HYUNDAI HEAVY INDUSTRIES CO., LTD.

Separate Financial Statements

December 31, 2013

(With Independent Auditors' Report Thereon)

Contents

Independent Auditors' Report

<u>Based on a report originally issued in Korean</u>

The Board of Directors and Stockholders
Hyundai Heavy Industries Co., Ltd.:

We have audited the accompanying separate statements of financial position of Hyundai Heavy Industries Co., Ltd. (the "Company") as of December 31, 2013 and 2012 and the related separate statements of comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these separate financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate 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, the separate financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012 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 separate financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those knowledgeable about Korean auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 13, 2014

This report is effective as of March 13, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate 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.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Separate Statements of Financial Position

As of December 31, 2013 and 2012

(In thousands of won)

	Note		2013	2012
Assets				
Cash and cash equivalents	*36,37*	₩	730,673,768	522,916,854
Short-term financial assets	*6,23,36,37*		155,426,784	140,025,992
Trade and other receivables	*8,28,36,37,40*		3,646,761,996	3,415,103,505
Due from customers for contract work	*8,28,36,37*		5,129,773,456	3,571,761,440
Inventories	*9*		2,584,221,399	2,886,179,999
Derivative assets	*23,36,37*		352,985,099	352,707,880
Firm commitment assets	*23*		5,205,454	68,950,598
Other current assets	*10*		2,210,689,649	2,302,962,000
Total current assets			14,815,737,605	13,260,608,268
Investments in subsidiaries and associates and joint ventures	*11,12,13*		6,777,957,105	6,848,089,108
Long-term financial assets	*6,7,14,23,36,37*		1,145,948,843	1,113,004,649
Long-term trade and other receivables	*8,28,36,37,40*		292,512,483	317,859,592
Investment property	*15*		439,997,862	313,069,349
Property, plant and equipment	*16*		8,062,509,717	8,145,864,317
Intangible assets	*17*		395,809,501	373,753,496
Derivative assets	*23,36,37*		200,579,565	113,495,722
Firm commitment assets	*23*		673,467	1,682,828
Other non-current assets	*38*		-	150,454,388
Total non-current assets			17,315,988,543	17,377,273,449
Total assets		₩	32,131,726,148	30,637,881,717

See accompanying notes to the separate financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Separate Statements of Financial Position, Continued

As of December 31, 2013 and 2012

(In thousands of won)

	Note		2013	2012
Liabilities				
Short-term financial liabilities	*18,20,23,36,37,38*	₩	5,363,664,718	4,282,108,440
Trade and other payables	*19,36,37,40*		2,701,363,787	2,299,628,573
Advances from customers			772,614,459	908,391,816
Due to customers for contract work	*28,38*		4,365,624,000	4,202,825,488
Derivative liabilities	*23,36,37*		65,584,053	43,042,776
Firm commitment liabilities	*23*		202,711,015	217,691,944
Income tax payable			51,313,016	335,701,418
Total current liabilities			13,522,875,048	12,289,390,455
Long-term financial liabilities	*18,20,23,36,37,38*		2,034,144,291	2,260,223,050
Long-term trade and other payables	*19,36,37,40*		11,557,764	12,234,593
Liabilities for defined benefit plans	*21*		120,454,843	172,672,817
Long-term provisions	*22*		381,386,859	252,506,544
Derivative liabilities	*23,36,37*		26,847,146	20,668,394
Firm commitment liabilities	*23*		187,152,888	113,376,015
Deferred tax liabilities	*33*		266,995,798	326,874,346
Total non-current liabilities			3,028,539,589	3,158,555,759
Total liabilities			16,551,414,637	15,447,946,214
Stockholders' equity				
Common stock of ₩5,000 par value	*24*		380,000,000	380,000,000
Authorized - 160,000,000 shares				
Issued and outstanding -				
76,000,000 shares in 2013 and 2012				
Capital surplus	*24*		1,044,516,633	1,044,516,633
Capital adjustments	*25*		(1,400,454,947)	(1,400,454,947)
Accumulated other comprehensive income	*23,26*		552,205,370	498,603,452
Retained earnings	*27*		15,004,044,455	14,667,270,365
Total stockholders' equity			15,580,311,511	15,189,935,503
Total liabilities and stockholders' equity		₩	32,131,726,148	30,637,881,717

See accompanying notes to the separate financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Separate Statements of Comprehensive Income

For the years ended December 31, 2013 and 2012

(In thousands of won, except per share information)

	Note		2013	2012 (Restated)
Sales	23,28,40	₩	24,282,737,183	25,055,014,302
Cost of sales	9,17,23,30,40		(22,176,255,337)	(22,236,009,555)
Gross profit			2,106,481,846	2,819,004,747
Selling, general and administrative expenses	17,29,30		(1,371,686,848)	(1,526,071,022)
Results from operating activities			734,794,998	1,292,933,725
Finance income	23,31,36		1,126,586,428	1,884,727,871
Finance costs	23,31,36		(766,893,914)	(649,272,491)
Other non-operating income	23,32		266,037,091	117,963,323
Other non-operating expenses	23,32		(866,756,184)	(1,210,223,995)
Profit before income taxes			493,768,419	1,436,128,433
Income tax expense	33		(42,100,905)	(324,757,228)
Profit for the year		₩	451,667,514	1,111,371,205
Other comprehensive income (loss)	23,26,33,36			
Items that are or may be reclassified subsequently to profit or loss:				
Change in fair value of available-for-sale financial assets		₩	61,601,033	(342,902,312)
Effective portion of changes in fair value of cash flow hedges			(7,999,115)	(11,140,997)
Total items that are or may be reclassified subsequently to profit or loss			53,601,918	(354,043,309)
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gains (losses)			38,327,676	(41,515,322)
Total items that will not be reclassified to profit or loss			38,327,676	(41,515,322)
Other comprehensive income for the year, net of income tax			91,929,594	(395,558,631)
Total comprehensive income for the year		₩	543,597,108	715,812,574
Earnings per share	34			
Basic and diluted earnings per share (in won)		₩	7,370	18,133

See accompanying notes to the separate financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Separate Statements of Changes in Equity

For the years ended December 31, 2013 and 2012

(In thousands of won)

		Common stock	Capital surplus	Capital adjustments	Gain and loss on valuation of available-for-sale financial assets	Gain and loss on valuation of derivatives	Retained earnings	Total stockholders' equity
Balance at January 1, 2012	₩	380,000,000	1,044,516,633	(1,400,454,947)	862,950,681	(10,303,920)	13,842,568,242	14,719,276,689
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	1,111,371,205	1,111,371,205
Changes in gain and loss on valuation of available-for-sale financial assets, net of tax		-	-	-	(342,902,312)	-	-	(342,902,312)
Changes in fair value of cash flow hedges, net of tax		-	-	-	-	(11,140,997)	-	(11,140,997)
Defined benefit plan actuarial losses, net of tax		-	-	-	-	-	(41,515,322)	(41,515,322)
Transactions with owners of the Company, recognized directly in equity								
Dividends		-	-	-	-	-	(245,153,760)	(245,153,760)
Balance at December 31, 2012	₩	380,000,000	1,044,516,633	(1,400,454,947)	520,048,369	(21,444,917)	14,667,270,365	15,189,935,503
Balance at January 1, 2013	₩	380,000,000	1,044,516,633	(1,400,454,947)	520,048,369	(21,444,917)	14,667,270,365	15,189,935,503
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	451,667,514	451,667,514
Changes in gain and loss on valuation of available-for-sale financial assets, net of tax		-	-	-	61,601,033	-	-	61,601,033
Changes in fair value of cash flow hedges, net of tax		-	-	-	-	(7,999,115)	-	(7,999,115)
Defined benefit plan actuarial losses, net of tax		-	-	-	-	-	38,327,676	38,327,676
Transactions with owners of the Company, recognized directly in equity								
Dividends		-	-	-	-	-	(153,221,100)	(153,221,100)
Balance at December 31, 2013	₩	380,000,000	1,044,516,633	(1,400,454,947)	581,649,402	(29,444,032)	15,004,044,455	15,580,311,511

See accompanying notes to the separate financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Separate Statements of Cash Flows

For the years ended December 31, 2013 and 2012

(In thousands of won)

	Note		2013	2012
Cash flows from operating activities				
Net income for the year		₩	451,667,514	1,111,371,205
Adjustments			193,176,263	(2,729,702,562)
Cash generated (used) from operations	*35*		644,843,777	(1,618,331,357)
Interest received			52,516,341	114,816,268
Interest paid			(190,313,949)	(173,923,508)
Dividends received			37,415,696	57,966,431
Income taxes paid			(496,472,306)	(560,755,469)
Net cash from operating activities			47,989,559	(2,180,227,635)
Cash flows from investing activities				
Proceeds from sale of short-term financial assets			130,500,000	17,059,369
Proceeds from collection of other receivables			4,300,000	-
Proceeds from sale of investments in subsidiaries, associates and joint ventures			18,847,943	51,665,836
Proceeds from sale of long-term financial assets			1,724,821	706,510,852
Proceeds from collection of long-term other receivables			5,913,002	2,260,917
Proceeds from sale of property, plant and equipment			16,526,207	9,081,306
Proceeds from sale of intangible assets			2,620,909	634,025
Proceeds from sales of non-current assets held for sale			88,530,394	-
Proceeds from other non-current assets			2,794	-
Acquisition of short-term financial assets			(149,700,000)	(135,500,000)
Acquisition of other receivables			(2,300,000)	(2,000,000)
Acquisition of investments in subsidiaries, associates and joint ventures			(91,924,421)	(269,622,882)
Acquisition of long-term financial assets			(5,325,317)	(7,884,410)
Acquisition of long-term other receivables			(2,956,508)	(2,056,861)
Acquisition of property, plant and equipment			(529,638,630)	(572,677,398)
Acquisition of intangible assets			(86,086,982)	(69,860,071)
Acquisition of other non-current assets			(10,905,411)	(20,656,454)
Net cash used in investing activities			(609,871,199)	(293,045,771)
Cash flows from financing activities				
Proceeds from short-term financial liabilities			10,787,673,723	11,598,086,227
Proceeds from long-term financial liabilities			1,655,179,220	2,258,146,200
Repayment of short-term financial liabilities			(10,945,994,963)	(11,222,087,660)
Repayment of long-term financial liabilities			(572,304,000)	-
Dividends paid			(153,221,100)	(245,153,760)
Net cash provided by financing activities			771,332,880	2,388,991,007
Effects of exchange rate changes on cash and cash equivalents			(1,694,326)	(1,106,492)
Net increase (decrease) in cash and cash equivalents			207,756,914	(85,388,891)
Cash and cash equivalents at January 1			522,916,854	608,305,745
Cash and cash equivalents at December 31		₩	730,673,768	522,916,854

See accompanying notes to the separate financial statements.

1. Description of the controlling company

Hyundai Heavy Industries Co., Ltd. (the "Company") was incorporated in 1973, under the Commercial Code of the Republic of Korea, and is engaged in the manufacture and sale of ships, offshore structures, plants, engines and other products.

On August 1999, the Company was listed on the Korea Exchange. As of December 31, 2013, the Company's major stockholders consist of Mong-Joon Chung (10.15%) and Hyundai Mipo Dockyard Co., Ltd. (7.98%).

2. Basis of Preparation

The 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*.

These financial statements are separate financial statements in accordance with K-IFRS No. 1027, 'Consolidated and Separate Financial Statements' presented by a parent, an investor in an associate or a venture in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

The separate financial statements were authorized for issue by the Board of Directors on February 6, 2014, and will be submitted for approval to the shareholders' meeting to be held on March 21, 2014.

(1) Basis of measurement

The separate financial statements have been prepared on a historical cost basis except for the following material items in the statement of financial position:

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Available-for-sale financial assets are measured at fair value
- Liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

(2) Functional and presentation currency

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

(3) Use of estimates and judgments

The preparation of the separate 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

(3) Use of estimates and judgments, continued

(i) Judgments

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the separate financial statements is included in the following notes:

- Note 13 – Classification of joint arrangement
- Note 15 – Classification of investment property

(ii) Assumptions and estimation uncertainties

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 21 – Measurement of defined benefit obligations: key actual assumptions
- Notes 22, 38 and 39 – Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources
- Note 28 – Revenue recognition in proportion to the stage of completion
- Note 33 – Recognition of deferred tax assets: availability of future taxable profit against which carryforward tax losses can be used

(iii) Measurement of fair value

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Company Audit Committee.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, 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).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

2. Basis of Preparation, Continued

(3) Use of estimates and judgments, continued

(iii) Measurement of fair value, continued

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 14 – Available-for-sale financial assets
- Note 23 – Derivative financial instruments
- Note 37 – Financial instruments

3. Changes in accounting policies

Except for the changes below, the Company has consistently applied the accounting policies set out in Note 4 to all periods presented in these consolidated financial statements. The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2013.

- K-IFRS No. 1111 Joint Arrangements
- K-IFRS No. 1113 Fair Value Measurement
- K-IFRS No. 1019 Employee Benefits (2011)
- Presentation of Items of Other Comprehensive Income (Amendments to *K-IFRS No. 1001*)
- Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to *K*-IFRS *No. 1107*)
- Recoverable Amount Disclosures for Non-Financial Assets (A*mendments to K-IFRS No. 1036)*

The nature and effects of the changes are explained below.

(i) Joint arrangements

As a result of K-IFRS No. 1111, the Company has changed its accounting policy for its interests in joint arrangements. Under K-IFRS No. 1111, the Company has classified its interests in joint arrangements as either joint operations (if the Company has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Company has rights only to the net assets of an arrangement). When making this assessment, the Company considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

The Company has re-evaluated its involvement in its joint arrangements and has reclassified the investments from jointly controlled entities to joint ventures. Notwithstanding the reclassification, the investment continues to be recognized by applying the equity method and there has been no impact on the recognized assets, liabilities and comprehensive income of the Company.

(ii) Fair value measurement

K-IFRS No. 1113 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other K-IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other K-IFRSs, including K-IFRS No. 1107. As a result, the Company has included additional disclosures in this regard (see Note 37).

In accordance with the transitional provisions of K-IFRS No. 1113, the Company has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Company's assets and liabilities.

3. Changes in accounting policies, Continued

(iii) Post-employment defined benefit plans
As a result of K-IFRS No. 1019, the Company has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit plans.

