HYUNDAI HEAVY INDUSTRIES CO., LTD.

Separate Financial Statements

December 31, 2012

(With Independent Auditors' Report Thereon)

Contents

Independent Auditors' Report

Based on a report originally issued in Korean

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, 2012 and 2011 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, 2012 and 2011 and its financial performance and its cash flows for the years then ended, in accordance with Korean International Financial Reporting Standards.

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

The procedures and practices utilized in the Republic of Korea to audit such 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.

Seoul, Korea
March 11, 2013

This report is effective as of March 11, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying 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, 2012 and 2011

(In thousands of won)	*Note*		2012	2011
Assets				
Cash and cash equivalents	*34,35*	₩	522,916,854	608,305,745
Short-term financial assets	*5,6,21,34,35*		140,025,992	20,571,443
Trade and other receivables	*7,26,34,35,38*		3,415,103,505	3,247,270,300
Due from customers for contract work	*7,26,34,35*		3,571,761,440	2,567,103,777
Inventories	*8*		2,886,179,999	2,834,685,760
Derivative assets	*21,34,35*		352,707,880	127,646,236
Firm commitment assets	*21*		68,950,598	404,964,726
Other current assets	*9*		2,302,962,000	1,795,396,261
Total current assets			13,260,608,268	11,605,944,248
Investments in subsidiaries and associates	*10,11*		6,848,089,108	6,836,161,061
Long-term financial assets	*5,6,12,21,34,35*		1,113,004,649	1,785,927,934
Long-term trade and other receivables	*7,26,34,35,38*		317,859,592	509,610,401
Investment property	*13*		313,069,349	314,952,460
Property, plant and equipment	*14*		8,145,864,317	8,137,085,222
Intangible assets	*15*		373,753,496	370,355,123
Derivative assets	*21,34,35*		113,495,722	46,466,814
Firm commitment assets	*21*		1,682,828	178,916,489
Other non-current assets	*36*		150,454,388	135,077,805
Total non-current assets			17,377,273,449	18,314,553,309
Total assets		₩	30,637,881,717	29,920,497,557

See accompanying notes to the separate financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Separate Statements of Financial Position, Continued

As of December 31, 2012 and 2011

(In thousands of won)	***Note***		**2012**	**2011**
Liabilities				
Short-term financial liabilities	*16,18,21,34,35,36*	₩	4,282,108,440	3,915,685,636
Trade and other payables	*17,34,35,38*		2,299,628,573	2,450,270,548
Advances from customers			908,391,816	1,062,490,143
Due to customers for contract work	*26,36*		4,202,825,488	5,876,506,477
Derivative liabilities	*21,34,35*		43,042,776	230,144,853
Firm commitment liabilities	*21*		217,691,944	121,940,384
Income tax payable			335,701,418	372,070,938
Total current liabilities			12,289,390,455	14,029,108,979
Long-term financial liabilities	*16,18,21,34,35,36*		2,260,223,050	67,051,944
Long-term trade and other payables	*17,34,35,38*		12,234,593	14,650,331
Liabilities for defined benefit plans	*19*		172,672,817	90,741,609
Long-term provisions	*20*		252,506,544	129,884,994
Derivative liabilities	*21,34,35*		20,668,394	192,144,081
Firm commitment liabilities	*21*		113,376,015	22,758,464
Deferred tax liabilities	*31*		326,874,346	654,880,466
Total non-current liabilities			3,158,555,759	1,172,111,889
Total liabilities			15,447,946,214	15,201,220,868
Stockholders' equity				
Common stock of ₩5,000 par value	*22*		380,000,000	380,000,000
Authorized - 160,000,000 shares				
Issued and outstanding -				
76,000,000 shares in 2012 and 2011				
Capital surplus	*22*		1,044,516,633	1,044,516,633
Capital adjustments	*23*		(1,400,454,947)	(1,400,454,947)
Accumulated other comprehensive income	*21,24*		498,603,452	852,646,761
Retained earnings	*25*		14,667,270,365	13,842,568,242
Total stockholders' equity			15,189,935,503	14,719,276,689
Total liabilities and stockholders' equity		₩	30,637,881,717	29,920,497,557

See accompanying notes to the separate financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Separate Statements of Comprehensive Income

For the years ended December 31, 2012 and 2011

(In thousands of won, except per share information)	***Note***		**2012**	**2011 Restated**
Sales	*21,26,38*	₩	25,055,014,302	25,019,604,058
Cost of sales	*8,15,21,28,38*		(22,242,660,398)	(21,171,984,098)
Gross profit			2,812,353,904	3,847,619,960
Selling, general and administrative expenses	*15,27,28*		(1,527,703,804)	(1,219,070,673)
Operating income			1,284,650,100	2,628,549,287
Finance income	*21,29,34*		1,884,727,871	1,044,973,889
Finance costs	*21,29,34*		(649,272,491)	(1,180,546,547)
Other non-operating income	*21,30*		117,963,323	601,079,985
Other non-operating expenses	*21,30*		(1,210,223,995)	(563,303,089)
Income before income taxes			1,427,844,808	2,530,753,525
Income taxes	*31*		(322,752,591)	(584,811,903)
Net income		₩	1,105,092,217	1,945,941,622
Other comprehensive income (loss)	*24,31,34*		(389,279,643)	129,800,961
Total comprehensive income		₩	715,812,574	2,075,742,583
Earnings per share	*32*			
Basic and diluted earnings per share (won)		₩	18,031	31,751

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, 2012 and 2011

(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, 2011	₩	380,000,000	1,044,516,633	(1,400,454,947)	656,130,418	12,705,682	12,379,655,400	13,072,553,186
Total comprehensive income for the year								
Net income for the year		-	-	-	-	-	1,945,941,622	1,945,941,622
Changes in gain and loss on valuation of available-for-sale financial assets, net of tax		-	-	-	206,820,263	-	-	206,820,263
Changes in fair value of cash flow hedges, net of tax		-	-	-	-	(23,009,602)	-	(23,009,602)
Defined benefit plan actuarial losses, net of tax		-	-	-	-	-	(54,009,700)	(54,009,700)
Transactions with owners of the Company, recognized directly in equity								
Dividends		-	-	-	-	-	(429,019,080)	(429,019,080)
Balance at December 31, 2011	₩	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
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								
Net income for the year		-	-	-	-	-	1,105,092,217	1,105,092,217
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		-	-	-	-	-	(35,236,334)	(35,236,334)
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

See accompanying notes to the separate financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Separate Statements of Cash Flows

For the years ended December 31, 2012 and 2011

(In thousands of won)	*Note*		2012	2011
Cash flows from operating activities				
Net income for the year		₩	1,105,092,217	1,945,941,622
Adjustments			(2,723,423,574)	19,878,410
Cash generated (used) from operations	*33*		(1,618,331,357)	1,965,820,032
Interest received			114,816,268	166,384,322
Interest paid			(173,923,508)	(151,418,773)
Dividends received			57,966,431	76,973,326
Income taxes paid			(560,755,469)	(948,814,725)
Net cash provided by (used in) operating activities			(2,180,227,635)	1,108,944,182
Cash flows from investing activities				
Proceeds from sale of short-term financial assets			17,059,369	5,500,000
Proceeds from sale of investments in subsidiaries and associates			51,665,836	-
Proceeds from sale of long-term financial assets			706,510,852	40,234,044
Proceeds from collection of long-term other receivables			2,260,917	4,442,787
Proceeds from sale of property, plant and equipment			9,081,306	10,407,335
Proceeds from sale of intangible assets			634,025	-
Acquisition of short-term financial assets			(135,500,000)	(10,500,000)
Acquisition of other receivables			(2,000,000)	-
Acquisition of investments in subsidiaries and associates			(269,622,882)	(392,126,171)
Acquisition of long-term financial assets			(7,884,410)	(32,735,684)
Acquisition of long-term other receivables			(2,056,861)	(5,525,282)
Acquisition of investment property			-	(275,922)
Acquisition of property, plant and equipment			(572,677,398)	(711,857,980)
Acquisition of intangible assets			(69,860,071)	(79,026,025)
Acquisition of other non-current assets			(20,656,454)	(29,100,590)
Net cash used in investing activities			(293,045,771)	(1,200,563,488)
Cash flows from financing activities				
Proceeds from short-term financial liabilities			11,598,086,227	8,922,821,947
Proceeds from long-term financial liabilities			2,258,146,200	27,937,006
Repayment of short-term financial liabilities			(11,222,087,660)	(8,446,485,449)
Dividends paid			(245,153,760)	(429,019,080)
Net cash provided by financing activities			2,388,991,007	75,254,424
Effects of exchange rate changes on cash and cash equivalents			(1,106,492)	191,091
Net decrease in cash and cash equivalents			(85,388,891)	(16,173,791)
Cash and cash equivalents at 1 January			608,305,745	624,479,536
Cash and cash equivalents at 31 December		₩	522,916,854	608,305,745

See accompanying notes to the separate financial statements.

