,872	4,796,928,019

Doosan Heavy Industries & Construction Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity, Continued
For the year ended December 31, 2012

(In thousands of won)		Controlling Interests: Share capital	Capital surplus	Other capital adjustment	Accumulated other comprehen-sive income (loss)	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2012	₩	529,217,335	883,636,599	(197,869,706)	2,321,194	3,553,289,725	4,770,595,147	26,332,872	4,796,928,019
Annual dividend		-	-	-	-	(66,773,222)	(66,773,221)	(101,024)	(66,874,245)
Profit (loss) for the year		-	-	-	-	38,044,984	38,044,984	(23,312,853)	14,732,131
Defined benefit plan actuarial losses		-	-	-	-	(9,030,071)	(9,030,071)	-	(9,030,071)
Share-based compensation		64,000	1,562,517	2,193,165	-	-	3,819,682	-	3,819,682
Changes in retained earnings arising from equity method investments		-	-	-	-	(1,235,765)	(1,235,765)	-	(1,235,765)
Net change in unrealized fair value of available-for-sale financial assets		-	-	-	(28,342,567)	-	(28,342,567)	-	(28,342,567)
Changes in unrealized gain on valuation of equity method investments		-	-	-	(125,902,521)	-	(125,902,521)	-	(125,902,521)
Effective portion of changes in fair value of cash flow hedges		-	-	-	(67,113,692)	-	(67,113,692)	-	(67,113,692)
Foreign currency translation differences for foreign operations		-	-	-	2,078,578	-	2,078,578	737,937	2,816,515
Others		-	(10,255,655)	37,413	-	-	(10,218,242)	-	(10,218,242)
Balance at December 31, 2012	₩	529,281,335	874,943,462	(195,639,129)	(216,959,008)	3,514,295,652	4,505,922,312	3,656,932	4,509,579,244

See accompanying notes to the consolidated financial statements.

Doosan Heavy Industries & Construction Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2012 and 2011

(In thousands of won)	Note		2012	2011
Cash flows from operating activities				
Cash generated from operating activities	*36*	₩	677,514,845	229,262,260
Interest received			24,332,419	25,112,441
Interest paid			(228,809,098)	(161,106,213)
Dividend received			4,988,866	12,165,760
Income taxes paid			(110,226,084)	(91,907,746)
Net cash provided by operating activities			367,800,948	13,526,502
Cash flows from investing activities				
Net decrease in short-term investment instruments			48,263,063	50,760,148
Net decrease (increase) in short-term loans			18,039,817	(4,737,657)
Decrease in guarantee deposits			45,941	49,198,065
Increase in guarantee deposits			(70,397,801)	(38,299,635)
Collection of long-term loans			-	2,512,705
Increase in long-term loans			(392,992)	(96,200,000)
Acquisition of long-term financial instruments			(15,444,236)	(16,910,000)
Proceeds from sale of long-term investment in securities			2,571,404	22,400,259
Acquisition of long-term investment in securities			(24,496,746)	(3,119,224)
Proceeds from sale of investments in equity-accounted investees			-	1,897,489
Acquisition of investments in equity-accounted investees			(6,862,000)	(218,849,925)
Net cash impact from sale of investments in subsidiaries			-	(610,333,037)
Business combination, net of cash acquired			-	(51,353,584)
Acquisition of property, plant and equipment			(200,269,148)	(261,173,916)
Proceeds from sale of property, plant and equipment			17,759,422	3,624,940
Proceeds from sale of investment property			-	12,407,712
Proceeds from sale of intangible assets			997,944	1,600,455
Acquisition of intangible assets			(149,700,779)	(82,926,371)
Net cash used in investing activities		₩	(379,886,111)	(1,239,501,576)

(In thousands of won)	Note		2012	2011
Cash flows from financing activities				
Net increase (decrease) in short-term borrowings		₩	(649,457,910)	281,613,608
Repayment of current portion of long-term debt			(394,110,171)	(510,000,000)
Proceeds from issuance of debentures			547,165,200	653,940,293
Proceeds from long-term borrowings			944,344,000	228,321,470
Repayment of long-term borrowings			(10,840,289)	(26,067,538)
Stock option exercised			538,860	1,265,300
Dividends paid			(66,874,245)	(67,375,866)
Acquisition of treasury stock			-	(49,999,638)
Others			-	(34,245)
Net cash provided by financing activities			370,765,445	511,663,385
Effect of exchange rate fluctuations on cash held			(7,503,144)	(20,040,510)
Net increase (decrease) in cash and cash equivalents			351,177,138	(734,352,199)
Cash and cash equivalents at 1 January			783,253,494	1,517,605,693
Cash and cash equivalents at 31 December		₩	1,134,430,632	783,253,494

See accompanying notes to the consolidated financial statements.

1. Reporting Entity

(a) Description of the controlling company

Doosan Heavy Industries & Construction Co., Ltd. (the "Controlling Company") was incorporated on September 20, 1962, and is engaged in manufacturing and selling of power plant equipment, industrial equipment, forge and casting products, and construction. The Controlling Company's operations are headquartered in Changwon, Korea, as of December 31, 2012. The Controlling Company stock was listed on the Korea Exchange on October 25, 2000 and its major stockholder as of December 31, 2012 is Doosan Co., Ltd. (ownership: 41.23%). The consolidated financial statements of the Controlling Company as at and for the year ended December 31, 2012 comprise the Controlling Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities.

(b) Consolidated subsidiaries as of December 31, 2012

Company	Location	Reporting date	Ownership (%)	Type of business
Doosan Asset Management Company Co., Ltd	Korea	Dec 31	100.00%	Immovable property development
Doosan Heavy Industries Vietnam Haiphong Co., Ltd.	Vietnam	Dec 31	90.00%	Manufacturing
Doosan Heavy Industries Vietnam Co., Ltd.	Vietnam	Dec 31	75.04%	Manufacturing
HF Controls Corp.	USA	Dec 31	100.00%	Manufacturing
PT. Doosan Heavy Industries Indonesia	Indonesia	Dec 31	55.00%	Manufacturing
Doosan Heavy Industries Japan Corp.	Japan	Dec 31	100.00%	Sales
S.C. Doosan IMGB S.A.	Romania	Dec 31	99.76%	Manufacturing
Doosan Power Systems India Private Ltd. (*1)	India	Mar 31	100.00%	Engineering
Doosan Enpure Ltd. (*2)	UK	Dec 31	100.00%	Engineering
Doosan Heavy Industries America Holdings Inc.	USA	Dec 31	100.00%	Holdings
Doosan Power Systems S.A. (*3)	Luxemburg	Dec 31	100.00%	Holdings

(*1) Doosan Chennai Works has merged Doosan Power Systems India Private Ltd. and Doosan Chennai Works changed its name to Doosan Power Systems India Private Ltd. on October 16, 2012.

(*2) In 2012, Doosan Water UK Ltd. changed its name to Doosan Enpure Ltd.

(*3) In 2012, Doosan Heavy Industries European Holdings S.a.r.l changed its name to Doosan Power Systems S.A.

1. Reporting Entity, Continued

(c) Financial information on subsidiaries as of and for the year ended December 31, 2012

(In millions of won)

Company		Total assets	Total liabilities	Sales	Profit (loss)
Doosan Asset Management Company Co., Ltd	₩	2,203	231	-	1,141
Doosan Heavy Industries Vietnam Haiphong Co., Ltd.		30,021	3,948	27,356	1,292
Doosan Heavy Industries Vietnam Co., Ltd.		398,504	277,064	217,886	(20,422)
HF Controls Corp.		13,787	4,844	7,445	527
PT. Doosan Heavy Industries Indonesia		30,992	96,396	3,452	(40,689)
Doosan Heavy Industries Japan Corp.		69,909	67,428	4,168	423
S.C. Doosan IMGB S.A.		208,366	177,074	127,409	(8,070)
Doosan Power Systems India Private Ltd.		473,428	355,373	232,538	(2,268)
Doosan Enpure Ltd.		4,781	-	-	-
Doosan Heavy Industries America Holdings Inc. (*1)		50,731	54,268	45,083	(2,676)
Doosan Power Systems S.A. (*1)		1,577,973	979,874	1,390,493	(10,492)

(*1) The relevant amount represents consolidated financial information.

1. Reporting Entity, Continued

(d) Change in subsidiaries

(1) Change in subsidiaries as of December 31, 2012 is summarized as follows:

(i) Included subsidiaries

Company	Reason
Doosan Enpure Ltd.	Newly incorporated
Doosan Heavy Industries America Holdings Inc.	Newly incorporated as an intermediate holding company of Doosan Heavy Industries America Corp, Doosan Hydro Technology Inc and Doosan Engineering & Services LLC.

(ii) Excluded subsidiaries

Company	Reason
Doosan Chennai Works	Merged

(2) Change in subsidiaries as of December 31, 2011 is summarized as follows:

Company	Reason
Doosan Chennai Works	Acquisition
Doosan Lentjes	Acquisition
Doosan Babcock Energy Trading Shanghai	Disposal
Doosan Engineering & Construction Co., Ltd.	Decrease in ownership
Doosan Cuvex Co., Ltd.	Decrease in ownership
Rexcon Co., Ltd.	Decrease in ownership

2. Basis of Preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Corporations in the Republic of Korea*.

New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2012, and the Group has not early adopted them.

(i) *Amendments to K-IFRS No. 1001, 'Presentation of Financial Statements'*
The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment is mandatorily effective for annual periods beginning on or after July 1, 2012. Management believes the impact of this amendment on the Group's consolidated financial statements is not significant.

(ii) *K-IFRS No. 1113, 'Fair Value Measurement'*
The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Group's annual periods beginning on or after January 1, 2013. Management believes the impact of this amendment on the Group's consolidated financial statements is not significant.

(iii) *Amendments to K-IFRS No. 1019, 'Employee Benefits'*
The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Group's annual periods beginning on or after January 1, 2013. Management believes the impact of this amendment on the Group's consolidated financial statements is not significant.

(iv) *K-IFRS No.1110, 'Consolidated Financial Statements'*
The standard introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

Upon adoption of the standard, the Group may need to change its consolidation conclusion in respect of its investees as below. The impacts of the adoption cannot be estimated as of December 31, 2012.

	Company
Consolidating investees that were not previously consolidated	Doosan Infracore Co., Ltd and Subsidiaries, Doosan Engine Co., Ltd. and Subsidiaries, and Doosan Engineering & Construction Co., Ltd. and Subsidiaries.

Management is in the process of evaluating the impact of this amendment on the Group's consolidated financial statements.

2. Basis of Preparation, Continued

(a) Statement of compliance, continued

(v) *K-IFRS No.1111, 'Joint Arrangements'*
The standard classifies joint arrangements into two types - joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant K-IFRSs applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognize an investment and to account for that investment using the equity method. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Management believes the impact of this amendment on the Group's consolidated financial statements is not significant.

(vi) *K-IFRS No.1112, 'Disclosure of Interests in Other Entities'*
The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. The standard requires the disclosure of information about the nature, risks and financial effects of these interests. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Management believes the impact of this amendment on the Group's consolidated financial statements is not significant.

Authorization for issue

The consolidated financial statements were authorized for issue by the Board of Directors on February 4, 2013, which will be submitted for approval to the shareholders' meeting to be held on March 29, 2013.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the items described otherwise in the related notes.

(c) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. Basis of Preparation, Continued

(c) Use of estimates and judgments, continued

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- ✓ Note 25 and 26 - Revenue recognition based on percentage of completion

(d) Changes in accounting policies

(i) Presentation of financial statements
The Group adopted the amendments to K-IFRS No. 1001, 'Presentation of Financial Statements' from the annual period ended December 31, 2012. The Group's operating profit (loss) is calculated as revenue less: (1) cost of sales, and (2) selling, general and administrative expenses, and is presented separately in the statement of income.

(ii) Impact of change in accounting policy
The Group retrospectively applied the amendment to K-IFRS No. 1001, for which the impact is as follows:

(In millions of won)

		2012	2011
Operating profit before adoption of the amendments	₩	542,223	590,546
Changes			
Other income (Note 30)		(50,678)	(100,096)
Other expense (Note 30)		103,294	35,707
Operating profit after adoption of the amendment	₩	594,839	526,157

3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods except as explained in note 2(d).

(1) Consolidation

(a) Basis of consolidation

(i) Subsidiaries
Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of the other entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

(ii) Intra-group transactions
Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

(iii)Non-controlling interests
Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interest holders, even when the allocation reduces the non-controlling interest balance below zero.