Under K-IFRS No. 1019, the Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises: interest cost on the defined benefit obligation, interest income on plan assets, and interest on the effect on the asset ceiling. Previously, the Company determined interest income on plan assets based on their long-term rate of expected return.

The quantitative impact of the change is set out in below.

(In millions of won)		2013	2012
Decrease in:			
Cost of sales	₩	4,868	6,651
Selling, general and administrative expenses		948	1,633
	₩	5,816	8,284
Increase in:			
Income tax expense	₩	1,407	2,005
Defined benefit plan actuarial gains		4,409	6,279
	₩	5,816	8,284

(iv) Presentation of items of OCI
As a result of the amendments to K-IFRS No. 1001, the Company has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

(v) Offsetting of financial assets and financial liabilities
As a result of the amendments to K-IFRS No. 1107, the Company has expanded its disclosures about the offsetting of financial assets and financial liabilities (see Note 37).

(vi) Disclosures of recoverable amount for non-financial assets
The Company has early adopted the amendments to K-IFRS No. 1036. As a result, the Company has expanded its disclosures of recoverable amounts when they are based on fair value less costs of disposals and impairment is recognized (see Notes 12, 13).

4. Significant Accounting Policies

The significant accounting policies applied by the Company in the preparation of its separate financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements except for the changes in accounting policies as explained in Note 3.

(1) Subsidiaries and associates in the separate financial statements

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027, 'Separate Financial Statements'. The Company applied the cost method to investments in subsidiaries and associates in accordance with K-IFRS No. 1027. Dividends from a subsidiary or associate are recognized in profit or loss when the right to receive the dividend is established.

(2) 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 Company in management of its short-term commitments. Generally equity investments are excluded from cash and cash equivalents.

(3) Inventories

The cost of inventories is based on the moving-average method with the exception of cost of materials-in-transit, which is determined on the specific identification method. Cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

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.

(4) Non-derivative financial assets

The Company 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 Company recognizes financial assets in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

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.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss if they are held for trading or 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.

4. Significant Accounting Policies, Continued

(4) Non-derivative financial assets, continued

(ii) Held-to-maturity investments

Non-derivative financial assets with a fixed or determinable payment and fixed maturity, for which the Company 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, are 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 are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

(v) De-recognition of financial assets

The Company 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 Company is recognized as a separate asset or liability.

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

(vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position only when the Company 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.

4. Significant Accounting Policies, Continued

(5) 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 accounted for as described below.

(i) Hedge accounting

The Company holds forward exchange contracts to manage foreign exchange risk. The Company 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 Company 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.

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 statement of comprehensive income.

The Company 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.

(ii) 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.

4. Significant Accounting Policies, Continued

(6) 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.

(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 Company 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.

4. Significant Accounting Policies, Continued

(7) 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 Company 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.

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 Company's assets are as follows:

	Useful lives (years)
Buildings	20~40
Structures	20~40
Machinery	5~15
Ships	15, 25
Vehicles	5~10
Tools, furniture and fixtures	3~20

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

4. Significant Accounting Policies, Continued

(8) 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 (years)
Capitalized development costs	5
Other intangible assets	20, 40
Memberships	Indefinite

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.

(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 Company 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.

(9) Investment property

Property held for the purpose of earning rentals, benefiting from capital appreciation or both 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.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Company 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.

Investment property is depreciated on a straight-line basis over the following estimated useful lives:

	Useful lives (years)
Buildings	20~40
Structures	20~40

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

4. Significant Accounting Policies, Continued

(10) Impairment of non-financial assets

The carrying amounts of the Company'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. 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 Company estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Company 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.

Any impairment identified at the CGU level will reduce the carrying amount of the assets in the CGU on a pro rata basis. 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.

(11) 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 Company's contract activities based on normal operating capacity.

The gross amount due from customers for contract work is presented as an asset in the 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 gross amount due to customers for contract work is presented as a liability in the statement of financial position.

4. Significant Accounting Policies, Continued

(12) Borrowing costs

The Company 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.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period. In addition, the Company capitalized borrowing costs amounting to ₩77,095 million and ₩24,041 million, applying capitalization rate of 2.77% and 3.31% for the year ended December 31, 2013 and 2012, respectively.

(13) Non-derivative financial liabilities

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

4. Significant Accounting Policies, Continued

(14) 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 Company during an accounting period, the Company 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. The Company's net obligation in respect of long-term employee benefits is 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. Remeasurements are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

4. Significant Accounting Policies, Continued

(15) Provisions

Provisions are recognized when the Company 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.

(i) Provision for construction warranty
The Company generally provides a warranty within the contract on rectification of defects after the contract’s completion and accrues the rectification expense on defects based on actual claims history as provision for construction warranty.

(ii) Provision for product warranty
The Company generally provides a warranty relating to product defects for a specified period of time after sales and accrues estimated costs as provision for product warranty, which may occur due to product liability suits.

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

(16) Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of the Company 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.

Foreign currency differences arising on retranslation are recognized in profit or loss. 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.

(17) Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Company repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

4. Significant Accounting Policies, Continued

(18) Revenue

Revenue from the sale of goods, rendering of services or use of the Company 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.

(ii) 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.

(iii) 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.

(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.

(19) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

4. Significant Accounting Policies, Continued

(20) 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 they relate 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

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. The Company 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 Company 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 Company 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 Company 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.

(21) Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

(22) Operating segments

The Company discloses information related to its operating segments on its consolidated financial statements in accordance with K-IFRS No. 1108, 'Operating Segments'.

4. Significant Accounting Policies, Continued

(23) 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 Company for annual periods beginning after January 1, 2013, and the Company has not early adopted them. Management believes the impact of the amendments on the Company's separate financial statements is not significant.

(i) Amendments to K-IFRS No. 1032, 'Financial Instruments: Presentation'

The amendments clarified the application guidance related to 'offsetting a financial asset and a financial liability'. The amendment is mandatorily effective for periods beginning on or after January 1, 2014 with earlier application permitted.

5. Risk Management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these separate financial statements.

(1) Financial risk management

1) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

2) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

(i) Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances

5. Risk Management, Continued

(1) Financial risk management, continued

2) Credit risk, continued

The Company establishes credit limits for each customer and each new customer is analysed quantitatively and qualitatively before determining whether to utilize third party guarantees, insurance or factoring as appropriate.

The Company does not establish allowances for receivables under insurance and receivables from customers with a high credit rating. For the rest of the receivables, the Company establishes an allowance for impairment of trade and other receivables that have been individually or collectively evaluated for impairment and estimated on the basis of historical loss experience for assets.

(ii) Investments

The Company limits its exposure to credit risk by investing only in liquid securities and only with counterparties that have high credit ratings. Management actively monitors credit ratings and given that the Company only has invested in securities with high credit ratings, does not expect a significant risk that any counterparty fails to meet its obligations.

(iii) Guarantees

The Company provides financial guarantees to subsidiaries, associates and third parties if necessary.

3) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company's reputation.

The Company has historically been able to satisfy its cash requirements from cash flow from operations and debt and equity financing. To the extent that the Company does not generate sufficient cash flow from operations to meet its capital requirements, the Company may rely on other financing activities, such as external long-term borrowings and offerings of debt securities, equity-linked and other debt securities. In addition, the Company has entered into credit line agreements with financial institutions amounting to ₩10,920,708 million and USD 27,911,295 thousand as of December 31, 2013.

4) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Company. Generally the Company seeks to apply hedge accounting in order to manage volatility in profit or loss.

5. Risk management, Continued

(1) Financial risk management, continued

4) Market risk, continued

(i) Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company, Korean won (KRW). The currencies in which these transactions primarily are denominated are USD, EUR, CNY and JPY.

The Company hedges trade receivables and trade payables denominated in a foreign currency in respect of forecasted sales and purchases. The Company uses forward exchange contracts to hedge its currency risk, most with a maturity of less than two years from the reporting date. When necessary, forward exchange contracts are rolled over at maturity. Trade receivables denominated in a foreign currency have been hedged using forward contracts that mature on the same dates that the receivables are due for collection. In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(ii) Other market price risk

The Company is exposed to the price risk arising from available-for-sale equity securities.

(2) Capital management

The management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company monitors the liability to equity ratio and net borrowing to equity ratio, which the Company defines as total liabilities divided by total equity and net borrowing divided by total equity.

The Company's liability to equity ratio and net borrowing to equity ratio at the end of the reporting period are as follows:

(In millions of won, except equity ratio)		2013	2012
Total liabilities	₩	16,551,415	15,447,946
Total equity		15,580,312	15,189,936
Cash and deposits (*1)		880,407	653,450
Borrowings (*2)		7,397,809	6,542,138
Liability to equity ratio		106.23%	101.70%
Net borrowing to equity ratio (*3)		41.83%	38.77%

(*1) Cash and deposits consist of cash and cash equivalents and short-term and long-term financial instruments.

(*2) Discount on debentures is deducted from the face value of debentures.

(*3) Net borrowing represents borrowings net of cash and deposits.

6. Short-term and Long-term Financial Assets

Short-term and long-term financial assets as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)		2013		2012	
		Current	**Non-current**	**Current**	**Non-current**
Financial instruments	₩	149,700	33	130,500	33
Financial assets at fair value through profit or loss		5,727	-	9,526	3,936
Available-for-sale financial assets		-	1,145,916	-	1,109,036
	₩	155,427	1,145,949	140,026	1,113,005

7. Restricted Financial Instruments

Financial instruments, which are restricted in use, as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)	**Description**	**Financial institutions**		**2013**	**2012**	**Restrictions**
Long-term financial instruments	Deposits in won	Korea Exchange Bank and others	₩	33	33	Guarantee deposits for checking accounts

8. Trade and Other Receivables and Due from Customers for Contract Work

(1) Trade and other receivables as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)		2013		2012	
		Current	**Non-current**	**Current**	**Non-current**
Trade receivables:					
Trade receivables	₩	3,608,539	550,681	3,599,756	429,680
Allowance for doubtful accounts		(276,659)	(267,893)	(364,864)	(124,581)
		3,331,880	282,788	3,234,892	305,099
Other receivables:					
Other accounts receivable		519,539	-	310,382	-
Allowance for doubtful accounts		(215,778)	-	(145,575)	-
Accrued income		9,708	-	12,012	-
Loans		243	-	2,246	-
Guarantee deposits		1,170	9,724	1,147	12,761
		314,882	9,724	180,212	12,761
	₩	3,646,762	292,512	3,415,104	317,860

8. Trade and Other Receivables and Due from Customers for Contract Work, Continued

(2) Due from customers for contract work as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)		2013		2012	
		Current	Non-current	Current	Non-current
Due from customers for contract work	₩	5,131,319	-	3,573,330	-
Allowance for doubtful accounts		(1,546)	-	(1,569)	-
	₩	5,129,773	-	3,571,761	-

9. Inventories

Inventories as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)		2013			2012		
		Acquisition cost	Provision for inventory valuation	Carrying amount	Acquisition cost	Provision for inventory valuation	Carrying amount
Merchandise	₩	85,414	(6,110)	79,304	79,358	(6,253)	73,105
Finished goods		233,105	(14,513)	218,592	279,685	(40,406)	239,279
Work-in-progress		1,121,896	(100,726)	1,021,170	1,236,980	(74,156)	1,162,824
Raw materials		823,647	(3,307)	820,340	929,478	(7,576)	921,902
Supplies		22,210	-	22,210	19,225	-	19,225
Materials-in-transit		422,605	-	422,605	469,845	-	469,845
	₩	2,708,877	(124,656)	2,584,221	3,014,571	(128,391)	2,886,180

The reversal of write-down of inventories to net realizable value amounting to ₩3,735 million and ₩1,122 million are included in cost of sales for the years ended December 31, 2013 and 2012, respectively.

10. Other Current Assets

Other current assets as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)		2013	2012
Advance payments	₩	1,877,319	1,879,217
Prepaid expenses		333,371	310,851
Others		-	112,894
	₩	2,210,690	2,302,962

11. Investments in Subsidiaries

Investments in subsidiaries as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won, except percentage of ownership)

Company	Location	Particulars	2013 Percentage of ownership (%)	2013 Carrying amount	2012 Percentage of ownership (%)	2012 Carrying amount
Hyundai Samho Heavy Industries Co., Ltd.	Korea	Shipbuilding	94.92 ₩	1,817,690	94.92 ₩	1,817,690
Hyundai Oilbank Co., Ltd.	Korea	Manufacturing of petroleum products	91.13	2,954,745	91.13	2,954,745
Hyundai Heavy Material Service	Korea	Sale and manufacture of machinery equipment for shipbuilding	100.00	122,136	100.00	122,136
KOMAS Corporation	Korea	Shipping	100.00	116,635	100.00	131,635
Hyundai Energy & Resources Co., Ltd.	Korea	Services for crude oil and natural gas mining	40.00	20,000	40.00	20,000
Ulsan Hyundai Football Club Co., Ltd.	Korea	Football club	100.00	4,913	100.00	4,913
Hotel Hyundai Co., Ltd.	Korea	Hotel operation	100.00	2,807	100.00	2,807
Hyundai Finance Corporation	Korea	Granting of credit	67.49	90,726	67.49	90,726
LS Leading Solution Private Security Investment Trust 22 (Equity)	Korea	Other financial business	100.00	80,155	100.00	81,752
LS Leading Solution Private Security Investment Trust 35 (Equity)	Korea	Other financial business	100.00	15,759	100.00	16,073
Eastspring Private Global Asset allocation & Mining & Gold Fund of Funds Investment Trust A-1	Korea	Other financial business	100.00	12,709	100.00	12,709
HHI China Investment Co., Ltd.	China	Holding company	100.00	286,425	100.00	286,425
Hyundai Financial Leasing Co., Ltd.	China	Financial and operating leases	41.26	67,403	41.26	67,403
Hyundai (Shandong) Heavy Industries Machinery Co., Ltd. (*)	China	Sale and manufacture of wheel loaders	100.00	48,810	100.00	50,186
Hyundai Vinashin Shipyard	Vietnam	Ship repair	10.00	20,149	10.00	20,149
Hyundai Construction Equipment India Pvt. Ltd.	India	Sale and manufacture of machinery equipment for construction	100.00	53,741	100.00	42,605
Hyundai Transformers And Engineering India PVT, Ltd.	India	Sale and manufacture of transformers	100.00	227	100.00	227
Hyundai Construction Equipment Americas, Inc.	America	Sale of machinery equipment for construction	100.00	-	100.00	-
Hyundai Power Transformers USA, INC. (*)	America	Sale and manufacture of industrial electric equipment	100.00	61,448	100.00	62,609
Hyundai Ideal Electric Co.	America	Sale and manufacture of industrial electric equipment	100.00	25,494	100.00	25,494
PHECO Inc.	America	Design services for offshore facilities	100.00	237	100.00	237
HHI Battery CO., Ltd.	Canada	Manufacturing	100.00	20,256	100.00	16,813
Hyundai Heavy Industries Brasil - Real Estate Developments	Brazil	Real estate development	100.00	31,355	100.00	31,355
Hyundai Heavy Industries Brasil	Brazil	Manufacture, trade and repair of heavy equipment	100.00	69,204	100.00	69,204
Hyundai Heavy Industries Miraflores Power Plant Inc.	Panama	Manufacturing	100.00	-	100.00	-
Vladivostok Business Center	Russia	Hotel operation	100.00	-	100.00	-
Hyundai Khorol Agro Ltd.	Russia	Agriculture	95.24	16,105	94.26	13,848
Hyundai Mikhailovka Agro	Russia	Agriculture	100.00	17,255	100.00	8,216
Hyundai Electrosystems Co., Ltd.	Russia	Manufacture of high-voltage circuit breakers	100.00	44,403	100.00	44,403
Hyundai Heavy Industries Europe N.V..	Belgium	Sale of machinery equipment for construction	100.00	10,322	100.00	10,322
Hyundai Heavy Industries Co. Bulgaria	Bulgaria	Sale and manufacture of transformers	99.09	46,768	99.09	46,768