1. Reporting Entity

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, 2012, the Company's major stockholders consist of Mong-Joon Chung (10.15%) and Hyundai Mipo Dockyard Co., Ltd. (7.98%).

2. Basis of Preparation

(1) Statement of compliance

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 28, 2013, and will be submitted for approval to the shareholders' meeting to be held on March 22, 2013.

(2) 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

(3) 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.

2. Basis of Preparation, Continued

(4) 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.

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 investment property

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 19 – Measurement of defined benefit obligations
- Note 26 – Revenue recognition in proportion to the stage of completion
- Note 31 – Measurement of deferred tax
- Notes 20, 36 and 37 – Provisions and contingencies

(5) Changes in accounting policies

1) Changes in accounting policies

(i) Financial Instruments: Disclosures

The Company has applied the amendments to K-IFRS No.1107, 'Financial Instruments: Disclosures' since January 1, 2012. The amendments require disclosing the nature of transferred assets, their carrying amount, and the description of risks and rewards for each class of transferred financial assets that are not derecognized in their entirety. If the Company derecognizes transferred financial assets but still retains their specific risks and rewards, the amendments require additional disclosures of their risks.

(ii) Presentation of financial statements

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

2) Impact of changes in accounting policy

The Company retrospectively applied the amendment to K-IFRS No. 1001, for which the impact is as follows:

(In millions of won)		2012	2011
Operating profit before adoption of the amendment	₩	1,267,989	2,612,842
Changes			
Reversal of provision for product warranty		2,390	6,516
Reversal of provision for construction warranty		7,189	5,043
Reversal of allowance for doubtful accounts		7,082	4,148
Operating profit after adoption of the amendment	₩	1,284,650	2,628,549

3. 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 2 (5).

(1) Subsidiaries and associates in the separate financial statements

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027, 'Consolidated and 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.

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

(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.

3. 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. The Company makes an assessment, both at the inception of the hedge relationship as well as on a quarterly basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80%~125%. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Fair value hedge

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

3. 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.

(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.

3. Significant Accounting Policies, Continued

(7) Property, plant and equipment, continued

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.

(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 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 memberships are expected to be available for use, these intangible assets are 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 each financial year-end. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

3. Significant Accounting Policies, Continued

(8) Intangible assets, continued

(i) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the 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.

(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.

3. Significant Accounting Policies, Continued

(10) Impairment of non-financial assets, continued

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.

(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 ₩24,041 million, applying capitalization rate of 3.31% for the year ended December 31, 2012.

3. Significant Accounting Policies, Continued

(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).

(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, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of high-quality corporate bonds that have maturity dates approximating the terms of the Company’s obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: Defined benefit plans

The Company’s net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

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

3. Significant Accounting Policies, Continued

(14) Employee benefits, continued

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

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

(iv) Termination benefits

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

(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.

3. Significant Accounting Policies, Continued

(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.

(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.

3. Significant Accounting Policies, Continued

(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.

(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

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

The 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.

3. Significant Accounting Policies, Continued

(20) Income taxes, continued

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'.

(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, 2012, 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) K-IFRS No. 1111, 'Joint Arrangements'

The standard classifies joint arrangements into two types - joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. The standard requires a joint operator to recognize and measure the assets and liabilities (and recognize the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant IFRSs applicable to the particular assets, liabilities, revenues and expenses. The standard requires a joint venturer to recognize an investment and to account for that investment using the equity method. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(ii) K-IFRS No. 1112, 'Disclosure of Interests in Other Entities'

The standard brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. The standard requires the disclosure of information about the nature, risks and financial effects of these interests. The standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(iii) Amendments to K-IFRS No. 1019, 'Employee Benefits'

The standard requires recognition of actuarial gains and losses immediately in other comprehensive income and to calculate expected return on plan assets based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively for the Company's annual periods beginning on or after January 1, 2013.

3. Significant Accounting Policies, Continued

(23) New standards and interpretations not yet adopted, continued

(iv) K-IFRS No. 1113, 'Fair Value Measurement'
The standard defines fair value and a single framework for fair value, and requires disclosures about fair value measurements. The standard will be applied prospectively for the Company's annual periods beginning on or after January 1, 2013.

(v) Amendments to K-IFRS No. 1001, 'Presentation of Financial Statements'
The amendments require presenting in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment is mandatorily effective for annual periods beginning on or after July 1, 2012.

4. 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

4. 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 ₩8,209,204 million and USD 25,198,844 thousand as of December 31, 2012.

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.

4. 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)		**2012**	**2011**
Total liabilities	₩	15,447,946	15,201,221
Total equity		15,189,936	14,719,277
Cash and deposits(*1)		653,450	620,398
Borrowings(*2)		6,542,138	3,962,673
Liability to equity ratio		101.70%	103.27%
Net borrowing to equity ratio(*3)		38.77%	22.71%

(*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.

5. Short-term and Long-term Financial Assets

Short-term and long-term financial assets as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)		2012		2011	
		Current	Non-current	Current	Non-current
Financial instruments	₩	130,500	33	12,059	33
Financial assets at fair value through profit or loss		9,526	3,936	8,512	10,184
Available-for-sale financial assets		-	1,109,036	-	1,775,711
	₩	140,026	1,113,005	20,571	1,785,928

6. Restricted Financial Instruments

Financial instruments, which are restricted in use, as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)	Description	Financial institutions		2012	2011	Restrictions
Short-term financial instruments	Deposits in foreign currency	Mellat Bank	₩	-	1,559	Guarantee for payment
Long-term financial instruments	Deposits in won	Korea Exchange Bank and others		33	33	Guarantee deposits for checking accounts
			₩	33	1,592	

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

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

(In millions of won)		2012		2011	
		Current	Non-current	Current	Non-current
Trade receivables:					
Trade receivables	₩	3,599,756	429,680	3,157,488	652,710
Allowance for doubtful accounts		(364,864)	(124,581)	(123,291)	(156,417)
		3,234,892	305,099	3,034,197	496,293
Other receivables:					
Other accounts receivable		310,382	-	209,221	-
Allowance for doubtful accounts		(145,575)	-	(41,021)	-
Accrued income		12,012	-	25,476	-
Loans		2,246	-	-	265
Guarantee deposits		1,147	12,761	19,397	13,052
		180,212	12,761	213,073	13,317
	₩	3,415,104	317,860	3,247,270	509,610

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

(2) Due from customers for contract work as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)		2012		2011	
		Current	Non-current	Current	Non-current
Due from customers for contract work	₩	3,573,330	-	2,567,104	1,307
Allowance for doubtful accounts		(1,569)	-	-	(1,307)
	₩	3,571,761	-	2,567,104	-

8. Inventories

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

(In millions of won)		2012			2011		
		Acquisition cost	Provision for inventory valuation	Carrying amount	Acquisition cost	Provision for inventory valuation	Carrying amount
Merchandise	₩	79,358	(6,253)	73,105	84,701	(4,745)	79,956
Finished goods		279,685	(40,406)	239,279	367,957	(50,421)	317,536
Work-in-progress		1,236,980	(74,156)	1,162,824	1,460,350	(58,970)	1,401,380
Raw materials		929,478	(7,576)	921,902	731,756	(15,377)	716,379
Supplies		19,225	-	19,225	19,313	-	19,313
Materials-in-transit		469,845	-	469,845	300,122	-	300,122
	₩	3,014,571	(128,391)	2,886,180	2,964,199	(129,513)	2,834,686

The reversal of write-down of inventories to net realizable value amounting to ₩1,122 million and nil, and the write-downs amounting to nil and ₩123,830 million are included in cost of sales for the years ended December 31, 2012 and 2011, respectively.