(b) Business combination

(i) Business combination
A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

- Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No. 1012 *Income Taxes*
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019 *Employee Benefits*

3. Significant Accounting Policies, Continued

(1) Consolidation, continued

(b) Business combination, continued

- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset
- Reacquired rights are measured in accordance with special provisions
- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in K-IFRS No. 1102 *Share-based Payment*
- Assets held for sale are measured at fair value less costs to sell in accordance with K-IFRS No. 1105 *Non-current Assets Held for Sale*

As of the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that are included in consideration transferred in the business combination shall be measured in accordance with the method described above rather than at fair value.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No.*1032 Financial Instruments: Presentation* and K-IFRS No.1039 *Financial Instruments: Recognition and Measurement*.

(ii) Goodwill
The Group measures goodwill at the acquisition date as:
- The fair value of the consideration transferred; plus
- The recognized amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, bargain purchase gain is recognized immediately in profit or loss.

3. Significant Accounting Policies, Continued

(1) Consolidation, continued

(c) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognized as part of share premium.

(2) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, and require unanimous consent for strategic financial and operating decisions.

The investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate uses accounting policies different from those of the Company for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

(3) Foreign currencies

(i) Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

3. Significant Accounting Policies, Continued

(3) Foreign currencies, continued

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations
If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

These consolidated financial statements are presented in Korean won, which is the Controlling Company's functional currency, which is the currency of the primary economic environment in which the Group operates.

(4) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and are used by the Group in management of its short-term commitments. Generally equity investments are excluded from cash and cash equivalents.

(5) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

3. Significant Accounting Policies, Continued

(5) Non-derivative financial assets, continued

(a) Classification

(i) Financial assets at fair value through profit or loss
A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments
A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

(iv) Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that is linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

(b) Initial recognition

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(c) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

3. Significant Accounting Policies, Continued

(5) Non-derivative financial assets, continued

(i) Financial assets measured at amortized cost
An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost
If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Available-for-sale financial assets
When a decline in the fair value of an available for sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

(d) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(e) Offsetting between financial assets and financial liabilities

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

3. Significant Accounting Policies, Continued

(6) Trade receivable

Trade receivable is the amount owed by customer for products and services provided in the ordinary course of business. Trade receivable expected to be collected within one year is classified as current assets; otherwise, it is classified as non-current assets. The Group recognizes Trade receivable as fair value when it occurs and presents net value offsetting the allowance for bad debts based on historical experience for the collective loss allowance and analysis about individual receivable.

(7) Due from customers for contract work and due to customers for contract work

Due from customers for contract work represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Due from customers for contract work is presented as part of trade and other receivables in the consolidated statement of financial position for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as due to customers for contract work in the consolidated statement of financial position.

(8) Inventories

The cost of inventories is based on the moving average method, and includes expenditures for acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(9) Property, plant and equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

3. Significant Accounting Policies, Continued

(9) Property, plant and equipment, continued

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

The estimated useful lives of the Group's property, plant and equipment are as follows:

	Useful lives
Buildings	10~40 years
Structures	5~40 years
Machinery	2~20 years
Heavy equipment	10 years
Vehicles	3~15 years
Others	3~5 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(10) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

	Useful lives
Industrial property rights	5~20 years
Development costs	5 years
Others	5~50 years

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

3. Significant Accounting Policies, Continued

(10) Intangible assets, continued

(i) Research and development
Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

(ii) Subsequent expenditures
Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(11) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. Changes are accounted for as changes in accounting estimates.

(12) Borrowing costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

3. Significant Accounting Policies, Continued

(13) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(14) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(ii) Other financial liabilities
Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

3. Significant Accounting Policies, Continued

(15) Financial guarantee contract liabilities

Financial guarantee contracts are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:
- the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period ; and
- the amount initially recognized less, cumulative amortization recognized on a straight-line basis over the guarantee period.

(16) Employee benefits

(i) Short-term employee benefits
Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits
Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: defined contribution plans
When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(iv) Retirement benefits: defined benefit plans
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

3. Significant Accounting Policies, Continued

(16) Employee benefits, continued

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognizes the past service cost immediately.

(v) Termination benefits
Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(17) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

A provision shall be used only for expenditures for which the provision was originally recognized.

3. Significant Accounting Policies, Continued

(18) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

(i) Hedge accounting
The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on a quarterly basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80%-125%. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Fair value hedge
Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge
When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

3. Significant Accounting Policies, Continued

(18) Derivative financial instruments, including hedge accounting, continued

(ii) Separable embedded derivatives
Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria has been met: (a) the economic characteristics and risks of the host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (b) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Other derivative financial instruments
Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(19) Dividend

Dividend payable is recognized as liability when declaration of the dividend is approved in the shareholders' meeting.

(20) Share-based payment arrangement

The Group recognizes stock options granted to employees at the fair value at the grant date. The fair value determined at the grant date of the stock option is expensed on a straight-line basis over the vesting period. The Group determines fair value of stock option using the Black-Scholes model.

(21) Revenue

Revenue from the sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, and are recognized as a reduction of revenue.

(i) Goods sold
Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

3. Significant Accounting Policies, Continued

(21) Revenue, continued

When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit.

(ii) Construction contracts
Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

(iii) Services
Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iv) Rental income
Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

(22) Government grants

Government grants are not recognized unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.

(i) If the Group received grants related to assets
Government grants whose primary condition is that the Group purchase, construct or otherwise acquire long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

(ii) If the Group received grants related to income
- Government grants which are intended to compensate the Group for expenses incurred shall be recognized deduction to related expenses in profit or loss over the periods in which the Group recognizes the related costs as expenses.
- Government grants which are intended to give immediate financial support to the Group with no future related costs are recognized as government grant income in profit or loss.

3. Significant Accounting Policies, Continued

(23) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax
Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax
Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

3. Significant Accounting Policies, Continued

(24) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(25) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 *Impairment of Assets*.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(26) Operating segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Executive Officer ("CEO") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Controlling Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The Group has six operating segments, as described in note 24.

4. Financial Risk Management

The Group is exposed to various financial risks such as market risk, credit risk and liquidity risk relating to the operations of the Group. The purpose of risk management policy is to minimize potential risks, which could have adverse effect on financial performance.

Financial risk management activities are performed by treasury and international finance department, in accordance with the related risk management policies. In addition, the Group enters into derivative contracts to hedge against certain risks.

(1) Market risk

(i) Currency risk
The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the Group entities.

Currency risk is managed by the Group's policy on foreign currencies. The Group's basis for foreign currency management is to minimize profit/loss volatility. The Group mitigates exposure to foreign currency risk by matching the inflow and the outflow of foreign currencies (natural hedge) and manages foreign currency risk by using currency derivatives, such as currency forwards, for the remaining exposure.

The following are the Group's exposure to foreign currency risk as of December 31, 2012 and 2011.

		2012				
(In millions of won)		**USD**	**EUR**	**JPY**	**GBP**	**Others(*)**
I. Financial assets	₩	476,329	84,191	1,820	1,170	165,365
II. Financial liabilities		404,278	439,845	176,855	32,410	76,129
Net(I - II)	₩	72,051	(355,654)	(175,035)	(31,240)	89,236

		2011				
(In millions of won)		**USD**	**EUR**	**JPY**	**GBP**	**Others(*)**
I. Financial assets	₩	332,041	114,405	1,472	190	101,329
II. Financial liabilities		449,844	412,640	85,144	14,687	31,749
Net(I - II)	₩	(117,803)	(298,235)	(83,672)	(14,497)	69,580

(*) Others are foreign currencies except for USD, EUR, JPY and GBP.

A strengthening and a weakening of the won, as indicated below, against the USD, EUR, JPY, GBP and other foreign currencies at December 31, 2012 and 2011 would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases.

		2012		2011	
(In millions of won)		**10% weakening**	**10% strengthening**	**10% weakening**	**10% strengthening**
Profit (Loss) before tax	₩	(40,064)	40,064	(44,463)	44,463

4. Financial Risk Management, Continued

(1) Market risk, continued

(ii) Interest rate risk
Interest rate risk is the risk of fluctuations in the interest rate changes in the future, which mainly occur in floating rate deposits and borrowings. The objective of the interest rate risk management is to minimize the financial costs and uncertainty associated with interest rate changes.

The Group utilizes internally reserved funds to minimize external borrowings, improves structure of short-term and long-term borrowings, maintains optimum level of floating rate borrowings compared to fixed rate, and regularly monitors the trend of domestic and overseas interest rate movement in order to manage interest rate risk.

Floating rate financial assets and liabilities exposed to interest rate risk as of December 31, 2012 and 2011 are as follows:

(In millions of won)		2012	2011
I. Financial Assets	₩	643,653	572,710
II. Financial Liabilities		554,274	1,191,827
Net(I - II)	₩	89,379	(619,117)

Assuming all other variables are constant, the effect of 100 basis point (bp) changes in interest rate on the profit before income tax for the years ended December 31, 2012 and 2011are as follows:

		2012		2011	
(In millions of won)		100bp increase	100bp decrease	100bp increase	100bp decrease
Profit (Loss) before tax	₩	894	(894)	(6,191)	6,191

(iii) Other market price risk
The Group is exposed to market price risk arising from change in fair value or future cash flows of financial investments, especially equity instruments listed on the stock exchanges. The management of the Group assesses the market price risk on a regular basis. Significant investments are individually managed and all purchase and sale decisions are approved by the Board of Directors.

4. Financial Risk Management, Continued

(2) Credit risk

The Group is exposed to credit risk which results in financial losses in the event where the contractual obligation of another entity fails to be fulfilled. Credit risk arises mainly from trade and other receivables, derivatives, deposits etc. The Group maintains measures of credit enhancements by obtaining collateral and assessing the credit ratings of the customers and financial institutes on a regular basis.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposures to credit risk as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)		**2012**	**2011**
Cash and cash equivalents	₩	1,134,431	783,252
Short and long term financial instruments		97,843	130,971
Trading and other receivables		1,303,827	1,262,499
Other loan and receivables		427,280	465,389
Held-to-maturity financial assets		8,580	5,893
Derivative instrument assets		413,772	256,485
	₩	3,385,733	2,904,489

(ii) Aging analysis

The following are the contractual maturities of financial assets as of December 31, 2012 and 2011.

2012

(In millions of won)		**Past due 0~3 months**	**Past due 3~6 months**	**Past due 6~12 months**	**More than 12 months**	**Total**
Trade receivables	₩	465,658	132,083	138,451	710,801	1,446,993
Loans and other receivables		193,534	942	1,918	100,072	296,466
Other		27,886	2,388	5,220	2,349	37,843
	₩	687,078	135,413	145,589	813,222	1,781,302

Based on historic experience, the Group believes that no impairment is necessary in respect of trade receivables not past due or past due by up to three months.

2011

(In millions of won)		**Past due 0~3 months**	**Past due 3~6 months**	**Past due 6~12 months**	**More than 12 months**	**Total**
Trade receivables	₩	507,282	123,313	211,066	421,507	1,263,168
Loans and other receivables		295,094	-	3,600	46,933	345,627
Other		26,426	-	-	-	26,426
	₩	828,802	123,313	214,666	468,440	1,635,221

4. Financial Risk Management, Continued

(3) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, excluding interests as of December 31, 2012 and 2011:

(i) 2012

(In millions of won)		Book value	Total	Less than 1 year	Less than 2 year	Less than 5 year	More than 5 year
Carrying amounts (*)	₩	5,259,742	5,264,185	2,675,868	1,126,977	1,283,446	177,894

(ii) 2011

(In millions of won)		Book value	Total	Less than 1 year	Less than 2 year	Less than 5 year	More than 5 year
Carrying amounts (*)	₩	4,697,532	4,871,521	3,216,850	543,246	1,111,425	-

(*)Trade payables and other payables, borrowings and debentures are included.

(4) Capital management

The objective of capital risk management is to sustain the Group's ability to provide profits to its shareholders and interested parties and sustain optimal capital structure to reduce the cost of capital. In order to sustain optimal capital structure, the Group manages the capital based on the debt-equity ratio as other companies in the same field do. Debt-equity ratio is calculated by dividing the total liabilities by the total capital.

The Group's debt to adjusted capital ratio at the end of the reporting period was as follows:

(In millions of won, Percentage)		2012	2011
Total liabilities	₩	9,014,834	8,792,241
Total equity		4,509,579	4,796,928
Debt to equity ratio (%)		199.90	183.29

5. Restricted Financial Instruments

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

(In millions of won)		2012	2011
Cash and cash equivalents	₩	411	246
Short-term investment assets(*1)		26,563	72,246
Long-term financial instruments (*2)		35,759	20,315
	₩	62,733	92,807

(*1) The use has been restricted only to specific government research and development projects.