11. Investments in Subsidiaries, Continued

(In millions of won, except percentage of ownership)

Company	Location	Particulars	2013 Percentage of ownership (%)	2013 Carrying amount	2012 Percentage of ownership (%)	2012 Carrying amount
Hyundai Technologies Center Hungary Kft.	Hungary	Research and development of technology	100.00	26	100.00	26
Hyundai Heavy Industries France SAS	France	Manufacturing	100.00	52	100.00	52
Jahnel-Kestermann Getriebewerke GmbH (*)	Germany	Designing and manufacture of gearboxes	100.00	-	100.00	18,719
HHI MAURITIUS LIMITED	Mauritius	Manufacturing	100.00	-	100.00	-
Hyundai West Africa Limited	Nigeria	Manufacture of other transport equipment	100.00	70	100.00	70
Hyundai Arabia Company LLC.	Saudi Arabia	Industrial plant construction	70.00	2,032	70.00	2,032
				₩ 6,060,057		₩ 6,072,349

(*) As of December 31, 2013, due to continuous loss of the subsidiaries of Hyundai (Shandong) Heavy Industries Machinery Co., Ltd., Hyundai Power Transformers USA, INC., and Jahnel-Kestermann Getriebewerke GmbH, the Company estimated the recoverable amount of the investments in subsidiaries based on value in use which is estimated by applying an after-tax discount rate of 17.51%, 6.16%, and 8.06%. The Company recognized an impairment loss amounting to ₩18,419 million, ₩29,408 million, and ₩18,719 million in profit or loss because the carrying amount of the investment exceeds its recoverable amount.

The change in investments in subsidiaries for the year ended December 31, 2013 is due to the capital increase, capital reduction except for the above impairment loss. Dividends received from investments in subsidiaries are ₩19,195 million and ₩40,981 million for the years ended December 31, 2013 and 2012, respectively.

12. Investments in Associates

Investments in associates as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won, except percentage of ownership)

Company	Location	Particulars	2013 Percentage of ownership (%)	2013 Carrying amount	2012 Percentage of ownership (%)	2012 Carrying amount
New Korea Country Club	Korea	Country club	40.00 ₩	31,545	40.00 ₩	31,545
Hyundai Merchant Marine Co., Ltd.	Korea	Shipping	13.84	360,634	15.18	360,634
Taebaek Wind Power Co., Ltd.	Korea	Sale and manufacture of facilities for wind power generation	35.00	5,299	35.00	5,299
Muju Wind Power Co., Ltd.	Korea	Sale and manufacture of facilities for wind power generation	45.00	5,130	45.00	5,130
Pyeongchang Wind Power Co., Ltd.	Korea	Sale and manufacture of facilities for wind power generation	35.00	893	35.00	893
Jinan Jangsu Wind Power Co., Ltd.	Korea	Sale and manufacture of facilities for wind power generation	32.00	128	32.00	128

12. Investments in Associates, Continued

(In millions of won, except percentage of ownership)

Company	Location	Particulars	2013 Percentage of ownership (%)	2013 Carrying amount	2012 Percentage of ownership (%)	2012 Carrying amount
Changjuk Wind Power Co., Ltd.	Korea	Sale and manufacture of facilities for wind power generation	43.00	5,448	43.00	5,448
Hyundai Corporation	Korea	Exporting	22.36	105,134	22.36	105,134
Daesung Win-Win Fund	Korea	Investment service in culture contents field	16.67	7,000	16.67	7,000
Qinhuangdao Shouqin Metal Materials Co., Ltd.	China	Thick plate-oriented comprehensive iron manufacturing	20.00	80,555	20.00	80,555
PT. Hyundai Machinery Indonesia	Indonesia	Import and wholesale of machinery equipment for construction	20.83	155	20.83	155
Hyundai Primorye Ltd.	Russia	Farmland leasing service	49.99	6,338	49.99	6,338
Hyundai Green Industries Co., W.L.L.	Kuwait	Education	49.00	992	49.00	992
				₩ 609,251		₩ 609,251

Dividends received from investments in associates are ₩2,696 million and ₩2,596 million for the years ended December 31, 2013 and 2012, respectively.

13. Investments in Joint Ventures

Investments in joint ventures as of December 31, 2013 and December 31, 2012 are summarized as follows:

(In millions of won, except percentage of ownership)

Company	Location	Particulars	2013 Percentage of ownership (%)	2013 Carrying amount	2012 Percentage of ownership (%)	2012 Carrying amount
Wärtsilä-Hyundai Engine Company Ltd.	Korea	Manufacture, assemble and test of marine engines and parts	50.00	₩ 40,496	50.00	₩ 40,496
Hyndai Cummins Engine Company	Korea	Manufacture of engines	50.00	33,719	50.00	12,959
KAM Corporation (*1)	Korea	Sale and manufacture of polysilicon	-	-	49.00	1,989
Hyundai-Avancis Co., Ltd. (*2)	Korea	Sale and manufacture of solar module	50.00	34,142	50.00	110,000
Grand China Hyundai Shipping Co., Ltd.	Hong Kong	Acquiring, renting, leasing and chartering of bulk carrier	50.00	292	50.00	1,045
				₩ 108,649		₩ 166,489

(*1) As of December 31, 2013, the Company decided to capital reduction without refund that stock of KAM Corporation. As a result, the Company recognized an impairment loss of ₩1,989 million.
(*2) As of December 31, 2013, the Company estimated the fair value of the investment in Hyundai-Avancis Co., Ltd., and an impairment loss of ₩75,858 million was recognized. The investment in Hyundai-Avancis Co., Ltd. classified as level 3 of fair value hierarchy.

The change in investments in joint ventures for the year ended December 31, 2013 is due to the capital increase, capital reduction except for the above impairment loss. Dividend received from investments in joint ventures is ₩6,611 million for the years ended December 31.

14. Available-for-sale Financial Assets

Available-for-sale financial assets as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won, except percentage of ownership)

Company	Percentage of ownership (%)		2013 Acquisition cost	2013 Carrying amount	2012 Acquisition cost	2012 Carrying amount
Listed equity securities:						
Kia Motors Corporation	0.02	₩	2,682	4,951	2,682	4,986
Korea Line Corporation (*3)	0.02		55,131	107	55,131	339
Mirae Asset Securities Co., Ltd.	0.10		6,654	1,611	6,654	1,494
Hyundai Elevator Co., Ltd.	1.59		6,738	10,382	6,738	24,543
Hyundai Motor Company	2.00		300,481	1,040,600	300,481	961,400
Korea Environment Technology Co., Ltd.	7.58		1,909	8,703	1,909	8,058
Ssangyong Motor Co., Ltd.	-		23	12	23	8
HI Special Purpose Acquisition Company	0.10		30	87	30	60
			373,648	1,066,453	373,648	1,000,888
Unlisted equity securities: (*1)						
Gangwon Football Club Co., Ltd.	0.01		1	-	1	1
Kuk Dong Heavy Conveyance Co., Ltd.	7.50		502	502	502	502
Daehan Oil Pipeline Corporation (*2)	6.39		14,512	33,275	14,512	14,512
Dong-A Precision Machinery. Co., Ltd.	0.01		35	-	35	-
Doosan Capital Co., Ltd. (*2)	7.14		10,000	10,348	10,000	13,508
Bexco, Ltd.	7.96		9,460	9,460	9,460	9,460
Chonggu Co., Ltd.	-		188	-	188	-
Postec Electronic Power Fund Co.	-		-	-	400	400
Hanwha Electric Venture Fund	2.00		220	220	300	300
Hyundai Research Institute	14.40		1,440	1,440	1,440	1,440
Hyundai Climate Control Co., Ltd.	10.00		50	50	50	50
Enova System Inc. (*3)	0.67		1,315	-	1,315	1,315
Hynix Semiconductor America Inc.	1.33		34,525	-	34,525	-
KC Karpovsky BV	10.00		2	-	2	-
Korea Ship Finance Co., Ltd.	2.36		200	200	200	200
Nikorma Transport Limited	11.50		11	11	11	11
Kimpo Solar Co., Ltd.	-		-	-	-	-
Ajincarintech. Inc.	-		3	-	3	-
OSX Construção Naval S.A. (*3)	10.00		57,498	10,977	57,498	57,498
Korea Defense Industry Association	1.97		1,500	1,500	1,500	1,500
KoFC IBK Hi Investment Hyundai Heavy Industries Shared Growth No.1. Private Equity Fund	10.00		5,148	5,148	1,068	1,068
Kuk dong E & C (*3)	0.11		272	-	-	-
Glosil Co., Ltd. (*3)	0.01		5	-	-	-
Ksolar Co., Ltd. (*3)	2.88		232	-	-	-
Halla industry Co., Ltd. (*3)	0.08		161	-	-	-
			137,280	73,131	133,010	101,765
Beneficiary certificates:						
Korea Investment Private Korea Exim bank Carbon Special Asset Trust I (Carbon Emission Right)	8.85		3,402	1,139	3,402	1,190
Investments in capital			5,193	5,193	5,193	5,193
		₩	519,523	1,145,916	515,253	1,109,036

14. Available-for-sale Financial Assets, Continued

(*1) Unless otherwise noted, the carrying amounts of unlisted equity securities were recorded at their acquisition cost because the fair values cannot be estimated reliably.
(*2) The fair value of Doosan Capital Co., Ltd. was calculated by using the free cash flows to shareholders method and estimation of stock price distribution. And the fair value of Daehan Oil Pipeline Corporation was calculated by using the discounted cash flow method and estimation of free cash flow.
(*3) As of December 31, 2013, due to continuous loss making of investee, the Company recognized an impairment loss because the carrying amount of the investment exceeds its recoverable amount.

15. Investment Property

(1) Changes in investment property for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013		
		Land	**Buildings**	**Total**
Beginning balance	₩	205,894	107,175	313,069
Acquisition and other		26,035	107,239	133,274
Disposals		-	-	-
Depreciation		-	(6,345)	(6,345)
Ending balance	₩	231,929	208,069	439,998
Acquisition cost		231,929	250,077	482,006
Accumulated depreciation		-	(42,008)	(42,008)

(In millions of won)		2012		
		Land	**Buildings**	**Total**
Beginning balance	₩	200,976	113,976	314,952
Acquisition and other		4,918	(3,142)	1,776
Disposals		-	-	-
Depreciation		-	(3,659)	(3,659)
Ending balance	₩	205,894	107,175	313,069
Acquisition cost		205,894	142,654	348,548
Accumulated depreciation		-	(35,479)	(35,479)

(2) Revenue (expense) from investment property for the years ended December 31, 2013 and 2012 is as follows:

(In millions of won)		**2013**	**2012**
Rental income	₩	15,839	10,348
Operating and maintenance expense		(6,984)	(3,790)

16. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)

2013		Land	Buildings	Structures	Machinery and equipment	Construction in-progress	Others	Total
Beginning balance	₩	2,872,150	2,018,885	1,228,559	1,413,223	192,845	420,202	8,145,864
Acquisitions and other		31,676	(21,717)	45,220	126,120	13,058	202,008	396,365
Disposals		(8,721)	(7,129)	(2)	(912)	(5,397)	(367)	(22,528)
Depreciation		-	(65,124)	(39,124)	(203,362)	-	(149,581)	(457,191)
Impairment		-	-	-	-	-	-	-
Ending balance	₩	2,895,105	1,924,915	1,234,653	1,335,069	200,506	472,262	8,062,510
Acquisition cost		2,895,105	2,579,085	1,594,129	3,773,559	200,506	1,930,457	12,972,841
Accumulated depreciation		-	(654,170)	(359,476)	(2,355,455)	-	(1,456,982)	(4,826,083)
Accumulated impairment		-	-	-	(83,035)	-	(1,213)	(84,248)

(In millions of won)

2012		Land	Buildings	Structures	Machinery and equipment	Construction in-progress	Others	Total
Beginning balance	₩	2,857,135	1,878,608	1,213,933	1,541,073	248,209	398,127	8,137,085
Acquisitions and other		20,613	209,955	53,065	175,927	(55,364)	166,705	570,901
Disposals		(5,598)	(6,585)	(776)	(1,402)	-	(878)	(15,239)
Depreciation		-	(63,093)	(37,663)	(219,340)	-	(142,539)	(462,635)
Impairment		-	-	-	(83,035)	-	(1,213)	(84,248)
Ending balance	₩	2,872,150	2,018,885	1,228,559	1,413,223	192,845	420,202	8,145,864
Acquisition cost		2,872,150	2,609,772	1,548,872	3,665,021	192,845	1,752,739	12,641,399
Accumulated depreciation		-	(590,887)	(320,313)	(2,168,763)	-	(1,331,324)	(4,411,287)
Accumulated impairment		-	-	-	(83,035)	-	(1,213)	(84,248)

(2) A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩4,179,499 million as of December 31, 2013. The Company maintains insurance coverage against fire and other casualty losses of up to ₩14,613,165 million for ships and sea structures under construction. Insurance proceeds of ₩745,002 million are pledged as collateral for the guarantees from the Export-Import Bank of Korea as of December 31, 2013.