9. Other Current Assets

Other current assets as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)		2012	2011
Advance payments	₩	1,879,217	1,536,459
Prepaid expenses		310,851	258,937
Others		112,894	-
	₩	2,302,962	1,795,396

10. Investments in Subsidiaries

Investments in subsidiaries as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won, except percentage of ownership)

			2012		2011	
Company	**Location**	**Particulars**	**Percentage of ownership (%)**	**Carrying amount**	**Percentage of ownership (%)**	**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	131,635	100.00	176,635
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	81,752	100.00	86,065
LS Leading Solution Private Security Investment Trust 35 (Equity)	Korea	Other financial business	100.00	16,073	100.00	16,933
Eastspring Private Global Asset allocation & Mining & Gold Fund of Funds Investment Trust A-1(*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	50,186	100.00	33,183
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	42,605	100.00	31,200
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	62,609	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	16,813	-	-
Hyundai Heavy Industries Brasil - Real Estate Developments	Brazil	Real estate development	100.00	31,355	100.00	5,292
Hyundai Heavy Industries Brasil	Brazil	Manufacture, trade and repair of heavy equipment	100.00	69,204	100.00	3,176
Hyundai Heavy Industries Miraflores Power Plant Inc.	Panama	Manufacturing	100.00	-	-	-
Vladivostok Business Center	Russia	Hotel operation	100.00	-	100.00	-
Hyundai Khorol Agro Ltd.	Russia	Agriculture	94.26	13,848	80.79	6,475
Hyundai Mikhailovka Agro	Russia	Agriculture	100.00	8,216	100.00	1,460
Hyundai Electrosystems Co., Ltd.	Russia	Manufacture of high-voltage circuit breakers	100.00	44,403	100.00	10,791
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

10. Investments in Subsidiaries, Continued

(In millions of won, except percentage of ownership)

			2012		2011	
Company	**Location**	**Particulars**	**Percentage of ownership (%)**	**Carrying amount**	**Percentage of ownership (%)**	**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(*2)	Germany	Designing and manufacture of gearboxes	100.00	18,719	100.00	62,506
HHI MAURITIUS LIMITED	Mauritius	Manufacturing	100.00	-	100.00	-
Hyundai West Africa Limited	Nigeria	Manufacture of other transport equipment	100.00	70	-	-
Hyundai Arabia Company LLC.	Saudi Arabia	Industrial plant construction	70.00	2,032	-	-
				₩ 6,072,349		₩ 5,979,154

(*1) PCA BGF World Gold Fund A Class changed its name to Eastspring Private Global Asset allocation & Mining & Gold Fund of Funds Investment Trust A-1 in 2012.

(*2) As of December 31, 2012, due to continuous loss of the subsidiary, the Company estimated the recoverable amount of the investment in subsidiary based on value in use which is estimated by applying an after-tax discount rate of 8.06%. The Company recognized an impairment loss amounting to ₩44,040 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, 2012 is due to the newly acquisition, capital increase, capital reduction and impairment loss. Dividends received from investments in subsidiaries are ₩40,537 million and ₩52,230 million for the years ended December 31, 2012 and 2011, respectively.

11. Investments in Associates

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

(In millions of won, except percentage of ownership)

			2012		2011	
Company	**Location**	**Particulars**	**Percentage of ownership (%)**	**Carrying amount**	**Percentage of ownership (%)**	**Carrying amount**
New Korea Country Club	Korea	Country club	40.00	₩ 31,545	20.00	₩ 4,045
Hyundai Merchant Marine Co., Ltd.	Korea	Shipping	15.18	360,634	16.35	360,634
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	12,959	-	-
KAM Corporation(*)	Korea	Sale and manufacture of polysilicon	49.00	1,989	49.00	117,668
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

11. Investments in Associates, Continued

(In millions of won, except percentage of ownership)

Company	Location	Particulars	2012 Percentage of ownership (%)	2012 Carrying amount	2011 Percentage of ownership (%)	2011 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
Hyundai-Avancis Co., Ltd.	Korea	Sale and manufacture of solar module	50.00	110,000	50.00	70,000
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	128,358
Grand China Hyundai Shipping Co., Ltd.	Hong Kong	Acquiring, renting, leasing and chartering of bulk carrier	50.00	1,045	50.00	1,045
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	5,574
Hyundai Green Industries Co., W.L.L.	Kuwait	Education	49.00	992	-	-
				₩ 775,740		₩ 857,007

(*) As of December 31, 2012, the Company estimated the recoverable amount of the investmet in KAM Corporation, which has decided to shut down its production line due to low profitability of solar energy industry caused by oversupply. The recoverable amount of the investment in KAM Corporation was estimated based on value in use by applying an after-tax discount rate of 13.51%, and as a result an impairment loss of ₩115,679 million was recognized. The Company estimated the recoverable amount of the investment in Qinhuangdao Shouqin Metal Materials Co., Ltd, which has been operating at a deficit for years due to bad market condition of rolled steel industry. The recoverable amount of the investment in Qinhuangdao Shouqin Metal Materials Co., Ltd was estimated based on market value of comparable companies in the industry taking into account the net asset and sales, and as a result an impairment loss of ₩47,803 million was recognized.

The change in investments in associates for the year ended December 31, 2012 is due to the newly acquisition, additional acquisition, capital increase and impairment loss. Dividends received from investments in associates are ₩2,950 million and ₩13,060 million for the years ended December 31, 2012 and 2011, respectively.

12. Available-for-sale Financial Assets

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

(In millions of won, except percentage of ownership)

Company	Percentage of ownership (%)		2012 Acquisition cost	2012 Carrying amount	2011 Acquisition cost	2011 Carrying amount
Listed equity securities:						
Kia Motors Corporation	0.02	₩	2,682	4,986	2,682	5,886
Korea Line Corporation	0.34		55,131	339	55,131	1,999
Mirae Asset Securities Co., Ltd.	0.10		6,654	1,494	6,654	1,324
Hyundai Elevator Co., Ltd.	1.81		6,738	24,543	6,738	28,344
Hyundai Motor Company	2.00		300,481	961,400	519,247	1,619,528
Korea Environment Technology Co., Ltd.	7.58		1,909	8,058	1,909	13,025
Ssangyong Motor Co., Ltd.	0.00		23	8	23	8
HI Special Purpose Acquisition Company	0.21		30	60	30	56
			373,648	1,000,888	592,414	1,670,170
Unlisted equity securities:(*1)						
Gangwon Football Club Co., Ltd.	0.01		1	1	1	1
Kuk Dong Heavy Conveyance Co., Ltd.	7.50		502	502	502	502
Novelis Korea Ltd.	0.00		-	-	14,599	1,405
Daehan Oil Pipeline Corporation	6.39		14,512	14,512	14,512	14,512
Dong-A Precision Machinery. Co., Ltd.	0.01		35	-	35	-
Doosan Capital Co., Ltd.(*2)	7.14		10,000	13,508	10,000	16,406
Bexco, Ltd.	7.96		9,460	9,460	9,460	9,460
Chonggu Co., Ltd.	0.00		188	-	188	-
Postec Electronic Power Fund Co.	1.75		400	400	400	400
Hanwha Electric Venture Fund	2.00		300	300	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.	0.95		1,315	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.	-		-	-	50	50
Ajincarintech. Inc.	0.00		3	-	3	-
OSX Construção Naval S.A.	10.01		57,498	57,498	50,454	50,454
Korea Defense Industry Association	2.14		1,500	1,500	1,500	1,500
KoFC IBK Hi Investment Hyundai Heavy Industries Shared Growth No.1. Private Equity Fund	10.00		1,068	1,068	510	510
			133,010	101,765	140,057	98,516
Beneficiary certificates:						
Korea Investment Private Korea Exim bank Carbon Special Asset Trust I (Carbon Emission Right)	8.85		3,402	1,190	3,402	1,832
Investments in capital			5,193	5,193	5,193	5,193
		₩	515,253	1,109,036	741,066	1,775,711

(*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 was calculated by using the free cash flows to shareholders method and estimation of stock price distribution.

13. Investment Property

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

(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)

(In millions of won)		2011		
		Land	**Buildings**	**Total**
Beginning balance	₩	199,745	154,286	354,031
Acquisition and other		1,231	(36,563)	(35,332)
Disposals		-	-	-
Depreciation		-	(3,747)	(3,747)
Ending balance	₩	200,976	113,976	314,952
Acquisition cost		200,976	146,181	347,157
Accumulated depreciation		-	(32,205)	(32,205)

(2) Revenue (expense) from investment property for the years ended December 31, 2012 and 2011 is as follows:

(In millions of won)		**2012**	**2011**
Rental income	₩	10,348	10,927
Operating and maintenance expense		(3,790)	(3,982)

14. Property, Plant and Equipment

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

(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)

14. Property, Plant and Equipment, Continued

(In millions of won)		2011						
		Land	**Buildings**	**Structures**	**Machinery and equipment**	**Construction in-progress**	**Others**	**Total**
Beginning balance	₩	2,657,882	1,834,432	1,236,276	1,534,907	185,898	394,895	7,844,290
Acquisitions and other		206,698	104,388	14,361	220,495	62,311	139,211	747,464
Disposals		(7,445)	(96)	-	(1,948)	-	(1,335)	(10,824)
Depreciation		-	(60,116)	(36,704)	(212,381)	-	(134,644)	(443,845)
Ending balance	₩	2,857,135	1,878,608	1,213,933	1,541,073	248,209	398,127	8,137,085
Acquisition cost		2,857,135	2,407,065	1,496,788	3,513,422	248,209	1,653,327	12,175,946
Accumulated depreciation		-	(528,457)	(282,855)	(1,972,349)	-	(1,255,200)	(4,038,861)

(2) A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩4,041,286 million as of December 31, 2012. The Company maintains insurance coverage against fire and other casualty losses of up to ₩14,528,540 million for ships and sea structures under construction. Insurance proceeds of ₩9,850,694 million are pledged as collateral for the guarantees from the Export-Import Bank of Korea as of December 31, 2012.