(*2) Guarantees for deposit for the opening of checking account, deposit for securities depository, etc.

6. Short-Term Investments

Short-term investments as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)		2012	2011
Short-term financial instruments	₩	26,739	72,245
Held-to-maturity financial assets		510	3,499
	₩	27,249	75,744

7. Trade and Other Receivables

(1) Trade and other receivables as of December 31, 2012 and 2011 are summarized as follows:

		2012		
(In millions of won)		**Carrying amounts**	**Allowance for doubtful accounts**	**Book value**
Trade receivables	₩	1,443,275	(281,945)	1,161,330
Other receivables		181,035	(41,433)	139,602
Accrued income		37,843	-	37,843
Short-term loans		105,541	(18,600)	86,941
Prepayments		583,703	(2,681)	581,022
Long-term trade receivables		3,718	(823)	2,895
Long-term loans		9,890	-	9,890
	₩	2,365,005	(345,482)	2,019,523

		2011		
(In millions of won)		**Carrying amounts**	**Allowance for doubtful accounts**	**Book value**
Trade receivables	₩	1,228,737	(202,642)	1,026,095
Other receivables		233,391	(30,523)	202,868
Accrued income		26,426	-	26,426
Short-term loans		9,739	-	9,739
Prepayments		709,128	(58)	709,070
Long-term trade receivables		34,431	(895)	33,536
Long-term loans		102,497	-	102,497
	₩	2,344,349	(234,118)	2,110,231

7. Trade and Other Receivables, Continued

(2) Changes in allowance for doubtful debts of trade and other receivables as of December 31, 2012 are summarized as follows:

(In millions of won)		Trade receivables	Other receivables	Advance payments
Beginning balance	₩	202,642	30,523	58
Addition		78,040	10,920	2,628
Write-offs		(16)	-	-
Foreign currency translation adjustment		1,279	(10)	(5)
Ending balance	₩	281,945	41,433	2,681

(In millions of won)		Short-term loans	Long-term trade receivables
Beginning balance	₩	-	895
Addition		18,600	-
Foreign currency translation adjustment		-	(72)
Ending balance	₩	18,600	823

The Group regards trade and other receivables overdue for more than 3 months to be impaired. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss allowance established for groups of homogeneous receivables in respect of losses that been incurred but not yet identified. The collective loss allowance is determined using aging method based on historical data of payment statistics.

Allowance for doubtful accounts pertaining to trade receivable is included in selling expenses, and allowance for doubtful accounts pertaining to other receivable is included in non-operating expense.

8. Inventories

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

		2012		
(In millions of won)		**Acquisition cost**	**Provision for loss on valuation**	**Carrying amounts**
Finished goods	₩	29,838	(3,697)	26,141
Work-in-process		263,666	(10,646)	253,020
Raw materials		92,634	(1,134)	91,500
Supplies		14,060	-	14,060
Materials-in-transit		170,594	-	170,594
Others		1,039	-	1,039
	₩	571,831	(15,477)	556,354

		2011		
(In millions of won)		**Acquisition cost**	**Provision for loss on valuation**	**Carrying amounts**
Finished goods	₩	14,595	(1,708)	12,887
Work-in-process		215,312	(10,411)	204,901
Raw materials		116,333	(590)	115,743
Supplies		17,019	-	17,019
Materials-in-transit		106,890	-	106,890
Land		27	-	27
	₩	470,176	(12,709)	457,467

During 2012, the loss on valuation of inventory recognized amounts to ₩ 2,768 million while the reversal of loss on valuation of inventories was made in the amount of ₩ 4,980 million in 2011.

9. Long-Term Investment Securities

(1) Long-term investment securities as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)		**2012**	**2011**
Available-for-sale financial assets	₩	35,271	94,145
Held-to-maturity financial assets		8,070	2,394
	₩	43,341	96,539

9. Long-Term Investment Securities, Continued

(2) Available-for-sale financial assets

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

(In millions of won)		2012	2011
Marketable equity securities	₩	1,409	1,414
Non - marketable equity securities		11,441	72,310
Other equity investments		22,421	20,421
	₩	35,271	94,145

(ii) Changes in unrealized gain or loss of the available-for-sale financial assets for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)		January 1, 2012	Valuation	Reclassified to profit or loss	December 31, 2012
Marketable equity securities	₩	(4,053)	(5)	-	(4,058)
Non - marketable equity securities		37,386	-	(37,386)	-
Tax effect		(7,778)	9,048	-	1,270
	₩	25,555	9,043	(37,386)	(2,788)

(In millions of won)		January 1, 2011	Valuation	Changes in the scope of consolidation (Note 12)	December 31, 2011
Marketable equity securities	₩	51,829	(2,503)	(53,379)	(4,053)
Non - marketable equity securities		35,388	37,386	(35,388)	37,386
Debt securities		(5)	-	5	-
Other equity investments		5,199	-	(5,199)	-
Tax effect		(24,229)	(8,727)	25,178	(7,778)
	₩	68,182	26,156	(68,783)	25,555

(3) Held-to-maturity financial assets

Details of held-to-maturity investments as of December 31, 2012 and 2011 are as follows:

(In millions of won)		2012	2011
Government and corporate bonds	₩	8,068	1,352
Other debt securities		2	1,042
	₩	8,070	2,394

10. Derivative Financial Instruments

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

(1) 2012

(in millions of won and in thousands of foreign currency)

	Buy		Sell			Derivative instrument assets (liabilities)	Gain (loss) on valuation of derivative instrument	Accumulated other comprehensive income (*1)	Firm commitment asset (liabilities) (*2)
Foreign currency forward	KRW	8,151,175	USD	7,189,647	₩	292,182	366,346	21,875	(340,077)
	KRW	444,355	EUR	296,433		17,284	10,875	6,514	(14,415)
	KRW	511,637	JPY	37,786,089		17,871	(13,963)	31,841	(3,592)
	KRW	128,918	Others			7,483	7,686	254	(7,200)
	USD	3,686,470	KRW	4,193,548		(176,706)	(109,666)	(66,557)	138,335
	EUR	323,045	KRW	498,202		(30,577)	(6,743)	(24,661)	3,558
	JPY	53,549,925	KRW	792,257		(92,632)	(7,335)	(70,829)	324
	Others		KRW	57,463		(2,746)	(1,620)	(1,126)	1,368
	GBP and others		EUR and others			(4,807)	(2,084)	25,700	-
Foreign exchange risk insurance	KRW	47,139	USD	48,535		(4,906)	4,127	-	4,906
	KRW	2,861	JPY	294,325		(814)	714	-	814
	Exchange rights (*3)					(3,157)	5,592	-	-
	Matured amount					-	28,535	-	-
	Sub total					18,475	282,464	(76,989)	(215,979)
	Tax effect					-	-	21,181	-
					₩	18,475	282,464	(55,808)	(215,979)

(*1) Effective portion of changes in fair value of cash flow hedges of ₩ 55,808 million, net of tax was charged to other comprehensive income.

(*2) In respect of fair value hedges, firm commitment assets of ₩ 130,874 million and firm commitment liabilities of ₩ 346,853 million were recorded.

(*3) The amount related to the exchange rights on exchangeable bonds issued by the Group in 2011.

10. Derivative Financial Instruments, Continued

(2) 2011

(in millions of won and in thousands of foreign currency)

	Buy		Sell			Derivative instrument assets (liabilities)	Gain (loss) on valuation of derivative instrument	Accumulated other comprehensive income (*1)	Firm commitment asset (liabilities) (*2)
Foreign currency forward	KRW	8,222,925	USD	7,262,488	₩	(239,327)	(197,972)	(56,699)	171,589
	KRW	409,886	EUR	263,492		8,316	3,554	3,737	(5,128)
	KRW	327,486	JPY	25,449,489		(61,907)	688	(61,351)	1,646
	KRW	240,312	Others			(1,848)	(1,222)	(625)	1,264
	USD	2,308,765	KRW	2,617,295		69,418	32,456	39,316	(39,218)
	EUR	434,445	KRW	687,293		(24,886)	(3,464)	(21,433)	466
	JPY	51,905,514	KRW	722,271		77,192	(15,420)	92,603	(46)
	Others		KRW	105,399		(221)	(780)	557	(106)
	GBP and others		EUR and others			(2,386)	-	19,630	-
Foreign exchange risk insurance	KRW	120,711	USD	126,950		(26,057)	345	(2,246)	23,585
	KRW	2,861	JPY	294,325		(1,527)	(287)	-	1,527
	Exchange rights (*3)					(8,749)	-	-	-
	Matured amount					-	35,990	-	-
	Sub total					(211,982)	(146,112)	13,489	155,579
	Tax effect					-	-	(2,183)	-
					₩	(211,982)	(146,112)	11,306	155,579

(*1) Effective portion of changes in fair value of cash flow hedges of ₩ 11,306 million, net of tax was credited to other comprehensive income.

(*2) In respect of fair value hedges, firm commitment assets of ₩ 256,837 million and firm commitment liabilities of ₩ 101,258 million were recorded.

(*3) The amount related to the exchange rights on exchangeable bonds issued by the Group in 2011.

11. Categories of Financial Instruments

(1) Categories of financial instruments as of December 31, 2012 and 2011 are summarized as follows:

(i) 2012

(In millions of won)		Cash and cash equivalents	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity invest-ments	Derivative assets under hedge accounting	Book value	Fair value
Cash and cash Equivalents	₩	1,134,431	-	-	-	-	-	1,134,431	1,134,431
Short and long term financial instruments		-	-	97,843	-	-	-	97,843	97,843
Short and long term investment in securities		-	-	-	35,271	8,580	-	43,851	43,851
Derivative instrument assets		-	14	-	-	-	413,758	413,772	413,772
Trade and other receivables		-	-	1,303,827	-	-	-	1,303,827	1,303,827
Others		-	-	427,280	-	-	-	427,280	427,280
	₩	1,134,431	14	1,828,950	35,271	8,580	413,758	3,421,004	3,421,004

(In millions of won)		Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivative liabilities under hedge accounting	Book value	Fair value
Trade and other payables	₩	-	1,278,195	-	1,278,195	1,278,195
Borrowings and debentures		-	3,981,547	-	3,981,547	3,981,547
Derivative instrument liabilities		5,199	-	390,098	395,297	395,297
Others		-	773,275	-	773,275	773,275
	₩	5,199	6,033,017	390,098	6,428,314	6,428,314

11. Categories of Financial Instruments, Continued

(ii) 2011

(In millions of won)		Cash and cash equivalents	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to-maturity invest-ments	Derivative assets under hedge accounting	Book value	Fair value
Cash and cash equivalents	₩	783,253	-	-	-	-	-	783,253	783,253
Short and long term financial instruments		-	-	130,971	-	-	-	130,971	130,971
Short and long term investment in securities		-	-	-	94,145	5,893	-	100,038	100,038
Derivative instrument assets		-	8,929	-	-	-	247,556	256,485	256,485
Trade and other receivables		-	-	1,262,499	-	-	-	1,262,499	1,262,499
Others		-	-	465,389	-	-	-	465,389	465,389
	₩	783,253	8,929	1,858,859	94,145	5,893	247,556	2,998,635	2,998,635

(In millions of won)		Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivative liabilities under hedge accounting	Book value	Fair value
Trade and other payables	₩	-	1,125,143	-	1,125,143	1,125,143
Borrowings and debentures		-	3,572,388	-	3,572,388	3,572,388
Derivative instrument liabilities		8,662	-	459,805	468,467	468,467
Others		-	625,752	-	625,752	625,752
	₩	8,662	5,323,283	459,805	5,791,750	5,791,750

11. Categories of Financial Instruments, Continued

(2) The table below analyzes financial instruments carried at fair value, by hierarchy of the fair value of input.