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩22,874,202 million as of December 31, 2013. The Company also maintains insurance on cargo against damage and claims losses of up to ₩10,793,949 million for products being exported and imported as of December 31, 2013.

(3) During 2012, due to the low profitability of the solar energy industry caused by oversupply, the Company assessed the recoverable amount of the related product line (CGU). The recoverable amount of the CGU was estimated based on its value in use. As a result, the carrying amount of the CGU was determined to be higher than its recoverable amount and an impairment loss of ₩84,248 million was recognized. Of the total, ₩83,035 million was allocated to machinery and equipment, and ₩1,213 million to others. The estimate of value in use was determined using an after-tax discount rate of 6.61%.

There is no the recognized additional impairment loss for the years ended December 31, 2013

(4) Construction-in-progress is related to the construction of HLV (Heavy Lifting Vessel) barge and development and construction of Ihwa Industrial Park as of December 31, 2013.

17. Intangible Assets

(1) Changes in development costs for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
Beginning balance	₩	312,356	311,526
Acquisition and other		83,131	56,434
Amortization		(58,964)	(54,545)
Impairment		-	(1,059)
Ending balance	₩	336,523	312,356
Acquisition cost		803,074	719,943
Accumulated amortization		(465,492)	(406,528)
Accumulated impairment		(1,059)	(1,059)

(2) Other intangible assets include usable and profitable donation assets to Maritime Affairs and Port Office and intangible assets with indefinite useful lives. Changes in other intangible assets for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
Beginning balance	₩	61,397	58,829
Acquisition and other		2,956	5,454
Disposals		(2,847)	(666)
Amortization		(2,219)	(2,220)
Ending balance (*)	₩	59,287	61,397
Acquisition cost		93,323	93,214
Accumulated amortization		(34,036)	(31,817)

(*) The carrying amount of intangible assets with indefinite useful lives is ₩46,094 million and ₩45,984 million as of December 31, 2013 and 2012, respectively.

(3) Research costs amounting to ₩24,694 million and ₩6,997 million, and ordinary development costs amounting to ₩145,095 million and ₩155,054 million are included in selling, general and administrative expenses for the years ended December 31, 2013 and 2012, respectively. Amortized development costs of ₩58,964 million and ₩54,545 million are included in the manufacturing cost for the years ended December 31, 2013 and 2012, respectively.

18. Short-term and Long-term Financial Liabilities

Short-term financial and long-term liabilities as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)		2013		2012	
		Current	Non-current	Current	Non-current
Borrowings	₩	5,363,665	522,200	4,281,915	1,063,610
Financial liabilities at fair value through profit or loss		-	-	193	-
Debentures		-	1,516,590	-	1,200,000
Discount on debentures		-	(4,646)	-	(3,387)
	₩	5,363,665	2,034,144	4,282,108	2,260,223

19. Trade and Other Payables

Trade and other payables as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)		2013		2012	
		Current	Non-current	Current	Non-current
Trade payables	₩	1,926,234	-	1,641,258	-
Other accounts payable		358,228	-	324,315	-
Accrued expenses		416,902	-	334,056	-
Deposits received		-	11,558	-	12,235
	₩	2,701,364	11,558	2,299,629	12,235

20. Borrowings and Debentures

(1) Short-term borrowings as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)

Type of borrowing	Lender	Annual Interest rate (%)		2013	2012
General loan	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	₩	-	100,000
Commercial paper	Woori Investment & Securitie and others	2.77~2.94		1,000,000	1,800,000
Invoice loan	Mizuho Coporate Bank and others	0.66~0.96		912,159	852,270
Usance L/C	Korea Exchange Bank and others	0.33~2.86		701,506	639,990
Transferred export receivables	Korea Exchange Bank and others	-		-	3,598
Pre-shipment credit	Export-Import Bank of Korea and others	3.30~3.69		1,470,000	830,000
			₩	4,083,665	4,225,858

20. Borrowings and Debentures, Continued

(2) Long-term borrowings as December 31, 2013 and 2012 are summarized as follows:

(In millions of won)

Type of borrowing	Lender	Annual Interest rate (%)		2013	2012
General loan in local currency	Hana Bank and others	3.00~3.60		200,000	-
Commercial paper	SK Securities Co., Ltd. and others	3.04~3.76	₩	950,000	750,000
General loan in foreign currency	Hana Bank	2.03~2.23		211,060	46,057
Business loans (*)	Korea National Oil Corporation	0.75~3.75		11,140	13,610
Pre-shipment credit	Export-Import Bank of Korea and others	3.70~3.75		430,000	310,000
	Current portion			(1,280,000)	(56,057)
			₩	522,200	1,063,610

(*) As of December 31, 2013, the consortium that included the Company decided to withdraw from its oil development business in the 4 mining areas in Yemen and Kazakhstan mining development business through sale of shares. The maturities of business loans (₩11,140 million and ₩11,307 million as of December 31, 2013 and 2012, respectively) from Korea National Oil Corporation are not readily determinable since the decision on redemptions of business loans are still being deliberated by the supervisory institution.

(3) Debentures as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)

Description	Maturity	Annual interest rate (%)		2013	2012
113rd debenture	2015.02.17	3.96		500,000	500,000
114st-1 debenture	2015.07.24	3.23		300,000	300,000
114st-2 debenture	2017.07.24	3.35		400,000	400,000
Foreign currency bond	2016.06.10	1.14		316,590	-
Bond Discounts				(4,646)	(3,387)
			₩	1,511,944	1,196,613

(4) Aggregate maturities of the Company's borrowings and debentures as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)

Periods		2013 Borrowings	2013 Debentures	2013 Total
2014.01.01~2014.12.31	₩	5,363,665	-	5,363,665
2015.01.01~2018.12.31		511,060	1,516,590	2,027,650
2019.01.01 and thereafter		11,140	-	11,140
	₩	5,885,865	1,516,590	7,402,455

(In millions of won)

Periods		2012 Borrowings	2012 Debentures	2012 Total
2013.01.01~2013.12.31	₩	4,281,915	-	4,281,915
2014.01.01~2017.12.31		1,050,000	1,200,000	2,250,000
2018.01.01 and thereafter		13,610	-	13,610
	₩	5,345,525	1,200,000	6,545,525

21. Employee Benefits

(1) Recognized liabilities for defined benefit obligations as of December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
Present value of defined benefit obligations	₩	1,068,756	1,000,373
Fair value of plan assets		(948,301)	(827,700)
	₩	120,455	172,673

(2) Plan assets as of December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
Retirement pension	₩	935,792	814,931
Deposit for severance benefit insurance		-	3
Transfer to National Pension Fund		12,509	12,766
	₩	948,301	827,700

(3) Expenses recognized in profit or loss for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
Current service costs	₩	135,119	124,391
Interest on obligations		34,192	35,463
Expected return on plan assets		(28,236)	(33,309)
	₩	141,075	126,545

(4) Changes in the present value of the defined benefit obligations for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
Beginning balance	₩	1,000,373	836,804
Current service costs		135,119	124,391
Interest on obligations		34,192	35,463
Benefits paid		(53,823)	(50,027)
Transfers from related parties		2,684	40
Actuarial losses in other comprehensive income		(49,789)	53,702
Demographic assumption		(160)	60
Financial assumption		(75,498)	22,788
Experience adjustment		25,869	30,854
Ending balance	₩	1,068,756	1,000,373

21. Employee Benefits, Continued

(5) Changes in the fair value of plan assets for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
Beginning balance	₩	827,700	746,062
Benefits paid		(28,411)	(46,004)
Contributions paid into the plan		120,000	95,400
Expected return on plan assets		28,236	33,309
Actuarial gains in other comprehensive income		776	(1,067)
Ending balance	₩	948,301	827,700

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

	2013	2012
Discount rate at December 31	4.07%	3.65%
Future salary increases	3.00%	3.70%
Future mortality (Males, at age 45)	0.27%	0.29%

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

(In millions of won)		December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010	January 1, 2010
Defined benefit obligations	₩	1,068,756	1,000,373	836,804	768,243	1,148,596
Plan assets		(948,301)	(827,700)	(746,062)	(699,903)	(1,051,672)
Deficit		120,455	172,673	90,742	68,340	96,924
Experience adjustments on plan liabilities		(49,789)	53,702	78,000	99,380	N/A
Experience adjustments on plan assets		(776)	1,067	(3,811)	1,776	

22. Long-term Provisions

Changes in long-term provisions for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013		
		Provision for construction warranty	**Provision for product warranty**	**Total**
Beginning balance	₩	188,450	64,057	252,507
Additions		146,468	83,369	229,837
Reversals		(3,183)	(2,102)	(5,285)
Utilization		(18,917)	(76,755)	(95,672)
Ending balance	₩	312,818	68,569	381,387

(In millions of won)		2012		
		Provision for construction warranty	**Provision for product warranty**	**Total**
Beginning balance	₩	56,860	73,025	129,885
Addition		150,582	60,977	211,559
Reversal		(7,189)	(2,390)	(9,579)
Utilization		(11,803)	(67,555)	(79,358)
Ending balance	₩	188,450	64,057	252,507

23. Derivative Financial Instruments

The Company has entered into derivative instrument contracts related to foreign currency forward with 25 banks, including Korea Exchange Bank, to hedge the changes in foreign exchange rates. Derivatives are measured at fair value by using forward exchange rate presented by the contract counterparty.

(1) The description of derivative instrument and hedge accounting is as follows:

Hedge accounting	Type	Description
Cash flow hedge	Foreign exchange forward contracts	Hedge of the variability in cash flows attributable to foreign currency exposure in respect of forecasted sales and purchases
Fair value hedge	Foreign exchange forward contracts	Hedge of the risk of changes in the fair value of firm commitments

(2) Gain and loss on valuation and transaction of derivatives for the year ended December 31, 2013 are as follows:

(i) Terms of derivative contracts

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

Description	Currency Sell	Currency Buy	Contract amount	Number of contracts	Weighted average exchange rate	Average maturities
Cash flow hedge	EUR	KRW	12,417	421	1,473.50	2014-08-19
	USD	KRW	688,361		1,110.10	2014-05-05
	USD	EUR	453,055		0.75	2014-10-11
	USD	JPY	157,382		93.69	2015-02-09
	USD	NOK	57,550		6.02	2014-08-18
	USD	CHF	4,350		1.10	2014-07-02
	KRW	EUR	3,343		1,594.11	2014-03-31
	KRW	USD	2,053,496		1,110.02	2014-11-04
Fair value hedge	EUR	KRW	6,380	1,865	1,467.69	2014-12-30
	USD	KRW	13,177,397		1,111.51	2015-02-01
For trading	USD	KRW	48,290	3	1,175.61	2014-01-24
	EUR	KRW	18,797	2,289	1,471.53	2014-10-03
	USD	KRW	13,914,048		1,111.67	2015-01-17
	USD	EUR	453,055		0.75	2014-10-11
	USD	JPY	157,382		93.69	2015-02-09
	USD	NOK	57,550		6.02	2014-08-18
	USD	CHF	4,350		1.10	2014-07-02
	KRW	EUR	3,343		1,594.11	2014-03-31
	KRW	USD	2,053,496		1,110.02	2014-11-04

(*) Terms of settlement: Netting the settlement or collecting total
(**) The contract amount is denominated in selling currency

23. Derivative Financial Instruments, Continued

(2) Gain and loss on valuation and transaction of derivatives for the year ended December 31, 2013 are as follows, continued

(ii) Gain and loss on valuation and transaction of derivatives

(In millions of won)

Description		Increase (decrease) to sales	Increase (decrease) to cost of sales	Increase to finance income	Increase to finance costs	Increase to other non-operating income	Increase to other non-operating expenses	Accumulated other comprehensive income	Firm commitment		Derivatives		Financial assets or liabilities at fair value through profit or loss	
									Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Cash flow hedge	₩	32,448	31,737	-	-	-	-	(38,844)	-	-	51,879	91,101	-	-
Fair value hedge		266,478	-	545,344	170,573	91,000	467,181	-	5,879	389,864	501,686	1,330	-	-
For trading		-	-	14,584	37,463	-	-	-	-	-	-	-	5,727	-
	₩	298,926	31,737	559,928	208,036	91,000	467,181	(38,844)	5,879	389,864	553,565	92,431	5,727	-

As of December 31, 2013, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to ₩(-)38,844 million, net of tax of ₩9,400 million, as gain (loss) on valuation of derivatives in accumulated other comprehensive income.

The expected period of exposure to cash flow risk, where cash flow hedge accounting is applied, is approximately within 42 months, and the amount among gain (loss) on valuation of derivatives that is expected to be realized as an addition to transaction gain or deduction from transaction loss within 12 months from December 31, 2013 is ₩(-)14,059 million.

24. Capital and Capital Surplus

(1) The Company is authorized to issue 160,000,000 shares of capital stock (par value ₩5,000), and as of December 31, 2013 and 2012, the number of issued common shares is 76,000,000.

There have been no changes in the capital stock for the years ended December 31, 2013 and 2012.

(2) Capital surplus as of December 31, 2013 and 2012 is summarized as follows:

(In millions of won)		2013	2012
Paid-in capital in excess of par value	₩	843,324	843,324
Other capital surplus		201,193	201,193
	₩	1,044,517	1,044,517

Other capital surplus is composed of ₩33,382 million of gain on disposal of investment in Hyundai Mipo Dockyard Co., Ltd., which was transferred to Hyundai Samho Heavy Industries Co., Ltd., ₩145,981 million of gain on disposal of treasury stock (net of tax effect) and ₩21,830 million of gain on business combination and others.

Capital surplus is only available for the reduction of accumulated deficit or transfer to capital stock.