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩16,083,546 million as of December 31, 2012. The Company also maintains insurance on cargo against damage and claims losses of up to ₩10,932,989 million for products being exported and imported as of December 31, 2012.

(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%.

(4) Construction-in-progresse is related to the development and construction of Ihwa Industrial Park and the construction of H-DOCK GATE expansion as of December 31, 2012.

15. Intangible Assets

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

(In millions of won)		**2012**	**2011**
Beginning balance	₩	311,526	289,987
Acquisition and other		56,434	75,278
Amortization		(54,545)	(53,739)
Impairment		(1,059)	-
Ending balance	₩	312,356	311,526
Acquisition cost		719,943	664,083
Accumulated amortization		(406,528)	(352,557)
Accumulated impairment		(1,059)	-

15. Intangible Assets, Continued

(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, 2012 and 2011 are as follows:

(In millions of won)		2012	2011
Beginning balance	₩	58,829	66,392
Acquisition and other		5,454	3,748
Disposals		(666)	(9,271)
Amortization		(2,220)	(2,040)
Ending balance(*)	₩	61,397	58,829
Acquisition cost		93,214	88,426
Accumulated amortization		(31,817)	(29,597)

(*) The carrying amount of intangible assets with indefinite useful lives is ₩45,984 million and ₩44,812 million as of December 31, 2012 and 2011, respectively.

(3) Research costs amounting to ₩6,997 million and ₩9,376 million, and ordinary development costs amounting to ₩155,054 million and ₩125,168 million are included in selling, general and administrative expenses for the years ended December 31, 2012 and 2011, respectively. Amortized development costs of ₩54,545 million and ₩53,739 million are included in the manufacturing cost for the years ended December 31, 2012 and 2011, respectively.

16. Short-term and Long-term Financial Liabilities

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

(In millions of won)		2012		2011	
		Current	Non-current	Current	Non-current
Borrowings	₩	4,281,915	1,063,610	3,601,032	61,766
Financial liabilities at fair value through profit or loss		193	-	14,779	5,286
Debentures		-	1,200,000	300,000	-
Discount on debentures		-	(3,387)	(125)	-
	₩	4,282,108	2,260,223	3,915,686	67,052

17. Trade and Other Payables

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

(In millions of won)		2012		2011	
		Current	**Non-current**	**Current**	**Non-current**
Trade payables	₩	1,641,258	-	1,751,388	-
Other accounts payable		324,315	-	362,410	-
Accrued expenses		334,056	-	336,473	-
Deposits received		-	12,235	-	14,650
	₩	2,299,629	12,235	2,450,271	14,650

18. Borrowings and Debentures

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

(In millions of won)

Type of borrowing	**Lender**	**Annual Interest rate (%)**		**2012**	**2011**
General loan	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3.66	₩	100,000	-
Commercial paper	Shinhan Bank and others	2.95~3.70		1,800,000	2,500,000
Invoice loan	Deutsche Bank and others	0.63~1.62		852,270	114,242
Usance L/C	Shinhan Bank and others	0.52~3.54		639,990	540,452
Transferred export receivables	Korea Exchange Bank and others	1.21~1.75		3,598	-
Network loan	Export-Import Bank of Korea	-		-	96,338
Pre-shipment credit	Export-Import Bank of Korea	3.49~3.82		830,000	350,000
			₩	4,225,858	3,601,032

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

(In millions of won)

Type of borrowing	**Lender**	**Annual Interest rate (%)**		**2012**	**2011**
Commercial paper	SK Securities Co., Ltd. and others	3.04~3.76	₩	750,000	-
General loan in foreign currency	Export-Import Bank of Korea	2.11		46,057	49,592
Business loans(*)	Korea National Oil Corporation and others	0.75~3.75		13,610	12,174
Pre-shipment credit	Export-Import Bank of Korea	3.70~4.55		310,000	-
	Current portion			(56,057)	-
			₩	1,063,610	61,766

(*) The maturities of business loans (₩11,307 million and ₩12,174 million as of December 31, 2012 and 2011, respectively) from Korea National Oil Corporation are not readily determinable since the business loans are paid by installment in the event of successful commercial production by the Company's oil development business.

18. Borrowings and Debentures, Continued

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

(In millions of won)

Description	Maturity	Annual interest rate (%)		2012	2011
112nd debenture	2012.04.13	-	₩	-	300,000
113rd debenture	2015.02.17	3.96		500,000	-
114 st-1 debenture	2015.07.24	3.23		300,000	-
114 st-2 debenture	2017.07.24	3.35		400,000	-
			₩	1,200,000	300,000

(4) Aggregate maturities of the Company's borrowings and debentures as of December 31, 2012 and 2011 are summarized as follows:

(In millions of won)

		2012		
Periods		**Borrowings**	**Debentures**	**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

(In millions of won)

		2011		
Periods		**Borrowings**	**Debentures**	**Total**
2012.01.01~2012.12.31	₩	3,601,032	300,000	3,901,032
2013.01.01~2016.12.31		49,592	-	49,592
2017.01.01 and thereafter		12,174	-	12,174
	₩	3,662,798	300,000	3,962,798

19. Employee Benefits

(1) Recognized liabilities for defined benefit obligations as of December 31, 2012 and 2011 are as follows:

(In millions of won)		2012	2011
Present value of defined benefit obligations	₩	1,000,373	836,804
Fair value of plan assets		(827,700)	(746,062)
	₩	172,673	90,742

(2) Plan assets as of December 31, 2012 and 2011 are as follows:

(In millions of won)		2012	2011
Retirement pension	₩	814,931	732,783
Deposit for severance benefit insurance		3	3
Transfer to National Pension Fund		12,766	13,276
	₩	827,700	746,062

19. Employee Benefits, Continued

(3) Expenses recognized in profit or loss for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)		**2012**	**2011**
Current service costs	₩	124,391	112,668
Interest on obligations		35,463	39,001
Expected return on plan assets		(25,026)	(28,568)
	₩	134,828	123,101

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

(In millions of won)		**2012**	**2011**
Beginning balance	₩	836,804	768,243
Current service costs		124,391	112,668
Interest on obligations		35,463	39,001
Benefits paid		(50,027)	(161,589)
Transfers from related parties		40	481
Actuarial losses in other comprehensive income		53,702	78,000
Ending balance	₩	1,000,373	836,804

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

(In millions of won)		**2012**	**2011**
Beginning balance	₩	746,062	699,903
Benefits paid		(46,004)	(101,251)
Contributions paid into the plan		95,400	115,031
Expected return on plan assets		25,026	28,568
Actuarial gains in other comprehensive income		7,216	3,811
Ending balance	₩	827,700	746,062

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

	2012	**2011**
Discount rate at December 31	3.65%	4.56%
Expected return on plan assets at January 1	3.65%	3.28%
Future salary increases	3.70%	4.20%
Future mortality (Males, at age 45)	0.29%	0.29%

19. Employee Benefits, Continued

(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, 2012	December 31, 2011	December 31, 2010	January 1, 2010
Defined benefit obligations	₩	1,000,373	836,804	768,243	1,148,596
Plan assets		(827,700)	(746,062)	(699,903)	(1,051,672)
Deficit		172,673	90,742	68,340	96,924
Experience adjustments on plan liabilities		53,702	78,000	99,380	N/A
Experience adjustments on plan assets		(7,216)	(3,811)	1,776	

20. Long-term Provisions

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

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

(In millions of won)		2011		
		Provision for construction warranty	Provision for product warranty	Total
Beginning balance	₩	46,683	62,820	109,503
Addition		24,683	55,029	79,712
Reversal		(5,043)	(6,516)	(11,559)
Utilization		(9,463)	(38,308)	(47,771)
Ending balance	₩	56,860	73,025	129,885

21. Derivative Financial Instruments

The Company has entered into derivative instrument contracts related to foreign currency forward with 26 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, 2012 are as follows:

(i) Terms of derivative contracts

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

Description	Currency		Contract amount	Number of contracts	Weighted average exchange rate	Average maturities
	Sell	Buy				
Cash flow hedge	EUR	KRW	19,831	359	1,445.14	2013-11-28
	USD	KRW	827,009		1,116.22	2013-05-26
	USD	EUR	548		0.76	2013-05-05
	USD	GBP	4,981		0.63	2013-04-12
	KRW	EUR	15,607		1,565.33	2013-08-08
	KRW	USD	1,990,856		1,125.23	2013-12-27
Fair value hedge	EUR	KRW	20,147	1,208	1,455.14	2014-01-06
	USD	KRW	10,566,851		1,133.15	2014-02-10
For trading	USD	KRW	179,555	7	1,159.58	2013-09-06
	EUR	KRW	39,978	1,574	1,450.18	2013-12-18
	USD	KRW	11,573,415		1,132.35	2014-01-20
	USD	EUR	548		0.76	2013-05-05
	USD	GBP	4,981		0.63	2013-04-12
	KRW	EUR	15,607		1,565.33	2013-08-08
	KRW	USD	1,990,856		1,125.23	2013-12-27

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

21. Derivative Financial Instruments, Continued

(2) Gain and loss on valuation and transaction of derivatives for the year ended December 31, 2012 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	₩	(7,476)	(7,298)	691	645	-	-	(28,291)	-	-	30,235	61,974	-	-
Fair value hedge		17,914	-	829,343	33,832	15,852	760,311	-	70,633	331,068	435,969	1,737	-	-
For trading		-	-	31,458	10,605	-	-	-	-	-	-	-	13,462	193
	₩	10,438	(7,298)	861,492	45,082	15,852	760,311	(28,291)	70,633	331,068	466,204	63,711	13,462	193

As of December 31, 2012, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to ₩(-)21,445 million, net of tax of ₩6,846 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 48 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, 2012 is ₩(-)7,063 million.

22. 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, 2012 and 2011, 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, 2012 and 2011.

(2) Capital surplus as of December 31, 2012 and 2011 is summarized as follows:

(In millions of won)		**2012**	**2011**
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, 2012 and 2011 are as follows:

(In millions of won)		**2012**	**2011**
₩4,000 per qualifying ordinary share (2011: ₩7,000)	₩	245,154	429,019

23. Treasury Stock

Treasury stock as of December 31, 2012 and 2011 is summarized as follows:

(In millions of won)	**2012**				**2011**			
	Number of shares		**Acquisition cost**	**Fair value**	**Number of shares**		**Acquisition cost**	**Fair value**
Treasury stock	14,711,560	₩	1,400,455	3,560,198	14,711,560	₩	1,400,455	3,780,871

24. Accumulated Other Comprehensive Income

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

(In millions of won)		**2012**	**2011**
Gain and loss on valuation of available-for-sale financial assets	₩	520,048	862,951
Gain and loss on valuation of derivatives		(21,445)	(10,304)
	₩	498,603	852,647

24. Accumulated Other Comprehensive Income, Continued

(2) Other comprehensive income (loss) for the years ended December 31, 2012 and 2011 is as follows:

(In millions of won)		2012	2011
Gain and loss on valuation of available-for-sale financial assets	₩	(452,378)	297,265
Loss on valuation of derivatives		(14,698)	(30,278)
Defined benefit plan actuarial losses		(46,486)	(74,189)
Tax effect		124,282	(62,997)
	₩	(389,280)	129,801

25. Retained Earnings

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

(In millions of won)		2012	2011
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		510,000	470,000
Others		10,901,453	8,768,344
		11,577,000	9,403,891
Unappropriated retained earnings		1,069,856	2,418,263
	₩	14,667,270	13,842,568

(*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.

25. Retained Earnings, Continued

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

(In millions of won)		**2012**	**2011**
Beginning balance	₩	13,842,568	12,379,655
Net income		1,105,092	1,945,942
Actuarial losses		(35,236)	(54,010)
Dividends		(245,154)	(429,019)
Ending balance	₩	14,667,270	13,842,568

(3) Statements of appropriation of retained earnings for the years ended December 31, 2012 and 2011 are as follows:

(In millions of won)		**2012**	**2011**
I. Unappropriated retained earnings	₩	1,069,856	2,418,263
Unappropriated retained earnings to be carried from previous year		-	526,331
Actuarial losses		(35,236)	(54,010)
Net income		1,105,092	1,945,942
II. Transfer from voluntary reserves		100,000	70,000
Reserve for research and human development		100,000	70,000
III. Total (I + II)		1,169,856	2,488,263
VI. Appropriation of retained earnings		1,169,856	2,488,263
Reserve for research and human development		160,000	110,000
Voluntary reserves		856,635	2,133,109
Dividends(*)		153,221	245,154
V. Unappropriated retained earnings to be carried over to subsequent year	₩	-	-

(*) The Company declared and paid ₩2,500 per qualifying ordinary share (2011: ₩4,000) which resulted in a 50% of dividend payout rate (2011: 80%).

26. Outstanding Contracts

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

(In millions of won)		**2012**	**2011**
Construction contracts	₩	15,536,310	15,866,777
Goods sold		9,334,503	8,893,424
Services		184,201	259,403
	₩	25,055,014	25,019,604

(2) Changes in outstanding contracts for the year ended December 31, 2012 are as follows:

(In millions of won)		**Shipbuilding**	**Others**	**Total**
Beginning balance(*)	₩	17,879,649	18,059,666	35,939,315
Increase during the period		6,914,422	15,308,811	22,223,233
Recognized as revenue		(9,657,719)	(15,397,295)	(25,055,014)
Ending balance	₩	15,136,352	17,971,182	33,107,534

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

26. Outstanding Contracts, Continued

As of December 31, 2012, 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.

(3) Accumulated profit and loss of construction and others connected with construction in progress as of December 31, 2012 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	₩	7,045,034	6,479,337	565,697	325,958	2,517,504	2,845,039
Others		18,199,915	15,818,297	2,381,618	358,641	1,054,257	1,357,786
	₩	25,244,949	22,297,634	2,947,315	684,599	3,571,761	4,202,825

27. Selling, General and Administrative Expenses

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

(In millions of won)		2012	2011
Salaries	₩	316,582	320,163
Post-employment benefit costs		35,681	17,541
Employee welfare		83,360	78,139
Depreciation		37,058	34,869
Bad debt expenses		315,142	85,169
Ordinary development costs		155,054	125,168
Advertising		68,438	63,053
Printing		1,868	2,172
Compensation		410	153
Warranty expenses		100,586	79,344
Insurance		3,363	3,724
Supplies		7,942	7,699
Utilities		3,721	4,019
Repairs		5,399	7,856
Travel		21,369	22,982
Research		6,997	9,376
Training		12,218	8,449
Transportation		155,524	131,129
Rent		11,973	10,478
Data processing		9,933	9,358
Entertainment		2,427	2,729
Taxes and dues		4,031	3,969
Service charges		71,019	93,545
Automobile maintenance		7,574	7,916
Communications		6,697	5,563
Sales commissions		58,541	57,133
Others		24,797	27,375
	₩	1,527,704	1,219,071

28. Nature of Expenses

The classification of expenses by nature for the years ended December 31, 2012 and 2011 is as follows:

(In millions of won)		2012	2011
Changes in inventories	₩	(43,522)	(410,828)
Purchase of inventories		15,790,390	15,911,917
Depreciation		466,294	447,592
Amortization		56,765	55,779
Labor cost		2,115,960	2,068,230
Other expenses		5,384,477	4,318,365
	₩	23,770,364	22,391,055

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

29. Finance Income and Finance Costs

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

(In millions of won)		2012	2011
Finance income:			
Interest income	₩	101,369	153,671
Gain on valuation of financial instruments at fair value through profit or loss		14,646	6,864
Gain on disposal of financial instruments at fair value through profit or loss		16,812	62,620
Gain on disposal of available-for-sale financial assets		486,032	1,471
Dividend income		57,966	76,973
Gain on foreign currency translation		89,918	46,348
Gain on foreign currency transactions		287,951	340,949
Gain on valuation of derivatives		602,154	12,036
Gain on derivatives transactions		227,880	344,042
	₩	1,884,728	1,044,974
Finance costs:			
Interest expense	₩	158,132	139,806
Loss on valuation of financial instruments at fair value through profit or loss		-	9,586
Loss on disposal of financial instruments at fair value through profit or loss		10,605	102,395
Loss on disposal of available-for-sale financial assets		24	549
Impairment loss on available-for-sale financial assets		1,679	7,774
Loss on foreign currency translation		128,532	38,037
Loss on foreign currency transactions		315,823	479,720
Loss on valuation of derivatives		10,976	309,866
Loss on derivatives transactions		23,501	92,814
	₩	649,272	1,180,547