(i) 2012

(In millions of won)		Level 1	Level 2	Level 3	Total
Financial assets :					
Financial assets at fair value through profit or loss	₩	-	14	-	14
Available-for-sale financial assets		1,409	-	33,862	35,271
Derivative assets under hedge accounting		-	413,758	-	413,758
	₩	1,409	413,772	33,862	449,043
Financial liabilities :					
Financial liabilities at fair value through profit or loss	₩	-	5,199	-	5,199
Derivative liabilities under hedge accounting		-	390,098	-	390,098
	₩	-	395,297	-	395,297

(ii) 2011

(In millions of won)		Level 1	Level 2	Level 3	Total
Financial assets :					
Financial assets at fair value through profit or loss	₩	-	8,929	-	8,929
Available-for-sale financial assets		1,414	-	92,731	94,145
Derivative assets under hedge accounting		-	247,556	-	247,556
	₩	1,414	256,485	92,731	350,630
Financial liabilities :					
Financial liabilities at fair value through profit or loss	₩	-	8,662	-	8,662
Derivative liabilities under hedge accounting		-	459,805	-	459,805
	₩	-	468,467	-	468,467

11. Categories of Financial Instruments, Continued

The different levels of inputs have been defined as follows:

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

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the dates of the consolidated statements of financial position, with the resulting value discounted to present value.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments. As for trade and other receivables, the book value approximates a reasonable estimate of fair value.

11. Categories of Financial Instruments, Continued

(3) Financial Instruments Income and Costs by Categories

(i) 2012

(In millions of won)		Interest income (expense)	Bad debt expenses	Other comprehensive loss
Cash and cash equivalents	₩	20,820	-	-
Trading and other receivables		11,782	(110,188)	-
Available-for-sale financial assets		-	-	(37,391)
Held-to-maturity financial assets		1,221	-	-
Total		33,823	(110,188)	(37,391)
Financial liabilities measured at amortized cost		(217,792)	-	-
Total	₩	(217,792)	-	-

(ii) 2011

(In millions of won)		Interest income (expense)	Bad debt expenses	Other comprehensive income
Cash and cash equivalents	₩	21,523	-	-
Trading and other receivables		4,674	(11,928)	-
Available-for-sale financial assets		-	-	34,883
Held-to-maturity financial assets		265	-	-
Total		26,462	(11,928)	34,883
Financial liabilities measured at amortized cost		(190,354)	-	-
Total	₩	(190,354)	-	-

12. Information on Equity Method Investments

(1) Investments in companies accounted for using the equity method as of December 31, 2012 and 2011 are summarized as follows:

(i) 2012

(In millions of won)

Company	Reporting date	Owner-ship(%)		Acquisition cost	Book value	Proportionate share of net assets
Doosan Infracore Co., Ltd.	Dec.31	44.77	₩	2,023,651	2,154,478	1,095,315
Doosan Engine Co., Ltd.	Dec.31	42.66		662,678	776,355	319,013
Doosan Engineering & Construction Co., Ltd. (*1)	Dec.31	72.74		574,401	396,452	442,131
Doosan Capital Co., Ltd. (*2)	Dec.31	16.65		20,000	23,980	23,980
Haman Industrial Complex. (*3)	Dec.31	53.33		2,400	-	252
Hanjung Power Ltd. (*3)	Dec.31	51.00		4,364	9,310	9,496
Gyeonggi Expressway Co., Ltd. (*4)	Dec.31	25.00		-	-	-
Doosan Power Systems (Scotland) Limited Partnership	Dec.31	31.30		-	-	-
Tam-la seaward wind power generation	Dec.31	36.00		7,452	7,221	7,221
Others	-	-		359	26	26
			₩	3,295,305	3,367,822	1,897,434

(ii) 2011

(In millions of won)

Company	Reporting date	Owner-ship(%)		Acquisition cost	Book value	Proportionate share of net assets
Doosan Infracore Co., Ltd.	Dec.31	44.77	₩	2,023,651	2,126,687	826,549
Doosan Engine Co., Ltd.	Dec.31	42.66		662,678	720,990	244,744
Doosan Engineering & Construction Co., Ltd. (*1)	Dec.31	72.74		574,401	889,977	921,075
Doosan Capital Co., Ltd. (*2)	Dec.31	16.65		20,000	40,528	40,527
Haman Industrial Complex. (*3)	Dec.31	53.33		2,400	3,310	5,647
Hanjung Power Ltd. (*3)	Dec.31	51.00		4,364	11,702	12,073
Gyeonggi Expressway Co., Ltd. (*4)	Dec.31	25.00		60,412	22,571	37,546
Doosan Power Systems (Scotland) Limited Partnership	Dec.31	31.30		9,184	9,184	9,184
Tam-la seaward wind power generation	Dec.31	36.00		590	590	590
Others	-	-		359	24	24
			₩	3,358,039	3,825,563	2,097,959

(*1) In 2011, the Controlling Company issued exchangeable bonds for the stock of Doosan Engineering & Construction Co., Ltd. ("DE&C") which resulted in decrease of potential voting rights of the Group to less than 50%. As the Group lost control over DE&C, DE&C was no longer a subsidiary. The related cumulated comprehensive income was also reclassified to profit and loss.

12. Information on Equity Method Investments, Continued

(*2) Though the Group had less than 20% of the ownership, the Group had significant influence on the financial and operating policy decisions through representation in the board of directors.

(*3) These are accounted for using equity method as they are jointly controlled entities though the Group has more than 50% of the ownership.

(*4) In 2012, the Group reclassified Gyeonggi Expressway Co., Ltd. to asset held for sale due to the decision to sell (Note 38) and the related investments are pledged as collateral for project financing of Gyeonggi Expressway.

(2) Changes in investments in companies accounted for using equity method for the years ended December 31, 2012 and 2011 are summarized as follows:

(i) 2012

(In millions of won)

Company		Beginning balance	Acqui-sitions	Dividends received	Equity profit or loss on investments	Other capital movements	Others (*1)	Ending balance
Doosan Infracore Co., Ltd.	₩	2,126,687	-	-	142,918	(115,127)	-	2,154,478
Doosan Engine Co., Ltd.		720,990	-	-	62,316	(6,951)	-	776,355
Doosan Engineering & Construction Co., Ltd.		889,977	-	-	(490,385)	(3,140)	-	396,452
Doosan Capital Co., Ltd.		40,528	-	-	(15,761)	(787)	-	23,980
Haman Industrial Complex .		3,310	-	-	(3,310)	-	-	-
Hanjung Power Ltd. (*3)		11,702	-	(4,971)	3,677	(1,098)	-	9,310
Gyeonggi Expressway Co., Ltd.		22,571	-	-	-	-	(22,571)	-
Doosan Power Systems (Scotland) Limited Partnership		9,184	-	-	-	-	(9,184)	-
Tam-la seaward wind power generation		590	6,862	-	(195)	(36)	-	7,221
Others		24	-	-	-	-	2	26
	₩	3,825,563	6,862	(4,971)	(300,740)	(127,139)	(31,753)	3,367,822

12. Information on Equity Method Investments, Continued

(ii) 2011

(In millions of won)

Company		Beginning balance	Acqui-sitions	Dividends received	Equity profit or loss on investments	Other capital movements	Others (*1)	Ending balance
Doosan Infracore Co., Ltd.	₩	1,961,018	-	-	122,933	42,736	-	2,126,687
Doosan Engine Co., Ltd.		662,678	-	-	58,505	(193)	-	720,990
Doosan Engineering & Construction Co., Ltd.		-	218,259	-	325,949	(10,372)	356,141	889,977
Doosan Capital Co., Ltd.		42,959	-	-	(4,705)	2,274	-	40,528
Haman Industrial Complex		-	-	-	3,310	-	-	3,310
Hanjung Power Ltd.		6,656	-	(3,931)	4,282	4,695	-	11,702
National Pension Partnership		1,392	(1,900)	(588)	917	179	-	-
Gyeonggi Expressway Co., Ltd.		28,661	-	-	(6,090)	-	-	22,571
Doosan Power Systems (Scotland) Limited Partnership		9,184	-	-	-	-	-	9,184
Tam-la seaward wind power generation		-	590	-	-	-	-	590
Shinbundang Railroad Co., Ltd.		148,080	-	-	-	-	(148,080)	-
Kyunggi South Road Co., Ltd.		2,652	-	-	-	-	(2,652)	-
The 2nd seoul-Incheon Linking Highway Co., Ltd.		3,432	-	-	-	-	(3,432)	-
Kyunggi Railroad Co., Ltd		4,196	-	-	-	-	(4,196)	-
Others		427	-	-	(187)	(178)	(38)	24
	₩	2,871,335	216,949	(4,519)	504,914	39,141	197,743	3,825,563

(*1) It includes changes in scope of consolidation (Note 12) and the effect of reclassification.

12. Information on Equity Method Investments, Continued

(3) Summarized financial information of the equity method accounted investments as of and for the years ended December 31, 2012 and 2011 are summarized as follows:

(i) 2012

(In millions of won)

Company		Total assets	Total liabilities	Sales	Net income (loss)
Doosan Infracore Co., Ltd.	₩	11,552,841	8,556,128	8,158,351	404,020
Doosan Engine Co., Ltd.		1,786,203	1,038,431	1,378,778	190,380
Doosan Engineering & Construction Co., Ltd.		4,065,743	3,457,955	2,377,208	(654,077)
Doosan Capital Co., Ltd.		2,750,749	2,520,348	254,090	(87,863)
Haman Industrial Complex		91,103	90,631	56,972	(10,116)
Hanjung Power Ltd.		21,482	2,863	48,539	6,846
Gyeonggi Expressway Co., Ltd.		-	-	-	-
Tam-la seaward wind power generation		20,058	2	-	(72)

(ii) 2011

(In millions of won)

Company		Total assets	Total liabilities	Sales	Net income (loss)
Doosan Infracore Co., Ltd.	₩	11,703,675	9,418,474	8,463,086	310,810
Doosan Engine Co., Ltd.		2,049,818	1,476,134	2,005,253	224,776
Doosan Engineering & Construction Co., Ltd.		5,088,198	3,822,017	2,783,315	(294,202)
Doosan Capital Co., Ltd.		2,955,137	2,634,178	108,407	9,633
Haman Industrial Complex		90,836	80,247	95,327	7,569
Hanjung Power Ltd.		30,741	7,068	46,313	5,197
Gyeonggi Expressway Co., Ltd.		765,584	615,401	54,898	(26,518)
Tam-la seaward wind power generation		213	93	-	(470)

(4) As the carrying amount of the equity method accounted investments reaches zero, the Company ceased to apply equity method. The amount of unrecognized equity method losses for the year ended December 31, 2012 were as follows:

(In millions of won)		Accumulated up to 2011	Incurred during 2012	Accumulated up to 2012
Haman Industrial Complex	₩	-	1,147	1,147

(5) Summarized market value information of the equity method accounted investments as of December 31, 2012 and 2011 are as follows:

		2012		2011	
(In millions of won)		Book value	Fair value	Book value	Fair value
Doosan Infracore Co., Ltd.	₩	2,154,478	1,283,659	2,126,687	1,347,842
Doosan Engine Co., Ltd.		776,355	254,990	720,990	348,388
Doosan Engineering & Construction Co., Ltd.		396,452	317,361	889,977	384,872
	₩	3,327,285	1,856,010	3,737,654	2,081,102

13. Property, Plant and Equipment

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

(i) 2012

(In millions of won)		Land	Buildings	Machinery	Others	Construction in progress	Total
Beginning balance	₩	1,326,679	701,850	465,194	75,882	119,986	2,689,591
Acquisitions		3,907	6,659	11,419	7,646	170,638	200,269
Reclassification		12,160	26,889	79,399	16,752	(117,627)	17,573
Disposals		-	(7,301)	(3,664)	(14,141)	-	(25,106)
Depreciation		-	(40,728)	(93,952)	(24,838)	-	(159,518)
Impairment losses		-	656	(1,340)	(6)	-	(690)
Changes in exchange rate		(9,183)	(23,976)	(7,425)	(1,853)	(5,384)	(47,821)
Ending balance	₩	1,333,563	664,049	449,631	59,442	167,613	2,674,298
- Acquisition cost		1,333,563	1,012,839	1,313,743	206,831	167,613	4,034,589
- Accumulated depreciation		-	(348,790)	(864,112)	(147,389)	-	(1,360,291)

(ii) 2011

(In millions of won)		Land	Buildings	Machinery	Others	Construction in progress	Total
Beginning balance	₩	2,010,138	849,246	445,500	75,666	141,257	3,521,807
Acquisitions		471	4,287	11,965	23,807	221,663	262,193
Reclassification		9,120	46,264	115,408	7,475	(237,410)	(59,143)
Disposals		-	(119)	(171)	(2,808)	(7)	(3,105)
Depreciation		-	(38,511)	(82,462)	(21,172)	-	(142,145)
Impairment losses		-	(854)	34	(254)	-	(1,074)
Changes in exchange rate		(7,168)	(952)	(4,413)	(1,399)	(756)	(14,688)
Changes in scope of consolidation (Note 12)		(685,882)	(157,511)	(20,667)	(5,433)	(4,761)	(874,254)
Ending balance	₩	1,326,679	701,850	465,194	75,882	119,986	2,689,591
- Acquisition cost		1,326,679	1,005,601	1,232,985	206,403	119,986	3,891,654
- Accumulated depreciation		-	(303,751)	(767,779)	(130,264)	-	(1,201,794)
- Accumulated impairment		-	-	(12)	(257)	-	(269)

As of December 31, 2012, some portion of the Group's property, plant and equipment are pledged as collateral for borrowings. The Group has no right to pledge such assets as collateral or to sell (see Note 34).