(3) Dividends paid by the Company for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
₩2,500 per qualifying ordinary share (2012: ₩4,000)	₩	153,221	245,154

25. Treasury Stock

Treasury stock as of December 31, 2013 and 2012 is summarized as follows:

(In millions of won)	2013				2012			
	Number of shares		Acquisition cost	Fair value	Number of shares		Acquisition cost	Fair value
Treasury stock	14,711,560	₩	1,400,455	3,780,871	14,711,560	₩	1,400,455	3,560,198

26. Accumulated Other Comprehensive Income

(1) Accumulated other comprehensive income as of December 31, 2013 and 2012 is summarized as follows:

(In millions of won)		2013	2012
Gain and loss on valuation of available-for-sale financial assets	₩	581,649	520,048
Gain and loss on valuation of derivatives		(29,444)	(21,445)
	₩	552,205	498,603

26. Accumulated Other Comprehensive Income, Continued

(2) Other comprehensive income (loss) for the years ended December 31, 2013 and 2012 is as follows:

(In millions of won)		2013		
		Before tax amount	**Tax effect**	**After tax amount**
Change in fair value of available-for-sale financial assets	₩	81,268	(19,667)	61,601
Effective portion of changes in fair value of cash flow hedges		(10,553)	2,554	(7,999)
Defined benefit plan actuarial gains (losses)		50,565	(12,237)	38,328
	₩	121,280	(29,350)	91,930

(In millions of won)		2012		
		Before tax amount	**Tax effect**	**After tax amount**
Change in fair value of available-for-sale financial assets	₩	(452,378)	109,475	(342,903)
Effective portion of changes in fair value of cash flow hedges		(14,698)	3,557	(11,141)
Defined benefit plan actuarial gains (losses)		(54,770)	13,255	(41,515)
	₩	(521,846)	126,287	(395,559)

27. Retained Earnings

(1) Retained earnings as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)		2013	2012
Legal reserves:			
Legal appropriated retained earnings (*1)	₩	190,000	190,000
Reserve for corporate development (*2)		30,000	30,000
Asset revaluation surplus		1,800,414	1,800,414
		2,020,414	2,020,414
Voluntary reserves: (*3)			
Reserve for business rationalization		87,277	87,277
Reserve for facilities		78,270	78,270
Reserve for research and human development		570,000	510,000
Others		11,758,088	10,901,453
		12,493,635	11,577,000
Unappropriated retained earnings		489,995	1,069,856
	₩	15,004,044	14,667,270

(*1) The Korean Commercial Code requires the Company to appropriate as a legal reserve an amount equal to at least 10% of annual cash dividends for each accounting period until the reserve equals 50% of capital. This reserve is not available for the payment of cash dividends but may be transferred to capital stock or used to offset accumulated deficit, if any, through a resolution of shareholders.

(*2) Only available for the reduction of accumulated deficit or transfer to capital stock in accordance with related laws.

(*3) Pursuant to the Tax Exemption and Reduction Control Law, the Company is allowed to make reserves for research and human development, facilities and others, which are appropriated in accordance with related laws.

(2) Changes in retained earnings for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
Beginning balance	₩	14,667,270	13,842,568
Net income		451,668	1,111,371
Actuarial losses		38,327	(41,515)
Dividends		(153,221)	(245,154)
Ending balance	₩	15,004,044	14,667,270

27. Retained Earnings, Continued

(3) Statements of appropriation of retained earnings for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
I. Unappropriated retained earnings	₩	489,995	1,069,856
Unappropriated retained earnings to be carried from previous year		-	-
Actuarial losses		38,327	(41,515)
Net income		451,668	1,111,371
II. Transfer from voluntary reserves		133,333	100,000
Reserve for research and human development		133,333	100,000
III. Total (I + II)		623,328	1,169,856
VI. Appropriation of retained earnings		623,328	1,169,856
Reserve for research and human development		190,000	160,000
Voluntary reserves		310,751	856,635
Dividends (*)		122,577	153,221
V. Unappropriated retained earnings to be carried over to subsequent year	₩	-	-

(*) The Company declared and paid ₩2,000 per qualifying ordinary share (2012: ₩2,500) which resulted in a 40% of dividend payout rate (2012: 50%).

28. Outstanding Contracts

(1) Sales for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
Construction contracts	₩	16,076,094	15,536,310
Goods sold		7,984,581	9,334,503
Services		222,062	184,201
	₩	24,282,737	25,055,014

The foreign sales accounting to ₩21,767,406 million, and domestic sales accounting to ₩2,515,331 million for the year ended December 31, 2013.

(2) Changes in outstanding contracts for the year ended December 31, 2013 are as follows:

(In millions of won)		Shipbuilding	Others	Total
Beginning balance (*)	₩	15,024,769	17,233,652	32,258,421
Increase during the period		9,511,475	18,760,752	28,272,227
Recognized as revenue		(10,053,152)	(14,229,585)	(24,282,737)
Ending balance	₩	14,483,092	21,764,819	36,247,911

(*) The beginning balance includes impact from changes in exchange rate.

As of December 31, 2013, in connection with construction contracts, the Company has provided a certain amount of financial institution guarantee deposits or letters of guarantees from various financial institutions to the customers.

28. Outstanding Contracts, Continued

(3) Accumulated profit and loss of construction and others connected with construction in progress as of December 31, 2013 are as follows:

(In millions of won)

		Accumulated revenue of construction	Accumulated cost of construction	Accumulated profit and loss of construction	Billed receivables on construction contracts	Unbilled receivables on construction contracts	Due to customers for contract work
Shipbuilding	₩	9,403,621	9,131,159	272,462	425,374	4,039,202	2,342,429
Others		13,107,829	11,817,626	1,290,203	277,387	1,090,571	2,023,195
	₩	22,511,450	20,948,785	1,562,665	702,761	5,129,773	4,365,624

29. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
Salaries	₩	317,583	316,582
Post-employment benefit costs		20,162	34,048
Employee welfare		78,155	83,360
Depreciation		36,912	37,058
Bad debt expenses		189,925	315,142
Ordinary development costs		145,095	155,054
Advertising		53,548	68,438
Printing		1,915	1,868
Compensation		330	410
Warranty expenses		129,088	100,586
Insurance		2,209	3,363
Supplies		6,179	7,942
Utilities		3,855	3,721
Repairs		4,698	5,399
Travel		17,912	21,369
Research		24,694	6,997
Training		8,317	12,218
Transportation		127,145	155,524
Rent		13,464	11,973
Data processing		10,488	9,933
Entertainment		2,284	2,427
Taxes and dues		2,864	4,031
Service charges		82,677	71,019
Automobile maintenance		7,020	7,574
Communications		6,889	6,697
Sales commissions		52,772	58,541
Others		25,507	24,797
	₩	1,371,687	1,526,071

30. Nature of Expenses

The classification of expenses by nature for the years ended December 31, 2013 and 2012 is as follows:

(In millions of won)		2013	2012
Changes in inventories	₩	301,959	(43,522)
Purchase of inventories		15,185,909	15,790,390
Depreciation		463,536	466,294
Amortization		61,183	56,765
Labor cost		2,068,271	2,107,677
Other expenses		5,467,084	5,384,477
	₩	23,547,942	23,762,081

Total expenses consist of cost of sales and selling, general and administrative expenses.

31. Finance Income and Finance Costs

Finance income and finance costs for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
Finance income:			
Interest income	₩	50,212	101,369
Gain on valuation of financial instruments at fair value through profit or loss		1,791	14,646
Gain on disposal of financial instruments at fair value through profit or loss		12,793	16,812
Gain on disposal of available-for-sale financial assets		64	486,032
Dividend income		37,416	57,966
Gain on foreign currency translation		96,466	89,918
Gain on foreign currency transactions		382,500	287,951
Gain on valuation of derivatives		391,717	602,154
Gain on derivatives transactions		153,627	227,880
	₩	1,126,586	1,884,728
Finance costs:			
Interest expense	₩	115,916	158,132
Loss on disposal of financial instruments at fair value through profit or loss		37,462	10,605
Loss on disposal of available-for-sale financial assets		65	24
Impairment loss on available-for-sale financial assets		48,657	1,679
Loss on foreign currency translation		73,200	128,532
Loss on foreign currency transactions		321,020	315,823
Loss on valuation of derivatives		1,704	10,976
Loss on derivatives transactions		168,870	23,501
	₩	766,894	649,272

32. Other Non-operating Income and Other Non-operating Expenses

Other non-operating income and other non-operating expenses for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
Other non-operating income:			
Gain on disposal of subsidiaries, associates and joint venture	₩	1,185	1,492
Gain on disposal of property, plant and equipment		2,306	2,868
Gain on disposal of intangible assets		118	-
Gain on valuation of firm commitments		91,000	15,852
Miscellaneous income		171,428	97,751
	₩	266,037	117,963
Other non-operating expenses:			
Service charges	₩	12,859	8,269
Impairment loss on investments in subsidiaries and associates		144,393	207,521
Non-current assets classified as held for sale loss on impairment		3,931	-
Loss on disposal of property, plant and equipment		8,308	9,027
Impairment loss on property, plant and equipment		-	84,248
Loss on disposal of intangible assets		344	32
Impairment loss on intangible assets		-	1,059
Loss on valuation of firm commitments		467,181	760,311
Impairment loss on other non-current assets		63,307	5,280
Loss on disposal of non-current assets		352	-
Loss on disposal of non-current assets classified as held for sale		5,237	-
Other bad debt expenses		25,255	-
Donation		28,654	84,046
Miscellaneous expenses		106,935	50,431
	₩	866,756	1,210,224

33. Income Tax Expense

(1) The components of income tax expense for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
Current tax expense	₩	208,194	541,529
Adjustment for prior periods		(76,865)	(15,052)
Origination and reversal of temporary differences		(59,878)	(328,006)
Income tax recognized in other comprehensive income		(29,350)	126,287
Total income tax expense	₩	42,101	324,758

33. Income Tax Expense, Continued

(2) Income tax recognized directly in other comprehensive income for the years ended December 31, 2013 and 2012 is as follows:

(In millions of won)		2013	2012
Gains (losses) on valuation of available-for-sale financial assets	₩	(19,667)	109,475
Losses on valuation of derivatives		2,554	3,557
Defined benefit plan actuarial losses		(12,237)	13,255
Income tax recognized directly in other comprehensive income	₩	(29,350)	126,287

Income taxes related to gains/losses on valuation of available-for-sale financial assets, gains/losses on valuation of derivatives and defined benefit plan actuarial gains/losses are recognized in other comprehensive income.

(3) Reconciliation of the effective tax rate for the years ended December 31, 2013 and 2012 is as follows:

(In millions of won)		2013	2012
Profit before income tax	₩	493,768	1,436,128
Tax rate		24.2%	24.2%
Income tax using the Company's statutory tax rate		119,030	347,081
Adjustment for:			
- Tax effect of non-deductible expenses		9,493	13,789
- Tax effect of non-taxable incomes		(3,528)	(6,725)
- Tax credits		(15,968)	(14,344)
- Current adjustments for prior periods		(76,865)	(15,052)
- Other		9,939	9
Income tax expenses	₩	42,101	324,758
Effective tax rate	%	8.53%	22.61%

(4) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)		2013	2012
Deferred assets (liabilities) at the end of the period	₩	(266,996)	(326,874)
Deferred assets (liabilities) at the beginning of the period		(326,874)	(654,880)
Deferred tax expenses by origination and reversal of temporary differences	₩	(59,878)	(328,006)

(5) As of December 31, 2013, the tax effects of temporary difference were calculated using the enacted statutory tax rate for the fiscal period when the temporary differences are expected to be reversed.

(6) The Company sets off a deferred tax asset against a deferred tax liability only if it relates to income taxes levied by the same taxation authority and has a legally enforceable right to set off current tax assets against current tax liabilities.

33. Income Tax Expense, Continued

(7) Changes in deferred tax assets (liabilities) for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		Beginning balance	Change	Ending balance
December 31, 2013				
Investments in subsidiaries and associates	₩	43,916	(5,106)	38,810
Available-for-sale financial assets		(152,697)	(8,350)	(161,047)
Reserve for research and human development		(137,940)	(13,713)	(151,653)
Trade and other receivables		135,185	26,686	161,871
Asset revaluation		(296,087)	482	(295,605)
Property, plant and equipment		(38,322)	(7,940)	(46,262)
Derivatives		(38,645)	20,065	(18,580)
Accrued expenses		19,584	3,010	22,594
Others		138,132	44,744	182,876
	₩	(326,874)	59,878	(266,996)
December 31, 2012				
Investments in subsidiaries and associates	₩	(6,304)	50,220	43,916
Available-for-sale financial assets		(259,386)	106,689	(152,697)
Reserve for research and human development		(123,420)	(14,520)	(137,940)
Trade and other receivables		62,704	72,481	135,185
Asset revaluation		(296,368)	281	(296,087)
Property, plant and equipment		(53,925)	15,603	(38,322)
Derivatives		(56,098)	17,453	(38,645)
Accrued expenses		18,499	1,085	19,584
Others		59,418	78,714	138,132
	₩	(654,880)	328,006	(326,874)

34. Earnings per Share

(1) Basic earnings per share for the years ended December 31, 2013 and 2012 are as follows:

		2013	2012
Net income *(In millions of won)*	₩	451,668	1,111,371
Weighted average number of ordinary shares outstanding *(In thousands of shares)*		61,288	61,288
Earnings per share *(In won)*	₩	7,370	18,133

(2) Weighted average number of ordinary shares for the year ended December 31, 2013 is as follows:

(In shares)	Number of shares outstanding	Weighted average	Weighted average number of shares outstanding
Beginning balance	61,288,440	365/365	61,288,440

(3) Since there are no potentially dilutive common shares as of December 31, 2013 and 2012, diluted earnings per share have not been calculated.