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

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

(In millions of won)		2012	2011
Other non-operating income:			
Gain on disposal of property, plant and equipment	₩	2,868	1,511
Gain on valuation of firm commitments		15,852	385,136
Miscellaneous income		99,243	214,433
	₩	117,963	601,080
Other non-operating expenses:			
Service charges	₩	8,269	5,645
Impairment loss on investments in subsidiaries and associates		207,521	-
Loss on disposal of property, plant and equipment		9,027	1,928
Impairment loss on property, plant and equipment		84,248	-
Loss on disposal of intangible assets		32	129
Impairment loss on intangible assets		1,059	-
Loss on valuation of firm commitments		760,311	263,393
Impairment loss on other non-current assets		5,280	-
Donation		84,046	197,735
Miscellaneous expenses		50,431	94,473
	₩	1,210,224	563,303

31. Income Tax Expense

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

(In millions of won)		2012	2011
Current tax expense	₩	541,529	639,135
Adjustment for prior periods		(15,052)	(55,582)
Origination and reversal of temporary differences		(328,006)	64,256
Income tax recognized in other comprehensive income		124,282	(62,997)
Total income tax expense	₩	322,753	584,812

(2) Income tax recognized directly in other comprehensive income for the years ended December 31, 2012 and 2011 is as follows:

(In millions of won)		2012	2011
Gains (losses) on valuation of available-for-sale financial assets	₩	109,475	(90,444)
Losses on valuation of derivatives		3,557	7,268
Defined benefit plan actuarial losses		11,250	20,179
Income tax recognized directly in other comprehensive income	₩	124,282	(62,997)

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.

31. Income Tax Expense, Continued

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

(In millions of won)		2012	2011
Profit before income tax	₩	1,427,845	2,530,754
Tax rate		24.2%	24.2%
Income tax using the Company's statutory tax rate		345,076	612,416
Adjustment for:			
- Tax effect of non-deductible expenses		13,789	1,969
- Tax effect of non-taxable incomes		(6,725)	(6,874)
- Tax credits		(14,344)	(15,365)
- Current adjustments for prior periods		(15,052)	(55,582)
- Other		9	48,248
Income tax expenses	₩	322,753	584,812
Effective tax rate	%	22.60	23.11

(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)		2012	2011
Deferred assets (liabilities) at the end of the period	₩	(326,874)	(654,880)
Deferred assets (liabilities) at the beginning of the period		(654,880)	(590,624)
Deferred tax expenses by origination and reversal of temporary differences	₩	(328,006)	64,256

(5) As of December 31, 2012, 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.

31. Income Tax Expense, Continued

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

(In millions of won)		Beginning balance	Change	Ending balance
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)
December 31, 2011				
Investments in subsidiaries and associates	₩	(5,731)	(573)	(6,304)
Available-for-sale financial assets		(170,407)	(88,979)	(259,386)
Reserve for research and human development		(104,940)	(18,480)	(123,420)
Trade and other receivables		45,067	17,637	62,704
Asset revaluation		(269,589)	(26,779)	(296,368)
Property, plant and equipment		(43,596)	(10,329)	(53,925)
Derivatives		(70,786)	14,688	(56,098)
Accrued expenses		17,786	713	18,499
Others		11,572	47,846	59,418
	₩	(590,624)	(64,256)	(654,880)

32. Earnings per Share

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

		2012	2011
Net income *(In millions of won)*	₩	1,105,092	1,945,942
Weighted average number of ordinary shares outstanding *(In thousands of shares)*		61,288	61,288
Earnings per share *(In won)*	₩	18,031	31,751

(2) Weighted average number of ordinary shares for the year ended December 31, 2012 is as follows:

(In shares)	Number of shares outstanding	Weighted average	Weighted average number of shares outstanding
Beginning balance	61,288,440	366/366	61,288,440

(3) Since there are no potentially dilutive common shares as of December 31, 2012 and 2011, diluted earnings per share have not been calculated.

33. Cash Generated (Used) from Operations

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

(In millions of won)		**2012**	**2011**
Net income for the year	₩	1,105,092	1,945,942
Adjustments for:			
Post-employment benefit costs		134,828	123,101
Depreciation		466,294	447,592
Amortization		56,765	55,779
Bad debt expenses		315,142	85,169
Finance income		(1,352,086)	(297,363)
Finance costs		323,385	505,617
Other non-operating income		(20,212)	(386,647)
Other non-operating expenses		1,068,940	327,494
Income taxes		322,753	584,812
Changes in assets and liabilities:			
Trade receivables		(390,806)	(37,460)
Other receivables		(41,396)	(92,022)
Due from customers for contract work		(1,004,919)	595,523
Inventories		(43,522)	(410,828)
Derivatives		(74,179)	(488,960)
Firm commitments		(44,843)	212,395
Other current assets		(396,763)	(683,310)
Long-term trade receivables		(110,621)	(186,556)
Trade payables		(96,018)	(179,780)
Other payables		(29,217)	(46,730)
Advances from customers		(154,098)	13,840
Due to customers for contract work		(1,673,681)	31,566
Long-term other payables		(2,408)	1,152
Benefits paid		(50,027)	(161,589)
Succession of Benefits		40	481
Plan assets		(49,396)	(13,780)
Long-term provisions		122,621	20,382
		(2,723,424)	19,878

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

(1) Categories of financial instruments as of December 31, 2012 and 2011 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

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

(In millions of won)	2011								
		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	₩	608,306	-	-	-	-	-	-	-
Short-term financial assets		-	8,512	-	12,059	-	-	-	-
Trade and other receivables		-	-	-	3,247,270	-	-	-	-
Due from customers for contract work		-	-	-	2,567,104	-	-	-	-
Derivative assets (current)		-	-	-	-	127,646	-	-	-
Long-term financial assets		-	10,184	1,775,711	33	-	-	-	-
Long-term trade and other receivables		-	-	-	509,610	-	-	-	-
Derivative assets (non-current)		-	-	-	-	46,467	-	-	-
Short-term financial liabilities		-	-	-	-	-	14,779	3,900,907	-
Trade and other payables		-	-	-	-	-	-	2,450,271	-
Derivative liabilities (current)		-	-	-	-	-	-	-	230,145
Long-term financial liabilities		-	-	-	-	-	5,286	61,766	-
Long-term trade and other liabilities		-	-	-	-	-	-	14,650	-
Derivative liabilities (non-current)		-	-	-	-	-	-	-	192,144
	₩	608,306	18,696	1,775,711	6,336,076	174,113	20,065	6,427,594	422,289

34. 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, 2012 and 2011 are as follows:

(In millions of won)		Net income		Other comprehensive income		Interest income and interest expense(*)		Impairment loss	
		2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Cash and cash equivalents	₩	734	28,880	-	-	23,234	22,917	-	-
Financial assets at fair value through profit or loss		24,877	15,570	-	-	-	-	-	-
Available-for-sale financial assets		498,808	4,842	(342,902)	206,820	-	10	(1,679)	(7,774)
Loans and receivables		(429,417)	(28,304)	-	-	78,136	130,744	(315,142)	(85,169)
Financial liabilities at fair value through profit or loss		(4,204)	(64,587)	-	-	-	-	-	-
Financial liabilities measured at amortized cost		(24,736)	(192,496)	-	-	(182,173)	(139,806)	-	-
Derivatives		786,723	(49,936)	(11,141)	(23,010)	-	-	-	-

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

35. 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, 2012 and 2011 is as follows:

(In millions of won)		**2012**	**2011**
Financial assets at fair value through profit or loss	₩	13,462	18,696
Available-for-sale financial assets		1,109,036	1,775,711
Loans and receivables		7,435,258	6,336,076
Derivative assets		466,204	174,113
	₩	9,023,960	8,304,596

The maximum exposure to credit risk for financial guarantee contracts is ₩898,953 million as of December 31, 2012 (see notes 36 and 38).

35. 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)		2012	2011
Korea	₩	2,551,457	1,845,221
North America		607,283	128,930
Asia		1,564,262	1,968,285
Europe		2,248,209	717,140
Others		464,047	1,676,500
	₩	7,435,258	6,336,076

(ii) Impairment loss

The aging of loans and receivables and the related allowance for impairment as of December 31, 2012 and 2011 are as follows:

(In millions of won)		2012		2011	
		Gross	Impairment	Gross	Impairment
Not past due	₩	7,277,987	(342,227)	5,632,547	(252,009)
Past due 0~6 months		312,521	(56,933)	747,324	(1,371)
Past due 6~12 months		291,890	(124,547)	162,143	(492)
Past due 1~3 years		166,008	(93,775)	93,227	(49,023)
More than three years		23,441	(19,107)	22,871	(19,141)
	₩	8,071,847	(636,589)	6,658,112	(322,036)

The movement in the allowance for impairment in respect of loans and receivables during the years ended December 31, 2012 and 2011 is as follows:

(In millions of won)		2012	2011
Beginning balance	₩	322,036	380,076
Impairment loss recognized		322,224	89,317
Reversal of allowance accounts		(7,082)	(3,970)
Write offs		(589)	(143,387)
Ending balance	₩	636,589	322,036

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.