(2) Capitalization of borrowing cost for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won, except percentage)		2012	2011
Capitalization of borrowing cost	₩	1,703	278
Interest rate of borrowing cost (%)		4.76	5.32

14. Intangible Assets

(1) Changes in intangible assets for the year ended December 31, 2012 were as follows:

(In millions of won)		Goodwill	Industrial property rights	Development costs	Others	Total
Net balance at beginning of year	₩	750,640	288	277,436	129,513	1,157,877
Acquisitions		-	82	140,625	8,994	149,701
Reclassification		(29,038)	10,727	(11,642)	10,042	(19,911)
Disposals		-	-	-	(998)	(998)
Amortization		-	(2,050)	(25,142)	(19,886)	(47,078)
Impairment losses		-	-	-	(3,065)	(3,065)
Changes in exchange rate		(20,740)	(479)	(3,480)	(991)	(25,690)
Net balance at end of year	₩	700,862	8,568	377,797	123,609	1,210,836

(2) Changes in intangible assets for the year ended December 31, 2011 were as follows:

(In millions of won)		Goodwill(*1)	Industrial property rights	Development costs	Others	Total
Net balance at beginning of year	₩	720,558	390	229,755	119,649	1,070,352
Acquisitions		-	81	71,074	11,771	82,926
Reclassification		(758)	-	(4,568)	45,169	39,843
Disposals		-	-	-	(2,226)	(2,226)
Amortization		-	(48)	(18,448)	(18,096)	(36,592)
Impairment loss		(1,752)	-	(1,666)	-	(3,418)
Changes in exchange rate		(24,450)	-	1,289	(91)	(23,252)
Changes in scope of consolidation		57,042	(135)	-	(26,663)	30,244
Net balance at end of year	₩	750,640	288	277,436	129,513	1,157,877

(*1) For the purpose of impairment test, the carrying amount of goodwill was allocated to cash-generating units. The Group recognized the impairment loss amounting to ₩ 1,752 million for the year ended December 31, 2011.

(3) Research and development costs expensed as incurred for the years ended December 31, 2012 and 2011 were ₩ 36,647 million and ₩ 73,107 million, respectively.

(4) Capitalization of borrowing cost for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won, except percentage)		2012	2011
Capitalization of borrowing cost	₩	1,859	94
Interest rate of borrowing cost (%)		4.76	5.32

15. Investment Property

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

(i) 2012

(In millions of won)		Land	Buildings	Total
Beginning balance	₩	7,246	2,806	10,052
Disposals		-	3,745	3,745
Depreciation		-	(622)	(622)
Ending balance	₩	7,246	5,929	13,175
- Cost		7,246	6,910	14,156
- Accumulated depreciation		-	(981)	(981)

The book value of investment property is presented at depreciated cost and the fair value of investment property as of December 31, 2012 is ₩ 13,175 million.

(ii) 2011

(In millions of won)		Land	Buildings	Total
Beginning balance	₩	59,181	68,239	127,420
Disposals		-	(11,636)	(11,636)
Depreciation		-	(566)	(566)
Changes in scope of consolidation		(51,935)	(53,231)	(105,166)
Ending balance	₩	7,246	2,806	10,052
- Cost		7,246	3,164	10,410
- Accumulated depreciation		-	(358)	(358)

(2) Rental income from investment property for the years ended December 31, 2012 and 2011 are ₩ 1,353 million and ₩ 1,131 million, respectively.

16. Debentures and Borrowings

(1) Debentures as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

Condition	Interest rate (%)		2012	2011
Public offered debentures	3.57~8.80%	₩	1,200,000	930,000
Privately placed debentures	4.70~5.52%		100,000	200,000
Exchangeable bonds	1.50%		219,999	219,999
Subtotal			1,519,999	1,349,999
Less current portion of long-term debt			(300,000)	(380,000)
discount on debentures			(7,427)	(6,944)
exchange rights adjustment			(32,990)	(41,245)
Adding redemption premium on exchangeable bond (*1)			36,776	36,776
		₩	1,216,358	958,586

(*1) Exchangeable bond as of December 31, 2012 are summarized as follows:

(In millions of won)

Settlement date	Maturity date	Coupon rate	YTM	Exchangeable right exercise period	Exchangeable price		Issued value
June 14, 2011	June 14, 2016	1.50%	4.50%	June 15, 2011 ~ May 14, 2016	- When stock price is less 5,500 won: 6,000 won - When stock price is over 5,500 won: 110% of stock price	₩	220,000
				Exchange amount in this year			(1)
				Ending balance		₩	219,999

① Terms on early redemption
The right of early redemption is exercisable as a whole or in part against the face value of exchangeable bonds at the interest payment date in three years after the date of issuance of bonds and each interest payment date of every six month thereafter.

② Method of maturity payment
Coupon rate for the bond is 1.5%. For the bonds not exchanged until the maturity, 116.7167% of the principal amount is paid on June 14, 2016 with yield to maturity rate of 4.5%.

③ Calculation of exchange price
Pursuant to the issuance contract, in the events of increase of capital stock without consideration, stock dividends or splits, and increase of capital stock with the price less than market price during the period from the date of issuance through one month before maturity, the initial exchange price can be adjusted as of the day before the adjustment occurs. As of December 31, 2012, the exchange price is ₩ 6,000.

Number of stock issued by the exercise of exchange right in 2011 was 166 shares.

16. Debentures and Borrowings, Continued

(2) Short-term borrowings as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

Condition	Interest rate (%)		2012	2011
Short-term borrowings in local currency	4.64~6.96%	₩	240,000	910,000
Short-term borrowings in foreign currency	0.87~3.50% LIBOR+2.00~3.75% EURIBOR+1.50~2.90% SBV's basic rate +1.50~4.50		777,320	789,680
		₩	1,017,320	1,699,680

(3) Long-term borrowings as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

Condition	Interest rate (%)		2012	2011
Long-term borrowings in local currency	3.53~5.57%	₩	1,070,000	182,000
Long-term borrowings in foreign currency	4.70~6.49% LIBOR+2.66~7.50% EURIBOR+1.50~3.75%		377,938	352,266
Sub total			1,447,938	534,266
Less current portion of long-term debt			(90,165)	(5,799)
		₩	1,357,773	528,467

The Group's property, plant and equipment (with a carrying amount of ₩ 691,611 million as of December 31, 2012) were pledged as collateral for the above debentures and borrowings (Note 34).

17. Employee Benefits

(1) Defined benefit liabilities as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)		2012	2011
Present value of defined benefit obligations	₩	929,901	887,259
Fair value of plan assets		(621,201)	(628,905)
Contribution to National Pension Plan		(1,437)	(1,536)
Defined benefit liabilities	₩	307,263	256,818

(2) Net expenses recognized in profit or loss for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)		2012	2011
Current service costs	₩	55,199	43,264
Interests		41,998	39,736
Expected return on plan assets		(33,578)	(38,468)
	₩	63,619	44,532

(3) Classification of expense related to the retirement benefit related to defined benefit plan for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)		2012	2011
Cost of sales	₩	59,001	42,110
Selling, general and administrative expense		4,618	2,422
	₩	63,619	44,532

(4) Movements in defined benefit obligations for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)		2012	2011
Beginning balance	₩	887,259	829,938
Current service costs		55,199	43,264
Transfer-in from related parties		2,681	367
Transfer to related parties		(882)	(211)
Interests		41,998	39,736
Actuarial losses		14,409	82,187
Benefit paid		(54,358)	(54,054)
Contributions by plan participants		6	-
Others (*1)		(16,411)	(53,968)
Ending balance	₩	929,901	887,259

(*1) Others include effect of changes in the scope of consolidation and exchange rate.

17. Employee Benefits, Continued

(5) Movements in plan assets for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)		2012	2011
Balance at beginning	₩	628,905	623,218
Expected return on plan assets		33,578	38,468
Transfer to related parties		(65)	(73)
Contributions paid into the plan		18,089	18,126
Actuarial gains		2,586	15,157
Benefits paid by the plan		(27,826)	(34,001)
Others		(34,066)	(31,990)
Ending balance	₩	621,201	628,905

(*1) Others include effect of changes in the scope of consolidation and exchange rate.

The actual returns on plan assets for the years ended December 31, 2012 and 2011 are ₩ 36,164 million and ₩ 53,625 million, respectively.

(6) Principal actuarial assumptions at the reporting date are as follows:

	2012	2011
Discount rate	4.50~8.50%	5.30~7.00%
Expected return on plan assets	3.70~8.00%	4.50~6.13%
Future salary increases	2.50~8.00%	2.50~8.00%

(7) Details of compositions of plan assets as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)		2012	2011
Equity securities	₩	259,033	252,658
Government and public bonds		266,857	256,305
Investment property		12,080	31,576
Trust assets		83,231	88,366
	₩	621,201	628,905

The expected rates of return on plan assets are determined considering applicable expected rate of return on plan assets under current investment policy. The expected rates of return on debt securities are based on redemption yields at end of the reporting period. The expected rates of return on equity securities and other assets reflect historical market return data by asset category.

17. Employee Benefits, Continued

(8) Historical information for the amounts related to defined benefit plans recognized for the current year and previous three years are as follows:

(In millions of won)

		Dec 31, 2012	Dec 31, 2011	Dec 31, 2010	January 1, 2010
Defined benefit obligation	₩	929,901	887,259	829,938	1,802,059
Plan assets		(621,201)	(628,905)	(623,218)	(1,073,946)
Obligation which is not covered by plan assets	₩	308,700	258,354	206,720	728,113
Experience adjustments on plan liabilities		14,409	82,187	35,446	-
Experience adjustments on plan assets		2,586	15,157	18,067	-

(9) Employee benefits: defined contribution plans

The Group also operates defined contribution pension schemes. When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The contributions which the Group has paid in for the defined contribution plan for the years ended December 31, 2012 and 2011 are ₩ 338 million and ₩ 309 million, respectively. There are no payables for the contributions to the defined contribution plan for the years ended December 31, 2012 and 2011.

18. Provisions

Changes in provisions for the year ended December 31, 2012 were as follows:

(In millions of won)		Provision for construction warranties
Balance at beginning	₩	168,649
Provisions made		49,029
Provisions reversed		(6,083)
Provisions used		(55,714)
Others (*1)		16,610
Ending balance	₩	172,491
Current		-
Non-current		172,491

(*1) Others include effect of changes in exchange rate.

The Group estimates expenditure required to settle the Group's obligations from product warranty, refund, related after service and others based on warranty period and historical claim rate, etc.

19. Share Capital and Paid-in Capital in Excess of Par Value

(1) Change in the capital stock and paid-in capital in excess of par value of the Controlling Company for the year ended December 31, 2012 is summarized as follows:

(In millions of won)	Changes	Number of ordinary share		Capital stock	Paid-in capital in excess of par value
Beginning balance		105,843,467	₩	529,217	61,143
June 7, 2012	Exercise of stock option, 4th	6,100		31	251
October 8, 2012	Exercise of stock option, 5th	6,700		33	454
Ending balance		105,856,267	₩	529,281	61,848

(2) The Controlling Company has 400,000,000 authorized shares of common stock (₩5,000 par value), of which 105,856,267 shares have been issued as of December 31, 2012.

(3) As of December 31, 2012, the number of shares with limited voting rights under the Commercial Code is 16,812,505.

20. Capital Surplus

Capital surplus as of December 31, 2012 and 2011 consists of the following:

(In millions of won)		2012	2011
Paid-in capital in excess of par value	₩	61,848	61,143
Revaluation surplus		594,262	594,262
Other capital surplus		218,833	228,232
	₩	874,943	883,637

21. Other Capital Adjustments

(1) Other capital adjustments as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)		2012	2011
Treasury shares	₩	(207,523)	(207,523)
Stock options		11,884	9,691
Others		-	(38)
	₩	(195,639)	(197,870)

(2) Treasury shares
As of December 31, 2012, the Controlling Company holds 16,812,505 treasury stocks of ₩ 207,523 million for the stability of the stock price and the treasury stocks are recorded as other capital adjustment.