35. Cash Generated (Used) from Operations

Cash generated (used) from operations for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		2013	2012
Net income for the year	₩	451,668	1,111,371
Adjustments for:			
Post-employment benefit costs		141,075	126,544
Depreciation		463,536	466,294
Amortization		61,183	56,765
Bad debt expenses		189,925	315,142
Finance income		(577,666)	(1,352,086)
Finance costs		316,637	323,385
Other non-operating income		(94,609)	(20,212)
Other non-operating expenses		718,980	1,068,940
Income taxes		42,101	324,758
Changes in assets and liabilities:			
Trade receivables		105,300	(390,806)
Other receivables		(207,907)	(41,396)
Due from customers for contract work		(1,557,988)	(1,004,919)
Inventories		301,959	(43,522)
Derivatives		330,152	(74,179)
Firm commitments		(252,630)	(44,843)
Other current assets		96,888	(396,763)
Long-term trade receivables		(317,963)	(110,621)
Trade payables		299,047	(96,018)
Other payables		122,652	(29,217)
Advances from customers		(135,777)	(154,098)
Due to customers for contract work		162,799	(1,673,681)
Long-term other payables		(670)	(2,408)
Benefits paid		(53,823)	(50,027)
Succession of Benefits		2,684	40
Plan assets		(91,589)	(49,396)
Long-term provisions		128,880	122,621
		193,176	(2,729,703)

36. Categories of Financial Instruments and Income and Costs by Categories

(1) Categories of financial instruments as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)		2013						
		Cash and cash equivalents	**Financial assets at fair value through profit or loss**	**Available-for-sale financial assets**	**Loans and receivables**	**Derivative assets**	**Financial liabilities measured at amortized cost**	**Derivative liabilities**
Cash and cash equivalents	₩	730,674	-	-	-	-	-	-
Short-term financial assets		-	5,727	-	149,700	-	-	-
Trade and other receivables		-	-	-	3,646,762	-	-	-
Due from customers for contract work		-	-	-	5,129,773	-	-	-
Derivative assets (current)		-	-	-	-	352,985	-	-
Long-term financial assets		-	-	1,145,916	33	-	-	-
Long-term trade and other receivables		-	-	-	292,512	-	-	-
Derivative assets (non-current)		-	-	-	-	200,580	-	-
Short-term financial liabilities		-	-	-	-	-	5,363,665	-
Trade and other payables		-	-	-	-	-	2,701,364	-
Derivative liabilities (current)		-	-	-	-	-	-	65,584
Long-term financial liabilities		-	-	-	-	-	2,034,144	-
Long-term trade and other liabilities		-	-	-	-	-	11,558	-
Derivative liabilities (non-current)		-	-	-	-	-	-	26,847
	₩	730,674	5,727	1,145,916	9,218,780	553,565	10,110,731	92,431

36. Categories of Financial Instruments and Income and Costs by Categories, Continued

(1) Categories of financial instruments as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)		2012							
		Cash and cash equivalents	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivative assets	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivative liabilities
Cash and cash equivalents	₩	522,917	-	-	-	-	-	-	-
Short-term financial assets		-	9,526	-	130,500	-	-	-	-
Trade and other receivables		-	-	-	3,415,104	-	-	-	-
Due from customers for contract work		-	-	-	3,571,761	-	-	-	-
Derivative assets (current)		-	-	-	-	352,708	-	-	-
Long-term financial assets		-	3,936	1,109,036	33	-	-	-	-
Long-term trade and other receivables		-	-	-	317,860	-	-	-	-
Derivative assets (non-current)		-	-	-	-	113,496	-	-	-
Short-term financial liabilities		-	-	-	-	-	193	4,281,915	-
Trade and other payables		-	-	-	-	-	-	2,299,629	-
Derivative liabilities (current)		-	-	-	-	-	-	-	43,043
Long-term financial liabilities		-	-	-	-	-	-	2,260,223	-
Long-term trade and other liabilities		-	-	-	-	-	-	12,235	-
Derivative liabilities (non-current)		-	-	-	-	-	-	-	20,668
	₩	522,917	13,462	1,109,036	7,435,258	466,204	193	8,854,002	63,711

36. Categories of Financial Instruments and Income and Costs by Categories, Continued

(2) Financial instruments income and costs by categories for the years ended December 31, 2013 and 2012 are as follows:

(In millions of won)		Net income		Other comprehensive income		Interest income and interest expense (*)		Impairment loss	
		2013	2012	2013	2012	2013	2012	2013	2012
Cash and cash equivalents	₩	94,226	734	-	-	14,652	23,234	-	-
Financial assets at fair value through profit or loss		(22,878)	24,877	-	-	-	-	-	-
Available-for-sale financial assets		(39,744)	498,808	61,601	(342,902)	1	-	(48,657)	(1,679)
Loans and receivables		(323,655)	(429,417)	-	-	35,559	78,136	(215,180)	(315,142)
Financial liabilities at fair value through profit or loss		-	(4,204)	-	-	-	-	-	-
Financial liabilities measured at amortized cost		(54,847)	(24,736)	-	-	(193,010)	(182,173)	-	-
Derivatives		385,813	786,723	(7,999)	(11,141)	-	-	-	-

(*) Interest income and interest expense includes interest income and interest expense arising from effective interest rate amortization.

37. Financial Instruments

(1) Credit risk

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as of December 31, 2013 and 2012 is as follows:

(In millions of won)		2013	2012
Financial assets at fair value through profit or loss	₩	5,727	13,462
Available-for-sale financial assets		1,145,916	1,109,036
Loans and receivables		9,218,780	7,435,258
Derivative assets		553,565	466,204
	₩	10,923,988	9,023,960

The maximum exposure to credit risk for financial guarantee contracts is ₩930,791 million as of December 31, 2013 (see notes 38 and 40).

37. Financial Instruments, Continued

(1) Credit risk, continued

The maximum exposure to credit risk for loans and receivables at the reporting date by geographic region is as follows:

(In millions of won)		2013	2012
Korea	₩	2,046,151	2,551,457
North America		2,020,589	607,283
Asia		1,174,404	1,564,262
Europe		3,208,832	2,248,209
Others		768,804	464,047
	₩	9,218,780	7,435,258

(ii) Impairment loss

The aging of loans and receivables and the related allowance for impairment as of December 31, 2013 and 2012 are as follows:

(In millions of won)		2013		2012	
		Gross	Impairment	Gross	Impairment
Not past due	₩	8,857,543	(184,350)	7,277,987	(342,227)
Past due 0~6 months		382,327	(70,195)	312,521	(56,933)
Past due 6~12 months		209,929	(114,054)	291,890	(124,547)
Past due 1~3 years		441,473	(306,825)	166,008	(93,775)
More than three years		89,384	(86,452)	23,441	(19,107)
	₩	9,980,656	(761,876)	8,071,847	(636,589)

The movement in the allowance for impairment in respect of loans and receivables during the years ended December 31, 2013 and 2012 is as follows:

(In millions of won)		2013	2012
Beginning balance	₩	636,589	322,036
Impairment loss recognized		363,679	322,224
Reversal of allowance accounts		(148,499)	(7,082)
Write-offs		(89,893)	(589)
Ending balance	₩	761,876	636,589

The allowance accounts in respect of loans and receivables is used to record impairment losses unless the Company is satisfied that all collection measures have been exhausted. At that point, the amounts are considered irrecoverable and are written off against the financial asset directly.

37. Financial Instruments, Continued

(1) Credit risk, continued

(iii) The analysis of the aging of financial assets that are past due as of December 31, 2013 and 2012, but not impaired is summarized as follows:

(In millions of won)		2013				
		Carrying amount	**6 months or less**	**6~12 months**	**1~3 years**	**More than 3 years**
Loans and receivables	₩	545,587	312,132	95,875	134,648	2,932

(In millions of won)		2012				
		Carrying amount	**6 months or less**	**6~12 months**	**1~3 years**	**More than 3 years**
Loans and receivables	₩	499,498	255,588	167,343	72,233	4,334

(2) Liquidity risk

(i) The contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)		2013					
		Carrying amount	**Contractual cash flow**	**6 months or less**	**6~12 months**	**1~3 years**	**More than 3 years**
Non-derivative financial liabilities:							
Unsecured bank loans	₩	5,885,865	5,934,621	4,531,723	869,162	522,596	11,140
Unsecured bond issues		1,197,794	1,285,113	14,600	21,445	839,018	410,050
Secured bond issues		314,150	325,620	1,806	1,806	322,008	-
Trade and other payables		2,712,922	2,712,922	2,676,024	25,340	11,558	-
Derivative financial liabilities:							
Forward exchange contracts used for hedging:							
Outflow		92,431	95,955	37,188	29,901	28,856	10
Other forward exchange contracts:							
Outflow		-	-	-	-	-	-
	₩	10,203,162	10,354,231	7,261,341	947,654	1,724,036	421,200

37. Financial Instruments, Continued

(2) Liquidity risk, continued

(i) The contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as of December 31, 2013 and 2012 are summarized as follows:

(In millions of won)	2012					
	Carrying amount	**Contractual cash flow**	**6 months or less**	**6~12 months**	**1~3 years**	**More than 3 years**
Non-derivative financial liabilities:						
Unsecured bank loans	₩ 5,345,525	5,376,425	4,156,384	153,115	1,053,108	13,818
Unsecured bond issues	1,196,613	1,314,813	14,811	21,445	855,107	423,450
Trade and other payables	2,311,864	2,311,864	2,284,655	14,979	12,230	-
Derivative financial liabilities:						
Forward exchange contracts used for hedging:						
Outflow	63,711	66,388	23,447	20,630	22,001	310
Other forward exchange contracts:						
Outflow	193	203	-	203	-	-
	₩ 8,917,906	9,069,693	6,479,297	210,372	1,942,446	437,578

The maximum amount of assurance for financial guarantee contracts is ₩930,791 million as of December 31, 2013 (see Notes 38 and 40).

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(ii) The periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2013 and 2012 are summarised as follows:

(In millions of won)	2013					
	Carrying amount	**Expected cash flows**	**6 months or less**	**6~12 months**	**1~3 years**	**More than 3 years**
Forward exchange contracts						
Assets	₩ 53,616	54,745	38,011	10,396	6,176	162
Liabilities	(92,460)	(95,901)	(38,108)	(29,673)	(28,110)	(10)
	₩ (38,844)	(41,156)	(97)	(19,277)	(21,934)	152

(In millions of won)	2012					
	Carrying amount	**Expected cash flows**	**6 months or less**	**6~12 months**	**1~3 years**	**More than 3 years**
Forward exchange contracts						
Assets	₩ 33,683	34,024	28,443	5,568	13	-
Liabilities	(61,974)	(64,456)	(23,439)	(20,581)	(20,435)	(1)
	₩ (28,291)	(30,432)	5,004	(15,013)	(20,422)	(1)

37. Financial Instruments, Continued

(3) Currency risk

(i) Exposure to currency risk

The Company's exposure to foreign currency risk based on notional amounts as of December 31, 2013 and 2012 is as follows:

(In millions of won)	2013						
		USD	EUR	CNY	JPY	Others	Total
Cash and cash equivalents	₩	209,997	447	-	234	22,909	233,587
Loans and receivables		8,030,320	183,770	44,777	6,415	477,935	8,743,217
Trade and other payables		(1,292,946)	(124,674)	(1,238)	(4,942)	(91,840)	(1,515,640)
Borrowings		(1,816,180)	(261,479)	-	(70,001)	(4,794)	(2,152,454)
Gross statement of financial position exposure		5,131,191	(201,936)	43,539	(68,294)	404,210	5,308,710
Derivative contracts		466,002	18,271	-	(16,279)	(1,133)	466,861
Net exposure	₩	5,597,193	(183,665)	43,539	(84,573)	403,077	5,775,571

(In millions of won)	2012						
		USD	EUR	CNY	JPY	Others	Total
Cash and cash equivalents	₩	144,354	365	-	254	10,735	155,708
Loans and receivables		5,943,659	171,571	39,507	14,950	351,639	6,521,326
Trade and other payables		(743,687)	(122,049)	(239)	(6,666)	(64,908)	(937,549)
Borrowings		(1,331,024)	(161,976)	-	(38,294)	(21,928)	(1,553,222)
Gross statement of financial position exposure		4,013,302	(112,089)	39,268	(29,756)	275,538	4,186,263
Derivative contracts		416,510	(889)	-	-	141	415,762
Net exposure	₩	4,429,812	(112,978)	39,268	(29,756)	275,679	4,602,025

Significant exchange rates applied for the years ended December 31, 2013 and 2012 are as follows:

(In won)		Average rate		Spot rate	
		2013	2012	2013	2012
USD	₩	1,095.04	1,126.88	1,055.30	1,071.10
EUR		1,453.56	1,448.20	1,456.26	1,416.26
CNY		178.10	178.58	174.09	171.88
JPY(100)		1,123.41	1,413.14	1,004.66	1,247.50

37. Financial Instruments, Continued

(3) Currency risk, Continued

(ii) Sensitivity analysis

A weakening of the won, as indicated below, against the USD, EUR, CNY, JPY and others as of December 31, 2013 and 2012 would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012. The changes in profit or loss are as follows:

(In millions of won)		Profit or loss	
		2013	2012
USD (3 percent weakening)	₩	167,916	132,894
EUR (3 percent weakening)		(5,510)	(3,389)
CNY (3 percent weakening)		1,306	1,178
JPY (3 percent weakening)		(2,537)	(893)

A strengthening of the won against the above currencies as of December 31, 2013 and 2012 would have had the equal but opposite effect on the above currencies to the amounts shown above, assuming all other variables remain constant.

(4) Interest rate risk

(i) The interest rate profile of the Company's interest-bearing financial instruments as of December 31, 2013 and 2012 is as follows:

(In millions of won)		2013	2012
Fixed rate instruments:			
Financial assets	₩	1,413,781	999,724
Financial liabilities		(6,863,665)	(6,485,858)
	₩	(5,449,884)	(5,486,134)
Variable rate instruments:			
Financial assets	₩	328,838	154,028
Financial liabilities		(538,790)	(59,668)
	₩	(209,952)	94,360

(ii) Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

37. Financial Instruments, Continued

(4) Interest rate risk, continued

(iii) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates as of December 31, 2013 and 2012 would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2012. The changes in profit or loss are as follows:

(In millions of won)		Profit or loss	
		100 bp increase	**100 bp decrease**
Variable rate instruments			
2013	₩	(2,100)	2,100
2012		944	(944)

(5) Fair values

(i) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

(In millions of won)		2013		2012	
		Carrying amounts	**Fair values**	**Carrying amounts**	**Fair values**
Assets carried at fair value:					
Financial assets at fair value through profit or loss	₩	5,727	5,727	13,462	13,462
Available-for-sale financial assets(*)		1,145,916	1,145,916	1,109,036	1,109,036
Derivative assets		553,565	553,565	466,204	466,204
	₩	1,705,208	1,705,208	1,588,702	1,588,702
Cash and cash equivalents	₩	730,674	730,674	522,917	522,917
Assets carried at amortized cost:					
Loans and receivables	₩	9,218,780	9,218,780	7,435,258	7,435,258
Liabilities carried at fair value:					
Financial liabilities at fair value through profit or loss	₩	-	-	193	193
Derivative liabilities		92,431	92,431	63,711	63,711
	₩	92,431	92,431	63,904	63,904
Liabilities carried at amortized cost:					
Unsecured bank loans	₩	5,885,865	5,885,865	5,345,525	5,345,525
Unsecured bond issues		1,197,794	1,197,794	1,196,613	1,196,613
Secured bond issues		314,150	314,150	-	-
Trade and other payables		2,712,922	2,712,922	2,311,864	2,311,864
	₩	10,110,731	10,110,731	8,854,002	8,854,002

(*) The amounts of available-for-sale financial assets that were recorded at their acquisition cost because the fair values cannot be estimated reliably as of December 31, 2013 and 2012 are ₩34,701 million and ₩93,450 million, respectively.