35. Financial Instruments, Continued

(1) Credit risk, continued

(iii) The analysis of the aging of financial assets that are past due as of December 31, 2012 and 2011, but not impaired is summarized as follows:

(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

(In millions of won)		2011				
		Carrying amount	**6 months or less**	**6~12 months**	**1~3 years**	**More than 3 years**
Loans and receivables	₩	955,538	745,953	161,651	44,204	3,730

(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, 2012 and 2011 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 ₩898,953 million as of December 31, 2012 (see Notes 36 and 38).

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

35. Financial Instruments, Continued

(2) Liquidity risk, continued

(In millions of won)		2011					
		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	₩	3,662,798	3,680,306	3,616,162	1,327	50,643	12,174
Unsecured bond issues		299,875	308,145	308,145	-	-	-
Trade and other payables		2,464,921	2,464,921	2,248,164	202,107	14,590	60
Derivative financial liabilities:							
Forward exchange contracts used for hedging:							
Outflow		422,289	450,356	175,532	59,850	214,832	142
Other forward exchange contracts:							
Outflow		20,065	20,872	13,903	1,062	5,907	-
	₩	6,869,948	6,924,600	6,361,906	264,346	285,972	12,376

(ii) The periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2012 and 2011 are summarised as follows:

(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)

(In millions of won)		2011					
		Carrying amount	**Expected cash flows**	**6 months or less**	**6~12 months**	**1~3 years**	**More than 3 years**
Forward exchange contracts							
Assets	₩	66,822	70,845	15,174	22,914	32,757	-
Liabilities		(80,416)	(83,126)	(50,326)	(20,237)	(12,563)	-
	₩	(13,594)	(12,281)	(35,152)	2,677	20,194	-

35. 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, 2012 and 2011 is as follows:

(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

(In millions of won)		2011					
		USD	**EUR**	**CNY**	**JPY**	**Others**	**Total**
Cash and cash equivalents	₩	312,735	268	5	346	25,136	338,490
Loans and receivables		4,691,568	275,301	94,531	5,411	316,681	5,383,492
Trade and other payables		(867,246)	(98,366)	(1,066)	(27,735)	(114,583)	(1,108,996)
Borrowings		(518,141)	(112,636)	-	(72,180)	(13,503)	(716,460)
Gross statement of financial position exposure		3,618,916	64,567	93,470	(94,158)	213,731	3,896,526
Derivative contracts		(254,037)	5,901	-	-	(1,409)	(249,545)
Net exposure	₩	3,364,879	70,468	93,470	(94,158)	212,322	3,646,981

Significant exchange rates applied for the years ended December 31, 2012 and 2011 are as follows:

(In won)		**Average rate**		**Spot rate**	
		2012	**2011**	**2012**	**2011**
USD	₩	1,126.88	1,108.11	1,071.10	1,153.30
EUR		1,448.20	1,541.42	1,416.26	1,494.10
CNY		178.58	171.50	171.88	182.51
JPY(100)		1,413.14	1,391.31	1,247.50	1,485.16

35. 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, 2012 and 2011 would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the 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 2011. The changes in profit or loss are as follows:

(In millions of won)		Profit or loss	
		2012	**2011**
USD (3 percent weakening)	₩	132,894	100,946
EUR (3 percent weakening)		(3,389)	2,114
CNY (3 percent weakening)		1,178	2,804
JPY (3 percent weakening)		(893)	(2,825)

A strengthening of the won against the above currencies as of December 31, 2012 and 2011 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, 2012 and 2011 is as follows:

(In millions of won)		**2012**	**2011**
Fixed rate instruments:			
Financial assets	₩	999,724	735,837
Financial liabilities		(6,485,858)	(3,454,569)
	₩	(5,486,134)	(2,718,732)
Variable rate instruments:			
Financial assets	₩	154,028	641,493
Financial liabilities		(59,668)	(508,104)
	₩	94,360	133,389

(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.

35. 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, 2012 and 2011 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 2011. 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			
2012	₩	944	(944)
2011		1,334	(1,334)

(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)		2012		2011	
		Carrying amounts	**Fair values**	**Carrying amounts**	**Fair values**
Assets carried at fair value:					
Financial assets at fair value through profit or loss	₩	13,462	13,462	18,696	18,696
Available-for-sale financial assets(*)		1,109,036	1,109,036	1,775,711	1,775,711
Derivative assets		466,204	466,204	174,113	174,113
	₩	1,588,702	1,588,702	1,968,520	1,968,520
Cash and cash equivalents	₩	522,917	522,917	608,306	608,306
Assets carried at amortized cost:					
Loans and receivables	₩	7,435,258	7,435,258	6,336,076	6,336,076
Liabilities carried at fair value:					
Financial liabilities at fair value through profit or loss	₩	193	193	20,065	20,065
Derivative liabilities		63,711	63,711	422,289	422,289
	₩	63,904	63,904	442,354	442,354
Liabilities carried at amortized cost:					
Unsecured bank loans	₩	5,345,525	5,345,525	3,662,798	3,662,798
Unsecured bond issues		1,196,613	1,196,613	299,875	299,875
Trade and other payables		2,311,864	2,311,864	2,464,921	2,464,921
	₩	8,854,002	8,854,002	6,427,594	6,427,594

(*) 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, 2012 and 2011 are ₩93,450 million and ₩87,303 million, respectively.

35. 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, 2012 and 2011 are as follows:

	2012	2011
Available-for-sale financial assets	13.17%	16.97%
Derivatives	5.30%	6.10%

(iii) Fair value hierarchy

The different levels have been defined as follows:

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

(In millions of won)

		Level 1	Level 2	Level 3	Total
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
2011:					
Financial assets at fair value through profit or loss		-	18,696	-	18,696
Available-for-sale financial assets		1,670,170	-	18,238	1,688,408
Derivative assets		-	174,113	-	174,113
Financial liabilities at fair value through profit or loss		-	20,065	-	20,065
Derivative liabilities		-	422,289	-	422,289

35. 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	Acquisition	Disposal	Valuation	Ending balance
Available-for-sale financial assets	₩	18,238	-	-	(3,540)	14,698

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

Transferred financial assets that are not derecognized in their entirety as of December 31, 2012 are as follows:

(In millions of won)

		Loans and receivables
		Trade receivables
Carrying amount of assets	₩	3,598
Carrying amount of associated liabilities		3,598
For those liabilities that have recourse only to the transferred assets:		
Fair value of assets		3,598
Fair value of associated liabilities		3,598
Net position	₩	-

36. Commitments and Contingencies

(1) As of December 31, 2012, the Company has entered into bank overdraft agreements with eight banks amounting to ₩238,000 million and general loan agreements with seven banks amounting to ₩340,000 million and USD 43,000 thousand.

(2) As of December 31, 2012, 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 3,668,784 thousand.

(3) As of December 31, 2012, the Company has entered into credit facilities agreements such as pre-shipment credit with various banks totaling ₩3,822,304 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 two checks as of December 31, 2012.

(5) As of December 31, 2012, the Company is contingently liable for loan guarantees of its foreign subsidiaries amounting to USD 858,820 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 has also provided certain performance guarantees for bareboat charter amounting to USD 396,126 thousand to ship owners on behalf of Hyundai Merchant Marine Co., Ltd. Furthermore, the Company has provided performance guarantees for the mining business in relation to overseas resource developments amounting to USD 61,925 thousand and guarantees on debt obligations for the business participant, Sherritt International Corporation, amounting to USD 24,058 thousand. 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 two ships at a contract amount of USD 121,000 thousand.

(6) In connection with the Company's contract performance guarantees, the Company has been provided with guarantees amounting to ₩1,469,331 million and USD 10,463,422 thousand (maximum guarantees amounting to ₩3,808,900 million and USD 21,468,177 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 15,587,744 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 recorded ₩150,454 million and ₩135,078 million as other non-current assets as of December 31, 2012 and 2011, respectively. The Company also obtained borrowings from the Export-Import Bank, Korea National Oil Corporation and Korea Mineral Resources Corporation (see Note 18).