(3) Stock options
The Controlling Company has granted the stock options to the executives several times, and the way of settlement is subject to the Board of Directors' decision at the time of exercise. The executives are granted stock options conditional upon completing 2 years' service from the grant date.

(i) The terms and conditions of stock options as of December 31, 2012 are summarized as follows:

(Won, Number of shares)

Date of grant	February 27, 2006	March 16, 2007	March 21, 2008	March 27, 2009	March 26, 2010	March 25, 2011	March 30, 2012
Number of stocks to be issued	5,200	27,900	47,800	39,700	74,900	125,500	275,200
Exercisable period	February 27, 2009 ~ February 27, 2016	March 17, 2010 ~ March 16, 2017	March 21, 2011 ~ March 20, 2018	March 27, 2012 ~ March 26, 2019	March 26, 2013 ~ March 25, 2020	March 25, 2014 ~ March 24, 2021	March 30, 2015 ~ March 29, 2022
Exercise Price	33,200	50,200	121,200	73,000	90,100	65,700	66,800
Estimated fair value as of the grant date	12,950	22,564	49,565	32,595	41,077	24,642	16,337

21. Other Capital Adjustments, Continued

(ii) Change in the stock options for the year ended December 31, 2012 is summarized as follows:

Date of grant		February 27, 2006	March 16, 2007	March 21, 2008	March 27, 2009	March 26, 2010	March 25, 2011	March 30, 2012
Number of stocks to be issued								
Balance at beginning		11,300	34,600	65,100	39,700	82,100	132,200	-
Newly granted		-	-	-	-	-	-	275,200
Exercise of rights		(6,100)	(6,700)	-	-	-	-	-
Cancellation of grant		-	-	(17,300)		(7,200)	(6,700)	-
Ending balance		5,200	27,900	47,800	39,700	74,900	125,500	275,200
Valuation *(In millions of won)*								
Balance at beginning	₩	146	781	3,227	1,294	2,984	1,259	-
Increase in stock options		-	-	-	-	388	1,585	1,706
Exercise of rights		(79)	(151)	-	-	-	-	-
Cancellation of grant		-	-	(858)	-	(295)	(103)	-
Ending balance	₩	67	630	2,369	1,294	3,077	2,741	1,706

The Controlling Company's weighted average share price at the dates of exercise is ₩ 57,628 and weighted average expected duration of share based payment (from December 31, 2012 to the date of maturity) is 1.7 years.

The compensation expenses associated with stock option for the years ended December 31, 2012 and 2011 are ₩ 3,281 million and ₩ 2,781 million, respectively and ₩ 2,743 million will be recognized in the future.

(iii) The estimated fair value was calculated using the modified fair value method and the assumptions applied to this method are summarized as follows:

Date of grant	February 27, 2006	March 16, 2007	March 21, 2008	March 27, 2009	March 26, 2010	March 25, 2011	March 30, 2012
Risk free rate (*1)	5.01%	4.79%	5.25%	3.71%	3.82%	3.66%	3.57%
Expected exercise period	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Expected volatility	53.87%	49.33%	56.02%	65.15%	66.45%	53.12%	38.21%
Expected dividend yield	1.69%	5.67%	7.33%	9.00%	10.00%	10.00%	13.33%

(*1) Based on three-year government bonds.

22. Accumulated Other Comprehensive Income (Loss)

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

(In millions of won)		2012	2011
Change in fair value of available-for-sale financial assets	₩	(2,788)	25,555
Change in equity of equity method investments		(8,184)	117,718
Change in fair value of derivatives under cash flow hedges		(55,808)	11,306
Loss on translation of foreign operations		(150,179)	(152,258)
	₩	(216,959)	2,321

(2) The income tax consequences which were recorded directly in equity associated with the components of accumulated other comprehensive income as of December 31, 2012 and 2011 are as follows:

		2012		
(In millions of won)		Balance before tax	Tax impact	Balance after tax
Change in fair value of available-for-sale financial assets	₩	(4,058)	1,270	(2,788)
Change in equity of equity method investments		(8,184)	-	(8,184)
Change in fair value of derivatives under cash flow hedges		(76,989)	21,181	(55,808)
Loss on translation of foreign operations		(150,179)	-	(150,179)
	₩	(239,410)	22,451	(216,959)

		2011		
(In millions of won)		Balance before tax	Tax impact	Balance after tax
Change in fair value of available-for-sale financial assets	₩	33,333	(7,778)	25,555
Change in equity of equity method investments		117,718	-	117,718
Change in fair value of derivatives under cash flow hedges		13,489	(2,183)	11,306
Loss on translation of foreign operations		(152,258)	-	(152,258)
	₩	12,282	(9,961)	2,321

23. Retained Earnings

(1) Composition of retained earnings

(In millions of won)		2012	2011
Legal reserve	₩	94,968	88,268
Discretionary reserve		743,561	665,561
Unappropriated retained earnings		2,675,767	2,799,461
	₩	3,514,296	3,553,290

(2) Changes in retained earnings for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)		2012	2011
Balance at beginning	₩	3,553,290	3,471,526
Profit for the year		38,045	274,781
Payment of dividends		(66,773)	(67,375)
Actuarial losses		(9,030)	(50,740)
Changes in retained earnings of equity method investees		(1,236)	(74,902)
Ending balance	₩	3,514,296	3,553,290

(3) Details of dividends for the years ended December 31, 2012 and 2011 were as follows :

(In won, except number of shares)		2012(*1)	2011
Dividends	₩	66,782,821,500	66,773,221,500
Number of shares		89,043,762	89,030,962
Par value per share		5,000	5,000
Dividends to capital stock rate		15.00%	15.00%
Dividends per share	₩	750	750

(*1) Represents the amount proposed prior to the date of authorization of issuance of financial statements, and not recognized as appropriations of retained earnings on the financial statements as of the reporting date.

The Controlling Company paid ₩ 66,773 million of dividends for the year ended December 31, 2011 during April of 2012, and dividends for the year ended December 31, 2012 are expected to be paid during April of 2013 (₩ 67,375 million was paid in 2011).

(4) Pay-out ratio and dividend yield ratio for the years ended December 31, 2012 and 2011 were as follows:

	2012	2011
Pay-out ratio (dividends/profit for the year attributable to the Controlling Company)	175.54%	24.30%
Dividend yield ratio (dividends per share / Share price at the reporting date)	1.66%	1.15%

24. Operating Segments

The Group' operating segments are as follows:

Operating segment	Main products and services
Power generation	Power Plants, Power Generation Equipment, Retrofits & Upgrades
Water	Seawater Desalination Plants, Water Treatment Systems
Industrial plants	Container Handling Cranes, Bulk Material Handling Systems and Various Special Cranes
Castings & forgings	Power Generation Components, Shipbuilding Components, Iron & Steel Making Components, Mold & Tool Steel and Petrochemical & Industrial Components
Construction	Plant, Civil Engineering, Architecture
Wholesale and retail	Wholesale and retail

(1) Operating segments information as of and for the years ended December 31, 2012 and 2011 are summarized as follows:

(i) 2012

(In millions of won)		**Gross sales**	**Inter segment sales**	**External Sales**	**Operating income (loss)**	**Profit (Loss)**
Power plants	₩	7,911,288	(543,148)	7,368,140	612,774	(21,666)
Water plants		946,594	(19,227)	927,367	27,972	(79,621)
Industrial plants		162,482	-	162,482	(34,048)	(61,008)
Castings & forgings business		653,524	(86,921)	566,603	27,183	(18,453)
Construction business		602,092	-	602,092	(42,553)	(92,716)
Wholesale and retail business		7,890	(7,390)	500	985	915
Subtotal		10,283,870	(656,686)	9,627,184	592,313	(272,549)
Adjustment for consolidation		(656,686)	656,686	-	2,526	287,281
Balance after consolidation	₩	9,627,184	-	9,627,184	594,839	14,732

(ii) 2011

(In millions of won)		**Gross sales**	**Inter segment sales**	**External sales**	**Operating income (loss)**	**Profit (Loss)**
Power plants	₩	6,379,717	(429,495)	5,950,222	422,884	256,957
Water plants		813,234	(6,586)	806,648	26,449	46
Industrial plants		171,109	-	171,109	(39,981)	(51,651)
Castings & forgings business		743,595	(118,422)	625,173	73,617	48,006
Construction business		1,018,673	(77,081)	941,592	39,065	3,636
Wholesale and retail business		7,167	(6,405)	762	773	484
Subtotal		9,133,495	(637,989)	8,495,506	522,807	257,478
Adjustment for consolidation		(637,989)	637,989	-	3,350	4,217
Balance after consolidation	₩	8,495,506	-	8,495,506	526,157	261,695

24. Operating Segments, Continued

(2) Assets and liabilities of each operating segment as of December 31, 2012 and 2011 are as follows:

		2012		2011	
(In millions of won)		Asset	Liability	Asset	Liability
Power plants	₩	9,452,411	6,838,838	8,959,196	6,042,759
Water plants		1,067,292	867,889	963,695	763,118
Industrial plants		314,349	193,157	403,383	339,259
Castings & forgings business		1,133,061	458,791	1,272,051	435,081
Construction business		1,353,602	834,080	1,517,359	1,079,787
Wholesale and retail business		89,886	84,199	72,402	66,944
Subtotal		13,410,601	9,276,954	13,188,086	8,726,948
Adjustment for consolidation		113,813	(262,120)	401,083	65,293
Balance after consolidation	₩	13,524,414	9,014,834	13,589,169	8,792,241

(3) Geographical information as of December 31, 2012 and 2011 are summarized as follows:

(i) 2012

(In millions of won)		Gross sales	Intra-Group sales	External sales
Domestic	₩	2,437,251	-	2,437,251
United States		52,528	(40,841)	11,687
Asia		1,723,719	(474,193)	1,249,526
Middle East		4,219,728	-	4,219,728
Europe		1,517,902	(141,652)	1,376,250
Others		332,742	-	332,742
Subtotal		10,283,870	(656,686)	9,627,184
Adjustment for consolidation		(656,686)	656,686	-
Balance after consolidation	₩	9,627,184	-	9,627,184

(ii) 2011

(In millions of won)		Gross sales	Intra-Group sales	External sales
Domestic	₩	2,554,840	(77,081)	2,477,759
United States		71,797	(31,317)	40,480
Asia		1,455,150	(389,480)	1,065,670
Middle East		3,136,427	-	3,136,427
Europe		1,565,324	(140,111)	1,425,213
Others		349,957	-	349,957
Subtotal		9,133,495	(637,989)	8,495,506
Adjustment for consolidation		(637,989)	637,989	-
Balance after consolidation	₩	8,495,506	-	8,495,506

25. Sales

Sales by types of products and services for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)		2012	2011
Sales-Finished goods	₩	2,448,034	1,949,538
Sales-Construction		7,175,681	6,285,047
Sales-Other		3,469	260,921
	₩	9,627,184	8,495,506

26. Construction Contracts

(1) Accumulated profit and loss of construction contracts as of December 31, 2012 and 2011 are as follows:

(i) 2012

(In millions of won)		Accumulated construction cost	Accumulated construction revenue	Accumulated construction profit (loss)	Receivables from Construction Contracts-billed	Receivables from Construction Contracts-unbilled	Due to customers for contract work
Controlling Company							
Power plants	₩	19,622,230	23,934,817	4,312,587	245,421	1,005,648	1,212,629
Water plants		2,988,432	3,398,085	409,653	38,289	215,922	167,002
Industrial plants		1,076,263	1,126,922	50,659	40,797	105,242	67,822
Castings & forgings		452,297	525,927	73,630	77,404	-	-
Plant construction		991,331	959,428	(31,903)	1,564	46,481	397
General construction		2,304,711	2,705,137	400,426	748,571	177,328	8,431
Subtotal		27,435,264	32,650,316	5,215,052	1,152,046	1,550,621	1,456,281
Subsidiaries							
Doosan Power Systems Ltd., etc		5,691,912	6,206,853	514,941	279,964	13,946	402,355
	₩	33,127,176	38,857,169	5,729,993	1,432,010	1,564,567	1,858,636