37. Financial Instruments, Continued

(5) Fair values, continued

(ii) Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread. The interest rates applied as of December 31, 2013 and 2012 are as follows:

	2013	2012
Available-for-sale financial assets	14.16% 7.83%	13.17%
Derivatives	5.03%	5.30%

(iii) Fair value hierarchy

The financial instruments carried at fair value, by fair value hierarchy as of December 31, 2013 and 2012 are as follows:

(In millions of won)

		Level 1	Level 2	Level 3	Total
2013:					
Financial assets at fair value through profit or loss	₩	-	5,727	-	5,727
Available-for-sale financial assets		1,066,453	-	44,762	1,111,215
Derivative assets		-	553,565	-	553,565
Financial liabilities at fair value through profit or loss		-	-	-	-
Derivative liabilities		-	92,431	-	92,431
2012:					
Financial assets at fair value through profit or loss		-	13,462	-	13,462
Available-for-sale financial assets		1,000,888	-	14,698	1,015,586
Derivative assets		-	466,204	-	466,204
Financial liabilities at fair value through profit or loss		-	193	-	193
Derivative liabilities		-	63,711	-	63,711

37. Financial Instruments, Continued

(5) Fair values, continued
(iii) Fair value hierarchy, continued
The changes of level 3 financial instruments are as follows:

(In millions of won)

		Beginning balance	Transfer	Valuation	Ending balance
Available-for-sale financial assets	₩	14,698	14,512	15,552	44,762

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. 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 Company is the current bid price. These instruments are included in level 1. Instruments included in level 1 are comprised primarily of listed equity investments.

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 fairly value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:
- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of reporting period, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Unlisted equity securities, investments in capital and others investments in companies newly established or having no comparative company are excluded from the fair value valuation because their fair value cannot be measured reliably.

(6) Transfers of financial assets
There is no transferred financial asset that is not derecognized in their entirety as of December 31, 2013.

37. Financial Instruments, Continued

(7) Offsetting of financial assets and financial liabilities
The details of financial assets or financial liabilities netting arrangements as of December 31, 2013 and 2012 are as follows:

(In millions of won)

	2013					
				Related amount : won't be setoff in the Statement of Financial Position		
	Total recognized financial assets	Total recognized financial assets that will be setoff	Net financial assets presented in the Statement of Financial Position	Financial instruments	Received cash security	Net amount
Financial assets						
Trade and Other Receivables ₩	25,857	(14,454)	11,403	-	-	11,403
Financial liabilities						
Trade and other payables	44,283	(14,454)	29,829	-	-	29,829

(In millions of won)

	2012					
				Related amount : won't be setoff in the Statement of Financial Position		
	Total recognized financial assets	Total recognized financial assets that will be setoff	Net financial assets presented in the Statement of Financial Position	Financial instruments	Received cash security	Net amount
Financial assets						
Trade and Other Receivables ₩	31,190	(17,851)	13,339	-	-	13,339
Financial liabilities						
Trade and other payables	79,657	(17,851)	61,806	-	-	61,806

38. Commitments and Contingencies

(1) As of December 31, 2013, the Company has entered into bank overdraft agreements with eight banks amounting to ₩238,000 million and general loan agreements with six banks amounting to ₩440,000 million and USD 200,000 thousand.

(2) As of December 31, 2013, the Company has entered into credit facilities agreements such as letters of credit with various banks for the Company's exports and imports totaling USD 4,866,446 thousand.

(3) As of December 31, 2013, the Company has entered into credit facilities agreements such as pre-shipment credit with various banks totaling ₩4,280,000 million and USD 18,883 thousand.

(4) In order to secure bank loans and construction contract performance guarantees, the Company has provided seven blank notes and one check as of December 31, 2013.

(5) As of December 31, 2013, the Company is contingently liable for loan guarantees of its foreign subsidiaries amounting to USD 1,221,332 thousand. The Company has provided performance guarantees in relation to Jazan Refinery and Terminal Project Package 2 (contract amount: USD 286,240 thousand) which is being built by Hyundai Arabia Company LLC., one of the Company's subsidiaries. The Company also provided performance guarantees in relation to Moho Nord Tension Leg Platform Project (contract amount: USD 692,943 thousand) and Moho Nord Floating Production Unit Project (contract amount: USD 1,227,386 thousand) which are being built by HHI France SAS and HHI Mauritius Ltd., one of the Company's subsidiaries. The Company has also provided certain performance guarantees for bareboat charter amounting to USD 350,158 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. The Company has also entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd., one of the Company's subsidiaries, for the construction of fine ships at a contract amount of USD 707,300 thousand

(6) In connection with the Company's contract performance guarantees, the Company has been provided with guarantees amounting to ₩1,394,379 million and USD 12,497,590 thousand (maximum guarantees amounting to ₩5,962,708 million and USD 22,825,966 thousand, respectively) by various banking facilities, of which regarding ships advance from customers, the Company has also been provided with maximum guarantees amounting to USD 14,750,359 thousand by various banking facilities. Regarding this, the Company collateralizes its ships under construction and construction materials.

(7) The Company entered into a consortium agreement on a resource development project with various organizations including Korea National Oil Corporation, and related other non-current assets as of December 31, 2013 and 2012 are as follows:

(In millions of won)		**2013**	**2012**
Other non-current assets	₩	63,307	155,734
Accumulated impairment losses		(63,307)	(5,280)
	₩	-	150,454

The Company recognized an impairment loss amounting to ₩63,307 million and ₩5,280 million because the carrying amount of the investment exceeds its recoverable amount. The Company also obtained borrowings from Korea National Oil Corporation (see Note 20).

39. Litigations

(1) The Company repurchased 13 million shares of Prudential Investment & Securities ("PIS", formerly Hyundai Investment Trust & Securities Co., Ltd.) from Canadian Imperial Bank of Commerce ("CIBC"). The Company requested SK Hynix Inc. ("SHI", formerly Hynix Semiconductor Inc.) and Hyundai Securities Co., Ltd. ("HSC") to honor their written promissory note, which was rejected by SHI and HSC. Accordingly, the Company filed a ₩50,300 million lawsuit for incidental repurchase expenses against SHI and HSC on December 30, 2004. On October 22, 2009, the Company won its claim for incidental expenses amounting to ₩50,300 million of principal and accrued interest thereon and recovered ₩73,700 million. However, on November 11, 2009, SHI and other companies filed an appeal to the court, and the court ruled partially in favor of the plaintiff on November 10, 2011. The Company returned ₩2,600 million on November 14, 2011 and filed an appeal to the Supreme Court on November 25, 2011. The original verdict was confirmed through final ruling on November 28, 2013 with a dismissal of the Group's appeal.

(2) The National Tax Service imposed additional income tax amounting to ₩107,600 million on March 27, 2006, which has been settled by the Company. The assessment resulted from the participation in the capital increase of Hyundai Space and Aircraft Co., Ltd. when Korea was experiencing a foreign currency exchange crisis in the late 1990s. The National Tax Service ruled this capital increase to be unfair financial support for the insolvent affiliate. The Company's appeal to the National Tax Tribunal was dismissed, but was partially successful. On April 27, 2009, the Company filed administrative litigation. However, the Company lost the first trial on January 5, 2011 and appealed on January 25, 2011. In relation to the intermediate appeal, the Company partially won the litigation on February 15, 2013 for the settlement of the claim amounting to ₩52,700 million. However, the Company and the National Tax Service did not accept the Court's decision and filed appeals on February 27, 2013 and February 28, 2013, respectively.

(3) In connection with orders for submarine pipeline and equipment installation construction from PTT Public Company Limited. ("PTT") on June 25, 2011, the Company engaged subcontractor ("Britoil") that owned a tugboat. While the tugboat was moving a barge, for reasons unknown, an existing gas pipeline owned by PTT, was damaged resulting in a gas leak. At the request of the PTT, the Company worked on recovery and repair, which was completed in October 2011, and billed PTT for the cost of repairs. PTT in turn asked for compensations for damages related to the gas leak and loss of gas. The Company and PTT were unable to reach an agreement regarding the cause of accident, amount of damages, contractual limitations of liability, and distribution of insurance proceeds. On June 22, 2012, PTT filed a lawsuit in Thai court claiming damages amounting to USD 143 million against the Company, Britoil and PTT's insurer ("Dhipaya") as a co-defendants. The Company vigorously defended itself against that claim and filed a lawsuit requesting the cost of repairs against PTT on March 28, 2013 and requesting insurance against Dhipaya on February 11, 2013. The impact on the Company's financial statements, if any, cannot be reliably estimated.

(4) On January 16, 2009, the Company entered into a longtime contract purchasing polysilicon with Woongjin Polysilicon Co.,Ltd. ("WPC"), and paid USD 91 million in advance. WPC interrupted facilities operation without any notice, and creditor of WPC declared the default on October 17, 2012. The Company gave notice of the cancellation of a contract to WPC on January 25, 2013, and requested prepaid payment to Seoul guarantee insurance company ("SGI") that guaranteed refund the repaid payment on February 7, 2013, but SGI did not accepted request for payment. The Company filed a lawsuit in Seoul Central District Court claiming guarantee insurance amounting to USD 91 million against SGI on April 5, 2013. The Company received that amount of money for provisional payment and the case is currently pending.

39. Litigations, Continued

(5) The Korea Supreme Court made a ruling on scope of ordinary wage in December 2013. The Company is currently a defendant the requested lawsuit of ordinary wages (amounting to ₩600 million). In consideration of the Company's facts and circumstances, the impact on the Company's financial statements, if any, cannot be reliably estimated.

In addition to the cases mentioned above, the Company is currently a defendant in 31 lawsuits involving claims totaling: ₩88,800 million. Currently, the impact on the Company's financial statements, if any, cannot be reliably estimated.

40. Related Parties

(1) The Company is the ultimate controlling party and its subsidiaries as of December 31, 2013 are as follows:

Company	Main business
Hyundai Samho Heavy Industries Co., Ltd.	Shipbuilding
Hyundai Mipo Dockyard Co., Ltd.	Shipbuilding
Hyundai Oilbank Co., Ltd.	Manufacturing of petroleum products
Hyundai Heavy Material Service	Sale and manufacture of machinery equipment for shipbuilding
KOMAS Corporation	Shipping
Hyundai Energy & Resources Co., Ltd.	Services for crude oil and natural gas mining
Mipo Engineering Co., Ltd. (*1)	Other engineering services
Ulsan Hyundai Football Club Co., Ltd.	Football club
Hotel Hyundai Co., Ltd.	Hotel operation
HI Investment & Securities Co., Ltd.	Securities brokerage
HI Asset Management Co., Ltd.	Asset management
Hyundai Finance Corporation	Granting of credit
Hyundai Venture Investment Corporation	Granting of credit
Hyundai Futures Corporation	Entrust and brokerage of futures transactions
Hyundai Investment Fund 1 on Patent Technology	Other financial business
LS Leading Solution Private Security Investment Trust 22 (Equity)	Other financial business
LS Leading Solution Private Security Investment Trust 35 (Equity)	Other financial business
Eastspring Private Global Asset Allocation & Mining & Gold Fund of Funds Investment Trust A-1	Other financial business
Hyundai Ship Private Fund 1	Other financial business
HI Himsen Private Funds Investment Trust 1	Other financial business
HI Global Panorama Asset Allocation Securities Feeder Investment Trust No.1	Other financial business
Hyundai Oil Terminal Co., Ltd.	Oil storage business
Hyundai and Shell Base Oil Co., Ltd.	Manufacturing of base oil
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
HHI China Investment Co., Ltd.	Holding company
Hyundai Financial Leasing Co., Ltd.	Finance and operating leases
Hyundai Heavy Industries (China) Electric Co., Ltd.	Sale and manufacture of switchboards for electric distribution

40. Related Parties, Continued

(1) The Company is the ultimate controlling party and its subsidiaries as of December 31, 2013 are as follows:

Company	Main business
Yantai Hyundai Moon Heavy Industries Co., Ltd.	Sale and manufacture of industrial boilers
Changzhou Hyundai Hydraulic Machinery Co., Ltd.	Sale and manufacture of hydraulic cylinders for construction equipment
Hyundai (Shandong) Heavy Industries Machinery Co., Ltd.	Sale and manufacture of wheel loaders
Weihai Hyundai Wind Power Technology Co., Ltd.	Sale and manufacture of facilities for wind power generation
Hyundai Heavy Industries (Shanghai) R&D Co., Ltd.	Research and development of technology for construction machinery, engine and electric equipment
Hyundai Oilbank (Shanghai) Co., Ltd.	Trade petrochemical products
HDO Singapore Pte. Ltd.	Trade crude oil and petrochemical products, chartering
Hyundai Vinashin Shipyard	Ship repair
Hyundai Construction Equipment India Pvt., Ltd.	Sale and manufacture of machinery equipment for construction
Hyundai Transformers and Engineering India Pvt. Ltd.	Sale and manufacture of transformers
Hyundai Construction Equipment Americas, Inc.	Sale of machinery equipment for construction
Hyundai Power Transformers USA, INC	Sale and manufacture of industrial electric equipment
Hyundai Ideal Electric Co.	Sale and manufacture of industrial electric equipment
PHECO Inc.	Design services for offshore facilities
HHI Battery CO., Ltd.	Manufacturing
Hyundai Heavy Industries Brasil - Real Estate Developments	Real estate development
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	Manufacture, trade and repair of heavy equipment
Hyundai Heavy Industries Miraflores Power Plant Inc.	Manufacturing
Vladivostok Business Center	Hotel operation
Hyundai Khorol Agro Ltd.	Agriculture
Hyundai Mikhailovka Agro	Agriculture
Hyundai Electrosystems Co., Ltd.	Manufacture of high-voltage circuit breakers
Hyundai Heavy Industries Europe N.V..	Sale of machinery equipment for construction
Hyundai Heavy Industries Co. Bulgaria	Sale and manufacture of transformers
Hyundai Technologies Center Hungary Kft	Research and development of technology
Hyundai Heavy Industries France SAS	Manufacturing
Jahnel-Kestermann Getriebewerke GmbH	Designing and manufacture of gearboxes
JaKe Service GmbH	Gearbox repair
HHI Mauritius Limited	Manufacturing
MS Dandy Ltd.	Ship rental service
Hyundai West Africa Limited	Manufacture of other transport equipment
Hyundai Arabia Company LLC.	Industrial plant construction

(*1) Mipo Engineering Co., Ltd. changed its name to HYUDAI ENGINEERING & TECHNOLOGY on January 1, 2014.