37. Litigations

(1) SK Hynix Inc. ("SHI", formerly Hynix Semiconductor Inc.) sold 13 million shares of Prudential Investment & Securities ("PIS", formerly Hyundai Investment Trust & Securities Co., Ltd.) for USD 13.46 per share to Canadian Imperial Bank of Commerce ("CIBC") on June 4, 1997. In relation to this transaction, the Company made a share option agreement with CIBC under which the Company was obligated to buy back the 13 million shares of PIS for USD 16.96 per share, if CIBC exercised its option. Based on this agreement, the Company was provided a written promissory note from SHI and Hyundai Securities Co., Ltd. ("HSC") on July 1, 1997 to compensate the Company for losses incurred in connection with the transaction with CIBC under certain circumstances. Based on the above agreement, on July 20, 2000, the Company repurchased the 13 million shares from CIBC for USD 220,480 thousand. The Company required SHI and HSC to honor their written promissory note, which was rejected by SHI and HSC. Accordingly, the Company filed a lawsuit against SHI and HSC on July 28, 2000 and deposited the stocks repurchased from CIBC in Suwon District Court. On January 25, 2002, the Company partially won the litigation for the settlement of claim amounting to ₩171,800 million of principal and accrued interest thereon and recovered ₩220,933 million. Pursuant to the resolution of the board of directors on January 27, 2002, the Company filed an appeal claiming the whole amount of the principal and accrued interest. The Company also filed a lawsuit for the advance payments and reimbursable expenses from those companies that were not covered in the above litigation. In relation to the intermediate appeal for a partial settlement of the claim, the Company partially won the litigation at Seoul High Court on June 14, 2006 for the settlement of the claim amounting to ₩192,900 million of principal and accrued interest. However, the Company did not accept the Court's decision and filed an appeal with the Supreme Court of Korea. The Supreme Court of Korea annulled the original judgment on March 26, 2009. On August 21, 2009, the Company won its claim amounting to ₩241,200 million of principal, excluding ₩4,300 million and accrued interest thereon, and recovered ₩86,200 million. On September 10, 2009, the Company filed an appeal to the Supreme Court claiming the principal amount of ₩4,300 million, and the Supreme Court of Korea annulled the original judgment on February 9, 2012. On July 13, 2012, the Company won its remaining claim amounting to ₩4,300 million and recovered ₩8,900 million from SHI, bringing the litigation to an end. In addition, 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, which is currently pending as of December 31, 2012.

(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.

37. Litigations, Continued

(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 intends to vigorously defend itself and has filed a counterclaim. The impact on the Group’s financial statements, if any, cannot be reliably estimated.

In addition to the cases mentioned above, the Company is currently a defendant in 21 lawsuits involving claims totaling: ₩109,100 million. Currently, the impact on the Group’s financial statements, if any, cannot be reliably estimated.

38. Related Parties

(1) The Company is the ultimate controlling party and its subsidiaries as of December 31, 2012 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.	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
HI Gold Ocean Ship Private Special Assets Investment Trust No.2 (Beneficiary Right)	Other financial business
HI Dynamic Asia Private Securities Investment Trust 1 (Stock)	Other financial business
Hyundai Ship Private Fund 1	Other financial business
HI Gold Index Linked Private Securities Investment Trust 1	Other financial business
HI Himsen Private Funds Investment Trust 1	Other financial business
HI Gold Ocean Kmarin No. 8 Ship Investment Company	Chartering
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
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

38. Related Parties, Continued

Company	Main business
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	Manufacture, trade and repair of heavy equipment
HI Gold Ocean Kmarin No. 8 S.A	Ship investment
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

38. Related Parties, Continued

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

(In millions of won)		Sales and other		Purchases and other		Receivables and other		Payables and other	
		2012	2011	2012	2011	2012	2011	2012	2011
Subsidiaries:									
Hyundai Samho Heavy Industries Co., Ltd.	₩	719,181	698,165	7,146	9,921	192,086	221,956	111,565	174,696
Hyundai Mipo Dockyard Co., Ltd.		487,906	443,475	40,135	14,900	115,891	123,247	46,900	92,097
Hyundai Oilbank Co., Ltd.		64,412	70,269	4,124	1,582	1,114	12,446	5,545	5,472
Hyundai Heavy Material Service		9,333	18,001	640,859	761,871	3,850	2,226	81,512	83,813
Hotel Hyundai Co., Ltd.		199	65	38,672	32,954	15	5	2,268	2,926
Hyundai (Jiangsu) Construction Machinery Co., Ltd.		80,376	437,170	1,436	1,019	31,872	79,114	125	115
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.		63,184	152,114	575	665	10,374	23,331	71	49
Hyundai Heavy Industries (China) Electric Co., Ltd.		6,312	7,766	64,058	27,704	213	1,517	7,239	4,025
Yantai Hyundai Moon Heavy Industries Co., Ltd.		5,099	46	54,010	100,365	24,244	38,001	-	-
Hyundai Construction Equipment India PVT., Ltd.		94,603	94,032	4,473	1,579	52,161	56,763	236	336
Hyundai Construction Equipment Americas, Inc.		630,251	349,071	3,276	3,211	131,319	78,750	670	553
Hyundai Ideal Electric Co.		47,872	23,594	2,349	1,628	14,223	12,743	1,500	162
Hyundai Heavy Industries Brasil		51,356	-	87	-	47,399	-	26	-
Hyundai Heavy Industries Europe N.V.		272,038	230,967	4,935	2,713	46,198	38,284	1,200	585
Others		21,305	37,929	83,385	61,301	11,495	18,096	7,176	5,442
		2,553,427	2,562,664	949,520	1,021,413	682,454	706,479	266,033	370,271
Associates(*):									
Wärtsilä-Hyundai Engine Company Ltd.		3,155	2,436	47,375	-	62,902	29,764	26,002	-
KAM Corporation		-	2	-	44,340	66,278	64,278	-	-
Hyundai Corporation		1,105,351	1,156,602	22,201	3,488	328,905	234,908	16,696	59,448
Others		35,711	30,821	13	523	1,458	17,533	10,446	9,845
		1,144,217	1,189,861	69,589	48,351	459,543	346,483	53,144	69,293
Associates of subsidiaries:									
Hyundai Cosmo Petrochemical Co., Ltd.		233,117	57,998	-	-	34,451	4,747	-	-
	₩	3,930,761	3,810,523	1,019,109	1,069,764	1,176,448	1,057,709	319,177	439,564

(*) Including associates' subsidiaries

38. Related Parties, Continued

(3) Details of guarantees which the Company had provided for related companies as of December 31, 2012 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	Standard Charted Bank	Payment	USD	16,900
Machinery Co., Ltd.	Woori Bank	Payment	CNY	65,000
Weihai Hyundai Wind Power Technology Co., Ltd.	Export-Import Bank of Korea	Payment	USD	25,000
Hyundai Construction Equipment India Pvt.	Standard Charted Bank and others	Payment	USD	42,000
Ltd.	HSBC Bank Plc	Payment	INR	1,400,000
Hyundai Construction Equipment Americas, Inc.	Hana Bank and others	Payment	USD	109,600
Hyundai Power Transformers USA, INC	Woori Bank and others	Payment	USD	113,500
	Liberty Mutual	Performance	USD	20,000
Hyundai Ideal Electric Co.	Mizuho Corporate Bank Ltd, LA Branch	Payment	USD	10,000
Hyundai Heavy Industries Brasil	Banco Nacional de Desenvolvimento Economico e Social (BNDES)	Payment	BRL	109,956
Hyundai Heavy Industries Miraflores Power Plant Inc.	Korea Exchange Bank	Performance	USD	23,267
Hyundai Electrosystems Co., Ltd.	Citi Bank	Payment	USD	30,000
Hyundai Heavy Industries Europe N.V..	Korea Exchange Bank	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	45,500
			USD	420,267
			EUR	81,750
			CNY	1,565,000
			INR	1,400,000
			BRL	109,956
Associates:				
Hyundai Merchant Marine Co., Ltd.	SC Bank and others	Performance	USD	396,126
			USD	816,393
			EUR	81,750
			CNY	1,565,000
			INR	1,400,000
			BRL	109,956

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.

(4) Compensation for key management of the Company for the years ended December 31, 2012 and 2011 is ₩2,757 million and ₩3,118 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, 2012. 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, 2012, 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, 2012 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, 2012. We did not review the Company's IACS subsequent to December 31, 2012. 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 11, 2013

Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2012 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, 2012.

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, 2012, in all material respects, in accordance with the IACS Framework issued by the IACS Operations Committee.

Kim, Jong Min
Internal Accounting Control Officer

Lee, Jae Seong
Chief Executive Officer

February 7, 2013

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, 2012.

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, 2012, in all material respects, in accordance with the IACS Framework issued by the IACS Operations Committee.

Kim, Jong Min
Internal Accounting Control Officer

Lee, Jae Seong
Chief Executive Officer

February 28, 2013