26. Construction Contracts, Continued

(ii) 2011

(In millions of won)		Accumulated construction cost	Accumulated construction revenue	Accumulated construction profit (loss)	Receivables from construction contracts-billed	Receivables from construction contracts-unbilled	Due to customers for contract work
Controlling Company							
Power plants	₩	16,081,284	19,694,096	3,612,812	243,661	949,905	1,530,587
Water plants		2,894,741	3,157,565	262,824	20,053	122,528	24,619
Industrial plants		984,182	1,063,186	79,004	32,035	169,003	54,629
Castings & forgings		477,134	591,492	114,358	64,371	-	-
Plant construction		805,949	774,881	(31,068)	7,702	38,769	20,555
General construction		2,096,384	2,500,534	404,150	636,685	181,520	45,233
Subtotal		23,339,674	27,781,754	4,442,080	1,004,507	1,461,725	1,675,623
Subsidiaries							
Doosan Power Systems Ltd., etc		4,477,475	4,888,946	411,471	216,120	145,858	392,300
	₩	27,817,149	32,670,700	4,853,551	1,220,627	1,607,583	2,067,923

(2) Changes in construction contracts for the years ended December 31, 2012 and 2011 are as follows:

(i) 2012

(In millions of won)	Counterparty	Construction		Beginning of the year	Increase	Construction revenue	End of the year
Controlling Company							
Power plants	SEC	Rabigh Power Plant	₩	16,097,059	1,685,856	5,647,086	12,135,829
Water plants	SWCC	Yanbu ph.3 MSF		1,475,266	1,057,390	918,994	1,613,662
Industrial plants	STX Offshore & Shipbuilding and others	FFX CPP #4,5		368,707	111,600	162,482	317,825
Castings & forgings	POSCO	Casting, Forging		563,868	563,163	526,115	600,916
Plant construction	Korea gas corporation	Samcheok LNG 5~7		461,488	113,214	260,685	314,017
General construction	OPA Co., Ltd.	Yongin culture welfare administration town		1,323,017	390,147	341,407	1,371,757
Subtotal				20,289,405	3,921,370	7,856,769	16,354,006
Subsidiaries							
Doosan Power Systems Ltd., etc	GMR	Raipur		2,661,315	1,424,197	1,770,415	2,315,097
			₩	22,950,720	5,345,567	9,627,184	18,669,103

26. Construction Contracts, Continued

(ii) 2011

(In millions of won)	Counterparty	Construction		Beginning of the year	Increase	Construction revenue	End of the year
Parent company							
Power plants	SEC	Rabigh Power Plant	₩	13,818,304	6,645,768	4,367,013	16,097,059
Water plants	SWCC	Ras Al Khair		2,038,681	210,231	773,646	1,475,266
Industrial plants	Damietta International Port	DAMIETTA RMQC14		373,712	166,104	171,109	368,707
Castings & forgings	POSCO	Casting, Forging		539,210	621,068	596,410	563,868
Plant construction	KHNP	Sinkori #3,4 Construction		589,775	78,584	206,871	461,488
General construction	Dongriwon	Havico Tower		1,774,889	102,576	554,448	1,323,017
Subtotal				19,134,571	7,824,331	6,669,497	20,289,405
Subsidiaries							
Doosan Power Systems Ltd., etc	GMR	Raipur		3,619,902	867,422	1,826,009	2,661,315
			₩	22,754,473	8,691,753	8,495,506	22,950,720

27. Nature of Expenses

Details of nature of expenses for the years ended December 31, 2012 and 2011 are summarized as follows:

(In millions of won)		2012	2011
Employee benefits	₩	1,184,938	1,133,332
Depreciation expenses		160,140	142,711
Amortization expenses on intangible assets		47,078	36,592

28. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)		2012	2011
Salaries	₩	280,759	233,253
Cost of defined benefit plans		4,956	2,422
Other employee benefits		48,344	43,611
Travel		22,540	22,863
Training		28,412	21,071
Taxes and dues		7,400	9,809
Professional service fees		100,389	129,389
Rental expenses		16,227	13,656
Bad debt expenses		78,040	11,928
Freight expenses		13,343	17,049
Depreciation expenses		11,318	7,118
Amortization expenses on intangible assets		12,013	10,783
Development expenses		36,561	73,016
Overseas marketing expenses		24,609	26,263
Advertising expenses		42,506	34,400
Warranty Expenses		18,998	21,777
Others		45,085	40,477
	₩	791,500	718,885

29. Financial Instruments Income and Costs by Categories

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

(In millions of won)		2012	2011
Interest income			
- Cash and cash equivalents	₩	20,820	21,523
- Financial instruments		1,174	1,767
- Held to maturity		1,221	265
- Others		10,608	2,907
Subtotal		33,823	26,462
Dividend income		18	7
Interest expenses			
- Loans and borrowings		(147,360)	(115,445)
- Debentures		(70,432)	(74,909)
Subtotal		(217,792)	(190,354)
Gain (Loss) on foreign currency transaction		31,608	(1,658)
Gain (Loss) on foreign currency translation		(8,323)	(3,739)
Loss on transaction of derivatives		(19,673)	(36,506)
Gain (loss) on translation of derivatives		282,464	(146,112)
Gain (loss) on valuation of firm commitment		(297,225)	142,976
Others		(58,843)	(26,076)
Net finance costs	₩	(253,943)	(235,000)

30. Other Income and Expenses

(1) Other income and expenses for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)		2012	2011
Other income:			
Rental revenues	₩	514	3,122
Gain on disposal of property, plant and equipment		976	1,324
Reversal of negative goodwill		-	10,403
Gain on sale of available-for-sale financial assets		28,081	-
Gain on disposal of other Investments		-	6,122
Others		21,107	79,125
	₩	50,678	100,096
Other expenses:			
Loss on disposal of trade receivables	₩	29,926	-
Loss on disposal of property, plant and equipment		8,322	1,401
Impairment loss on property, plant and equipment		690	1,139
Impairment loss on intangible assets		3,065	3,416
Donation		13,609	18,030
Loss on disposal of investment in securities		2,430	1,286
Impairment loss on investment in securities		760	1,750
Other bad debt expense		32,148	-
Others		12,344	8,685
	₩	103,294	35,707

31. Income Taxes

(1) The component of income tax expense (benefit) for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)		2012	2011
Current tax	₩	98,504	117,958
Changes in deferred tax		(160,898)	(30,272)
Deferred tax credited to equity		35,202	3,007
Deferred tax charged to profit or loss from discontinued operation		-	(28,583)
Income tax expense (benefit)	₩	(27,192)	119,276

(2) Changes in deferred tax assets (liabilities) for the years ended December 31, 2012 and 2011 are as follows:

(i) 2012

(In millions of won)		Beginning balance	Increase (decrease)	Ending balance
Provision for retirement and severance benefits	₩	61,226	6,451	67,677
Allowance for doubtful accounts		66,702	25,329	92,031
Property, plant and equipment		(12,847)	20,196	7,349
Reserve for research and development		(35,574)	(10,890)	(46,464)
Investments		(8,034)	3,598	(4,436)
Development costs		34,808	5,352	40,160
Derivative financial instruments		15,042	4,308	19,350
Foreign currency assets (liabilities)		2,735	(8,694)	(5,959)
Land revaluation gain		(165,505)	(16,550)	(182,055)
Others		(149,431)	131,798	(17,633)
	₩	(190,878)	160,898	(29,980)

(ii) 2011

(In millions of won)		Beginning balance	Increase (decrease)	Ending balance
Provision for retirement and severance benefits	₩	50,008	11,218	61,226
Allowance for doubtful accounts		86,072	(19,370)	66,702
Property, plant and equipment		3,892	(16,739)	(12,847)
Reserve for research and development		(16,434)	(19,140)	(35,574)
Investments		(21,178)	13,144	(8,034)
Development costs		28,296	6,512	34,808
Derivative financial instruments		(14,707)	29,749	15,042
Foreign currency assets (liabilities)		(494)	3,229	2,735
Land revaluation gain		(230,243)	64,738	(165,505)
Others		(106,362)	(43,069)	(149,431)
	₩	(221,150)	30,272	(190,878)

(3) The amount of deductible temporary differences for which no deferred tax asset is recognized in the statements of financial position as of December 31, 2012 and 2011 are as follows:

(In millions of won)		2012	2011
Deductible temporary differences	₩	359,404	188,459

31. Income Taxes, Continued

(4) The amount of temporary differences related to investment in subsidiaries, associates and joint ventures for which no deferred tax asset (liability) is recognized as of December 31, 2012 and 2011 are as follows:

(In millions of won)		2012	2011
Investment in subsidiaries	₩	192,177	150,919
Investment in associate or joint venture		39,296	(320,092)
	₩	231,473	(169,173)

(5) Reconciliation of effective tax rate for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)		2012	2011
Profit (loss) before income tax	₩	(12,460)	860,460
Income tax using the Controlling Company's statutory tax rate		(3,015)	208,231
Adjustment for prior periods:			
- Non-deductible expenses		4,249	13,653
- Tax credit		(11,170)	(11,917)
- Other (changes in tax rates, recovery of income taxes, etc)		(17,256)	(90,691)
Income tax expenses (benefit)	₩	(27,192)	119,276
Effective tax rate		-	13.86%

32. Earnings Per Share

(1) Basic earnings per share for the years ended December 31, 2012 and 2011 are summarized as follows:

(i) Earnings per share of continuing operation

(In won, except share information)		2012	2011
Adjusted profit for the year (*1)	₩	38,044,983,957	752,042,574,985
Weighted-average number of ordinary shares outstanding (*2)		89,035,985	89,719,487
Earnings per share	₩	427	8,382

(ii) Earnings per share of owners' equity of the Controlling Company

(In won, except share information)		2012	2011
Adjusted profit for the year	₩	38,044,983,957	274,781,302,404
Weighted-average number of ordinary shares outstanding (*2)		89,035,985	89,719,487
Earnings per share	₩	427	3,063

(*1) Attribution of continuing operation

(In won, except share information)		2012	2011
Owners of the Controlling Company	₩	38,044,983,957	752,042,574,985
Non-controlling interests		(23,312,852,617)	(10,858,875,120)
Profit from continuing operations	₩	14,732,131,340	741,183,699,865

32. Earnings Per Share, Continued

(*2) Weighted average number of ordinary shares

(In number of shares)	2012	2011
Issued common shares at Jan. 1	89,030,962	89,834,488
Effect of stock options exercised	5,023	19,657
Effect of treasury stocks held	-	(134,658)
Weighted average number of common shares outstanding at Dec. 31	89,035,985	89,719,487

(2) Diluted earnings per share for the years ended December 31, 2012 and 2011 were as follows:

(i) Diluted earnings per share of continuing operation

(In won, except share information)		2012	2011
Adjusted profit for the year	₩	38,044,983,957	752,042,574,985
Weighted-average number of common shares outstanding and common equivalent shares (*1)		89,043,564	89,734,119
Diluted earnings per share	₩	427	8,381

(ii) Diluted earnings per share of owners of the Controlling Company

(In won, except share information)		2012	2011
Adjusted net income	₩	38,044,983,957	274,781,302,404
Weighted-average number of common shares outstanding and common equivalent shares (*1)		89,043,564	89,734,119
Diluted earnings per share	₩	427	3,062

(*1) Weighted average number of ordinary shares

(In number of shares)	2012	2011
Weighted average number of ordinary shares (basic)	89,035,985	89,719,487
Effect of stock options	7,579	14,632
Weighted average number of ordinary shares (diluted) on December 31	89,043,564	89,734,119

As of December 31, 2012, the following instruments were outstanding and could potentially become dilutive in the future.

(In number of shares)	2012	2011
Stock option (March 21, 2008)	47,800	65,100
Stock option (March 27, 2009)	39,700	39,700
Stock option (March 26, 2010)	74,900	82,100
Stock option (March 25, 2011)	125,500	132,200
Stock option (March 30, 2012)	275,200	-
	563,100	319,100

33. Commitments and Contingencies

(1) As of December 31, 2012, promissory note and checks (including one blank promissory note, and two blank checks) related to the Controlling Company's debt and guarantees are provided as collateral in the relevant banks.

(2) As of December 31, 2012, the Group's bank overdraft limit is ₩10,000 million won and the limit of opening of letter of credits for imports is USD 1,684 million.

(3) As of December 31, 2012, the Group has pending lawsuits as defendent for compensation of damages amounting to approximately ₩ 218,266 million and the Group is unable to reliably estimate the expected financial effect that will result from these cases.

(4) As of December 31, 2012, the Group entered into approximately 15 contracts with MHI and other parties regarding technology inventions, and these contracts have been effective in the time rage from March 28, 1977 until September 2, 2033. In 2012, the royalty payment for the technologies is ₩ 24,607 million.