40. Related Parties, Continued

(2) Transactions with related parties

1) Significant transactions for the years ended December 31, 2013 and 2012 with related parties are as follows:

(In millions of won)

	2013					
	Sales and other		Purchases and other			
	Sales	Dividend income	Purchase of raw materials	Purchase of property, plant and equipment	Purchase of others	Dividends paid
Subsidiaries:						
Hyundai Samho Heavy Industries Co., Ltd.	₩ 402,036	9,492	4,039	57,779	230	-
Hyundai Mipo Dockyard Co., Ltd.	359,736	-	20,543	19	4	15,158
Hyundai Oilbank Co., Ltd.	56,527	-	79,875	-	1,245	-
Hyundai Heavy Material Service	6,333	-	354,804	30,633	7,777	-
Hotel Hyundai Co., Ltd.	209	-	34,545	1	2,278	-
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	81,289	-	-	-	660	-
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	65,548	-	-	-	264	-
Hyundai Heavy Industries (China) Electric Co., Ltd.	6,699	-	63,965	-	-	-
Yantai Hyundai Moon Heavy Industries Co., Ltd.	104	-	66,453	-	13	-
Hyundai Construction Equipment India Private Ltd.	58,519	-	11,901	-	1,324	-
Hyundai Construction Equipment Americas, Inc.	424,429	-	5	-	3,697	-
Hyundai Ideal Electric Co.	25,721	-	1,234	-	442	-
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	160,697	-	4	-	122	-
Hyundai Heavy Industries Europe N.V..	270,243	-	823	-	5,583	-
Others	20,280	9,703	100,491	-	20,572	
	₩ 1,938,370	19,195	738,682	88,432	44,211	15,158

40. Related Parties, Continued

(2) Transactions with related parties, continued

1) Significant transactions for the years ended December 31, 2013 and 2012 with related parties are as follows:

(In millions of won)

		2013					
		Sales and other		Purchases and other			
		Sales	Dividend income	Purchase of raw materials	Purchase of property, plant and equipment	Purchase of others	Dividends paid
Associates(*):							
Wärtsilä-Hyundai Engine Company Ltd.	₩	3,158	6,611	110,923	-	-	-
Hyundai Corporation		924,901	2,496	7,733	-	5,099	-
Others		8,951	200	-	-	36	-
		937,010	9,307	118,656	-	5,135	-
Associates of subsidiaries:							
Hyundai Cosmo Petrochemical Co., Ltd.		43,307	-	-	-	-	-
	₩	2,918,687	28,502	857,338	88,432	49,346	15,158

(*) Including associates' subsidiaries

40. Related Parties, Continued

(2) Transactions with related parties, continued

1) Significant transactions for the years ended December 31, 2013 and 2012 with related parties are as follows:

(In millions of won)

	2012					
	Sales and other		Purchases and other			
	Sales	Dividend income	Purchase of raw materials	Purchase of property, plant and equipment	Purchase of others	Dividends paid
Subsidiaries:						
Hyundai Samho Heavy Industries Co., Ltd.	₩ 681,214	37,967	64	7,009	73	-
Hyundai Mipo Dockyard Co., Ltd.	487,906	-	15,735	148	-	24,252
Hyundai Oilbank Co., Ltd.	64,412	-	2,315	-	1,809	-
Hyundai Heavy Material Service	9,333	-	593,737	41,732	5,390	-
Hotel Hyundai Co., Ltd.	199	-	34,469	-	4,203	-
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	80,376	-	1,263	-	173	-
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	63,184	-	410	-	165	-
Hyundai Heavy Industries (China) Electric Co., Ltd.	6,312	-	63,940	-	118	-
Yantai Hyundai Moon Heavy Industries Co., Ltd.	5,099	-	53,974	-	36	-
Hyundai Construction Equipment India Private Ltd.	94,603	-	4,059	-	414	-
Hyundai Construction Equipment Americas, Inc.	630,251	-	3,110	-	166	-
Hyundai Ideal Electric Co.	47,872	-	2,282	-	67	-
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	51,356	-	-	-	87	-
Hyundai Heavy Industries Europe N.V..	272,038	-	3,430	-	1,505	-
Others	18,380	2,925	58,703	-	24,682	-
	2,512,535	40,892	837,491	48,889	38,888	24,252
Associates(*):						
Wärtsilä-Hyundai Engine Company Ltd.	3,155	-	47,375	-	-	-
Hyundai Corporation	1,102,854	2,496	19,323	-	2,878	-
Others	35,612	100	-	-	13	-
	1,141,621	2,596	66,698	-	2,891	-
Associates of subsidiaries:						
Hyundai Cosmo Petrochemical Co., Ltd.	233,117	-	-	-	-	-
	₩ 3,887,273	43,488	904,189	48,889	41,779	24,252

(*) Including associates' subsidiaries

40. Related Parties, Continued

(2) Transactions with related parties, continued
2) Outstanding balances for the years ended December 31, 2013 and 2012 with related parties are as follows:

(In millions of won)

		2013			
		Trade receivables and other receivables		Trade payables and other payables	
		Trade receivables	Other receivables	Trade payables	Other payables
Subsidiaries:					
Hyundai Samho Heavy Industries Co., Ltd.	₩	107,583	37,375	25,952	49,970
Hyundai Mipo Dockyard Co., Ltd.		111,629	310	2,369	70,144
Hyundai Oilbank Co., Ltd.		6,045	-	20,324	4,864
Hyundai Heavy Material Service		1,492	2,228	37,615	-
Hotel Hyundai Co., Ltd.		11	-	1,931	-
Hyundai (Jiangsu) Construction Machinery Co., Ltd.		24,795	372	-	24
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.		21,487	329	-	10
Hyundai Heavy Industries (China) Electric Co., Ltd.		35	3,041	4,007	-
Yantai Hyundai Moon Heavy Industries Co., Ltd.		4	58,025	-	-
Hyundai Construction Equipment India Private Ltd.		39,178	294	172	176
Hyundai Construction Equipment Americas, Inc.		120,264	121	-	345
Hyundai Ideal Electric Co.		10,381	10	35	-
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment		193,530	530	-	45
Hyundai Heavy Industries Europe N.V..		68,036	56	349	1,114
Others		10,412	3,585	5,615	2,315
		714,882	106,276	98,369	129,007
Associates(*):					
Wärtsilä-Hyundai Engine Company Ltd.		1,024	35,063	-	-
Hyundai Corporation		223,529	143	35	35,637
Others		1,473	1,320	-	10,225
		226,026	36,526	35	45,862
Associates of subsidiaries:					
Hyundai Cosmo Petrochemical Co., Ltd.		163	-	-	-
	₩	941,071	142,802	98,404	174,869

(*) Including associates' subsidiaries

40. Related Parties, Continued

(2) Transactions with related parties, continued

2) Outstanding balances for the years ended December 31, 2013 and 2012 with related parties are as follows:

(In millions of won)

		2012			
		Trade receivables and other receivables		Trade payables and other payables	
		Trade receivables	Other receivables	Trade payables	Other payables
Subsidiaries:					
Hyundai Samho Heavy Industries Co., Ltd.	₩	192,086	-	4,867	106,698
Hyundai Mipo Dockyard Co., Ltd.		115,640	251	1,657	45,243
Hyundai Oilbank Co., Ltd.		1,114	-	2,588	2,957
Hyundai Heavy Material Service		3,641	209	81,507	5
Hotel Hyundai Co., Ltd.		15	-	2,268	-
Hyundai (Jiangsu) Construction Machinery Co., Ltd.		31,800	72	-	125
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.		9,821	553	31	40
Hyundai Heavy Industries (China) Electric Co., Ltd.		20	193	7,239	-
Yantai Hyundai Moon Heavy Industries Co., Ltd.		-	24,244	-	-
Hyundai Construction Equipment India Private Ltd.		51,620	541	-	236
Hyundai Construction Equipment Americas, Inc.		130,890	429	4	666
Hyundai Ideal Electric Co.		14,175	48	1,500	-
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment		47,399	-	-	26
Hyundai Heavy Industries Europe N.V..		46,144	54	240	960
Others		5,596	5,899	4,879	2,297
		649,961	32,493	106,780	159,253
Associates(*):					
Wärtsilä-Hyundai Engine Company Ltd.		356	62,546	26,002	-
KAM Corporation		-	66,278	-	-
Hyundai Corporation		328,331	574	260	16,436
Others		1,457	1	100	10,346
		330,144	129,399	26,362	26,782
Associates of subsidiaries:					
Hyundai Cosmo Petrochemical Co., Ltd.		34,451	-	-	-
	₩	1,014,556	161,892	133,142	186,035

(*) Including associates' subsidiaries

40. Related Parties, Continued

(3) Details of guarantees which the Company had provided for related companies as of December 31, 2013 are as follows:

(In thousands of foreign currency)

Guarantee recipient	Provider	Type of guarantees	Currency	Guaranteed Amount
Subsidiaries:				
Hyundai Financial Leasing Co., Ltd.	Sumitomo Bank Ltd. and others	Payment	CNY	1,500,000
Hyundai (Shandong) Heavy Industry Machinery Co., Ltd.	Standard Charted Bank	Payment	USD	15,600
Weihai Hyundai Wind Power Technology Co., Ltd.	Export-Import Bank of Korea	Payment	USD	25,000
Hyundai Construction Equipment India Pvt. Ltd.	Standard Charted Bank and others	Payment	USD	32,000
	HSBC Bank Plc	Payment	INR	1,300,000
Hyundai Construction Equipment Americas, Inc.	Hana Bank and others	Payment	USD	108,400
Hyundai Power Transformers USA, INC	Woori Bank and others	Payment	USD	113,500
	Liberty Mutual	Performance	USD	20,000
	Capine Corporation	Performance	USD	19,839
Hyundai Ideal Electric Co.	Mizuho Corporate Bank Ltd, LA Branch	Payment	USD	10,000
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	Banco Nacional de Desenvolvimento Economico e Social (BNDES)	Payment	BRL	109,956
	Standard Charted Bank and others	Payment	USD	70,000
Hyundai Electrosystems Co., Ltd.	Citi Bank	Payment	USD	30,000
Hyundai Heavy Industries Europe N.V..	Korea Exchange Bank and others	Payment	EUR	36,000
	BNP Paribas Fortis Bank, Belgium	Performance	EUR	250
Hyundai Heavy Industries Co. Bulgaria	BNP Paribas S.A., Sofia and others	Payment	USD	30,000
Jahnel-Kestermann Getriebewerke GmbH	Shinhan Bank	Payment	EUR	60,000
Hyundai Heavy Industries France SAS	Export-Import Bank of Korea and others	Performance	USD	250,194
HHI Mauritius Limited	Export-Import Bank of Korea and others	Performance	USD	43,211
Hyundai Arabia Company LLC.	Korea Exchange Bank and others	Performance	USD	5,728
			USD	773,472
			EUR	96,250
			CNY	1,500,000
			INR	1,300,000
			BRL	109,956
Associates:				
Hyundai Merchant Marine Co., Ltd.	SC Bank and others	Performance	USD	350,158
			USD	1,123,630
			EUR	96,250
			CNY	1,500,000
			INR	1,300,000
			BRL	109,956

40. Related Parties, Continued

Other than the guarantees above, the Company has provided performance guarantees in relation to Jazan Refinery and Terminal Project Package 2 (contract amount: USD 286,240 thousand) which is being built by Hyundai Arabia Company LLC., one of the Company's subsidiaries. The Company also provided performance guarantees in relation to Moho Nord Tension Leg Platform Project (contract amount: USD 692,943 thousand) and Moho Nord Floating Production Unit Project (contract amount: USD 1,227,386 thousand) which are being built by HHI France SAS and HHI Mauritius Ltd., one of the Company's subsidiaries.

(4) Compensation for key management of the Company for the years ended December 31, 2013 and 2012 is ₩3,607 million and ₩2,757 million, respectively. Key management is defined as directors and internal auditors who have important rights and responsibilities involving the planning, operation and control of the Company.

Independent Auditors' Review Report on Internal Accounting Control System

English translation of a Report Originally Issued in Korean

To the President of
Hyundai Heavy Industries Co., Ltd.:

We have reviewed the accompanying Reports on the Operations of Internal Accounting Control System ("IACS") of Hyundai Heavy Industries Co., Ltd. (the "Company") as of December 31, 2013. The Company's management is responsible for designing and maintaining an effective IACS and for its assessment of the effectiveness of the IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying reports of management's assessment of the IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2013, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review, in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether the Reports on the Operations of the Internal Accounting Control System are free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the reports, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

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

Based on our review, nothing has come to our attention that the Reports on the Operations of the Internal Accounting Control System as of December 31, 2013 are not prepared in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2013. We did not review the Company's IACS subsequent to December 31, 2013. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

March 13, 2014

Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2013 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Report on the Operations of Internal Accounting Control System

English translation of a Report Originally Issued in Korean

To the Audit Committee of
Hyundai Heavy Industries Co., Ltd.:

I, as the Internal Accounting Control Officer ("IACO") of Hyundai Heavy Industries Co., Ltd. (the "Company"), have assessed the status of the design and operations of the Company's internal accounting control system ("IACS") as of December 31, 2013.

The Company's management, including IACO, is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial statement preparation and presentation for external uses. I, as the IACO, applied the IACS Standards established by the IACS Operations Committee for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2013, in all material respects, in accordance with the IACS Framework issued by the IACS Operations Committee.

Kim, Jong Min
Internal Accounting Control Officer

Lee, Jai Seong
Chief Executive Officer

February 6, 2014

Report on the Operations of Internal Accounting Control System

English translation of a Report Originally Issued in Korean

To the Board of Directors of
Hyundai Heavy Industries Co., Ltd.:

I, as the Internal Accounting Control Officer ("IACO") of Hyundai Heavy Industries Co., Ltd. (the "Company"), have assessed the status of the design and operations of the Company's internal accounting control system ("IACS") as of December 31, 2013.

The Company's management, including IACO, is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial statement preparation and presentation for external uses. I, as the IACO, applied the IACS Standards established by the IACS Operations Committee for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2013, in all material respects, in accordance with the IACS Framework issued by the IACS Operations Committee.

Kim, Jong Min
Internal Accounting Control Officer

Lee, Jai Seong
Chief Executive Officer

February 28, 2014