(5) As of December 31, 2012, the Group provided the following guarantee:

Providing party	Receiving party		Guaranteed amount (millions of won)	Type of guarantee	Recipient of the guarantee
Doosan Heavy Industries & Construction Co., Ltd.	GS Engineering & Construction Corp.	₩	21,305	Construction joint guarantee	Korean electric power corporation

As of December 31, 2012, the Group was provided guarantees in the amount of ₩ 77,491 billion with respect to domestic and international constructions from financial institutions and was provided joint guarantees in the amount of ₩ 66 billion with respect to the execution of construction contracts from construction companies.

33. Commitments and Contingencies, Continued

(6) As of December 31, 2012, details of guarantees provided among the Group are summarized as follows:

(In millions of won, In thousands of foreign currency)

Providing party	Provided party	Guaranteed amount (Foreign currency)		Guaranteed amount (won)	Type of guarantee	Recipients of guarantee
Doosan Heavy Industries & Construction Co., Ltd.	Doosan Hydro Technology Inc.	USD 23,000	₩	24,635	Surety bonds	Korea Exim Bank
		AUD 650		722	Guarantee for construction contract	Korea Exchange Bank
		USD 7,787		8,340	" Guarantee for construction contract	Korea Exchange Bank
	HF Controls Corp.	USD 3,351		3,589	Guarantee for construction contract "	Seoul guarantee insurance
	S.C. Doosan IMGB S.A.	EUR 107,000		151,540	Surety bonds	KDB Bank
	Pt. Doosan Heavy Industries Indonesia	USD 30,000		32,133	Surety bonds	Woori Bank Indonesia
	Doosan Power Systems India Private Ltd.	INR 9,100,000		177,632	Surety bonds	ICICI
		USD 217,065		232,498	Guarantee for construction contract	ICICI
		INR 11,559,275		225,637	Guarantee for construction contract "	Axis Bank
	Doosan Heavy Industries Vietnam Co., Ltd.	USD 248,500		266,168	Surety bonds	Korea Exim Bank
	Doosan Power Systems Ltd.	USD 138,369		148,207	Guarantee for construction contract	Bechtel Power Corporation
		GBP 15,884		27,495	" Guarantee for construction contract	British Nuclear Fuels plc
	Doosan Power Systems S.A	GBP 39,800		68,892	Surety bonds	Korea Exchange Bank
		EUR 264,800		375,026	Surety bonds	Korea Exim Bank

(7) As of December 31, 2012, the Group provided guarantees in the amount of ₩ 1,529,825 million for the developers with respect to project financing(the guarantees include ABCP of ₩ 1,523,000 million and loan of ₩ 6,825 million).

33. Commitments and Contingencies, Continued

2) As of December 31, 2012, major project financing loans are summarized as follows:

(in millions of won)

Business area	Bonds agencies		Loan amount	Loan balance	Warranty plan	Loan period	Type
Seoul forest	Kyobo Securities	₩	580,000	580,000	Debt acceptance	2012.05.04~ 2013.05.06	ABCP
Yongin-si	KB Bank		270,000	270,000	Debt acceptance	2012.08.22~ 2013.04.05	ABCP
Sangdo-dong	Mirae Asset Securities		220,000	220,000	Debt acceptance	2012.06.01~ 2013.05.30	ABCP
Seocho-dong	Kyobo Securities		152,000	152,000	Debt acceptance	2012.10.12~ 2013.10.14	ABCP
Hanam-si	KB Bank		121,000	121,000	Debt acceptance	2012.11.15~ 2013.11.14	ABCP
Hongcheon-gun	Mirae Asset Securities		170,000	170,000	Debt acceptance	2012.10.25~ 2013.10.24	ABCP
Namwonju	LIG Insurance		14,000	10,000	Debt acceptance	2012.10.15~ 2013.10.15	ABCP
Gunbuk	Kyong Nam Bank		6,000	6,000	Debt acceptance	2008.11.07~ 2014.04.10	Loan
West Suwon-Pyeongtaek Expressway	Shinhan Bank		825	825	Debt acceptance	2005.12.30~ 2013.12.31	Loan

34. Assets Pledged as Collateral

(1) As of December 31, 2012, the assets pledged as collateral for the Group's debts are summarized as follows:

(In millions of won)

Collateralized asset		Collateralized amount	Borrowing amount	Security holders
Treasury shares	₩	76,298	-	Korea Securities Finance Corporation
Property, plant and equipment		575,305	785,125	KDB Bank.
"		54,960	26,501	Korea Exim Bank
"		3,351	-	Shinhan Bank
"		27,483	14,163	Korea Exchange Bank
"		2,861	4,249	Banca Transilvania
"		27,651	6,427	Industrial and Commercial Bank of Vietnam
	₩	767,909	836,465	

(2) As of December 31, 2012, assets pledged as collateral for the others are summarized as follow:

(In millions of won)

Received party	Collateralized asset		Carrying amount	Security holders
Kyunggi Highway Co., Ltd.	Equity accounted investment	₩	22,571	Shinhan Bank

35. Related Parties

(1) As of December 31, 2012, the details of the Group's related parties are as follows:

Company	Items of investment	Location
Associate	Doosan Engineering & Construction Co., Ltd.	Korea
"	Doosan Infracore Co., Ltd.	Korea
"	Doosan Engine Co., Ltd.	Korea
"	Doosan Capital Co., Ltd.	Korea
"	Doosan Power Projects Australia	Australia
"	Tam-la seaward wind power generation	Korea
"	Doosan Hailong Cement Co.	Vietnam
"	Doosan Malaysia SDN. BHD.	Malaysia
"	Doosan Heavy Industries & Construction Prim	Korea
Joint venture	Hanjung Power Ltd.	Papua New Guinea
"	Haman Industrial Complex	Korea

(2) The major related party transactions for 2012 and 2011 in connection with business operations are as follows:

(In millions of won)		2012			2011		
Relationship		Sales and others	Investment	Purchases and others	Sales and others	Investment	Purchases and others
Company which has significant influence on the Group	₩	2,517	-	273,961	5,048	-	135,795
Associate		194,125	6,862	27,503	272,241	218,850	26,040
Joint venture		25,930	-	-	17,894	-	-
Others		7,101	-	52,776	3,516	-	39,384
	₩	229,673	6,862	354,240	298,699	218,850	201,219

35. Related Parties, Continued

(3) As of the end of report periods, significant receivables and payables between the Group and related parites are as follows:

(In millions of won)		2012		2011	
Relationship		**Receivables**	**Payables**	**Receivables**	**Payables**
Company which has significant influence on the Group	₩	395	48,069	1,514	38,767
Associate		31,326	10,518	16,077	5,489
Joint venture		15,557	-	6,006	-
Others		6,105	21,012	5,454	12,663
	₩	53,383	79,599	29,051	56,919

(4) Registered officers, non-registered officers and head officers of each department who has significant authority and responsibility for business activities, planning, operations, and controls are defined as key management personnel and details of compensation for the key management personnel during 2012 and 2011 are as follows:

(In millions of won)		2012	2011
Executive compensations	₩	56,152	53,600
Severance benefits		2,393	2,179
Share-based payment		3,281	2,780
	₩	61,826	58,559

(5) As of December 31, 2012, details of guarantee provided by the Group to related parites are summarized as follows:

Providing party	**Provided party**		**Guaranteed amount (million won)**	**Type of guarantee**	**Recipients of the guarantee**
Doosan Heavy Industries & Construction	Haman Industrial Complex	₩	6,000	PF guarantee	KyongNam Bank
	Gyeonggi Expressway Co,. Ltd.		825	PF guarantee	Shinhan Bank
	Total	₩	6,825		

36. Cash Flow Statemetns

(1) Details of cash generated from the operations of the Group during 2012 and 2011 are as follows:

(In millions of won)		2012	2011
Profit for the Year	₩	14,732	261,695
Adjustments for:			
Profit or loss from discontinued operations		-	479,488
Interest expenses		217,792	190,354
Foreign currency translation loss		48,560	29,507
Bad debt expenses		78,040	11,928
Other bad debt expenses		32,148	-
Loss on disposal of trade receivables		29,926	-
Loss on valuation of derivatives		205,775	203,052
Loss on valuation of firm commitment		459,227	56,928
Depreciation		160,140	142,711
Amortization of intangible assets		47,078	36,592
Income tax expense (income)		(27,192)	119,276
Severance payments		63,619	44,532
Share-based payments		3,282	2,780
Provision for financial guarantee contract liabilities		-	4,443
Provision for construction warranties		49,029	36,535
Finance income		(33,823)	(26,462)
Dividend income		(18)	(7)
Gain or loss on equity method investments		300,740	(504,914)
Foreign currency translation gain		(55,597)	(22,952)
Gains on valuation of derivatives		(488,239)	(56,940)
Gains on valuation of firm commitment		(162,002)	(199,904)
Reversal of provision for financial guarantee contract liabilities		-	(12,214)
Reversal of provision for construction warranties		(6,083)	(9,543)
Others		(4,964)	5,359
Change in:			
Trade receivables		(277,902)	(142,876)
Due from customers for contract work		(33,299)	(211,701)
Other receivables		48,712	(39,125)
Prepayments		111,722	(181,556)
Other prepaid expenses		(14,307)	435
Inventories		(105,864)	43,917
Derivative instrument assets/liabilities		(41,133)	(56,873)
Firm commitment assets/liabilities		74,334	50,621
Trade payables		98,375	104,149
Other payables		(20,025)	117,347
Advanced receipts		(89,931)	(123,053)
Due to customers for contract work		16,613	19,406
Withholdings		4,070	(20,665)
Accrued Expenses		(441)	37,826
Reserve for construction warranties		(55,714)	(127,130)
Financial guarantee contract liabilities		-	(37,200)
Deposits Received		56,463	34,626
Benefit paid		(54,358)	(54,054)
Plan assets		9,733	15,948
Others		18,297	6,976
	₩	677,515	229,262

36. Cash Flow Statemetns, Continued

(2) Cash inflows an outflows from short-term financial instruments and short-term borrowings maturing in the short term and with large amount due to the frequent transactions are presented on net basis.

37. Discontinued Operations

(1) Loss of control in exchange for potential voting rights of Doosan Engineering & Construction Co., Ltd.

The Controlling Company issued exchangeable bonds which are exchangeable to the stock of Doosan Engineering & Construction Co., Ltd. on June 14, 2011 and Doosan Engineering & Construction Co., Ltd. issued bonds with warrants and convertable bonds on May 24, 2011. As the rights to exchange and convert and warrants are exercisable as of December 31, 2011, the Group lost the control with the potential voting rights reduced to less than 50%. Accordingly the ownerships were accounted for in accordance with K-IFRS No. 1028 *'Investmentns in Associates'* since it still holds significant influence. Results from operations, net of tax for the period until the control was lost and losses of disposal (difference between fair value and carrying value of existing equity interest, net of tax) were reflected as loss from discontinued operations.

Loss from discontinued operations due to the loss of control over Doosan Engineering & Construction Co., Ltd. and cash flow arising from discontinued operations are as follows:

(In millions of won)		**2011**
Results of discontinued operations :		
Operating income	₩	21,807
Loss on disposal of discontinued operation		(494,254)
Finance costs, net		(35,624)
Income tax benefit		28,583
		(479,488)
Cash flows from discontinued operations :		
Cash flows used in operating activities		(334,495)
Cash flows from investing activities		179,418
Cash flows from financing activities		230,135
Changes in cash due to foreign currency translation		(55)
	₩	75,003

38. Non-current assets held for sale

The Group reclassified the book value of Gyeonggi Expressway Co., Ltd. from equity method investments to assets held for sale upon the decision of the Board of Directors dated September 21, 2012. Efforts to sell the investment have commenced, and a sale is expected to be completed by December 2013. As of the end of reporting period, the non-current assets held for sale are as follows:

(In millions of won)		**2012**
Asset held for sale:		
- Gyeonggi Expressway Co., Ltd.	₩	22,571

39. Subsequent Events

The Board of directors of the Controlling Company resolved as of February 4, 2013 that the Controlling Company will participate in the capital increase and contribution in kind of Doosan Engineering & Construction Co., Ltd. planned in April 2013.

(1) Contribution in kind

-The Controlling Company will transfer Heat Recovery Steam Generator (the "HRSG") business to Doosan Engineering & Construction Co., Ltd. In exchange of newly issued shares.

-The expected value of shares to be issued in consideration ₩ 571.6 billion

(2) Capital increase

-The Controlling Company will participate in the capital increase by cash Doosan Engineering & Construction Co., Ltd. In proportion of its interests (72.74%).

- ₩ 305.5 billion (subject to change)