

Daewoo International Corporation

Separate Financial Statements

Years ended December 31, 2012 and 2013

with independent auditors' report

Daewoo International Corporation
December 31, 2012 and 2013

Table of contents	Pages
Independent auditors' report	1-2
Separate statements of financial position	3-4
Separate statements of comprehensive income	5
Separate statements of changes in equity	6
Separate statements of cash flows	7-8
Notes to separate financial statements	9-81
Independent auditors' assessment on internal control over financial reporting	82
Managements assessment on internal control over financial reporting	83

Independent auditors' report

The Board of Directors and Stockholders
Daewoo International Corporation

We have audited the accompanying separate financial statements of Daewoo International Corporation (the Company) which comprise the separate statements of financial position as at December 31, 2012 and 2013, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, all expressed in Korean won. These separate financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the separate financial statements referred to above expressed in Korean won present fairly, in all material respects, the financial position of Daewoo International Corporation as at December 31, 2012 and 2013 and the results of its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards (KIFRS).

We have also reviewed the translation of the 2013 separate financial statements mentioned above into United States dollar amounts on the basis described in Note 2 to the accompanying separate financial statements. In our opinion, such statements have been properly translated on such basis.

Without qualifying our opinion, we draw attention to Note 2 to the separate financial statements which states that Daewoo International Corporation is the parent entity of its subsidiaries (collectively referred to as the Company) and that consolidated financial statements of the Company prepared in accordance with KIFRS have been issued separately. We have audited the consolidated financial statements of the Company as at and for the year ended December 31, 2012 and 2013 and expressed an unqualified opinion thereon in our auditors' report dated March 7, 2014.

As mentioned in the preceding paragraph, we have conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea which may vary among countries. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying separate financial statements are for use by those who are knowledgeable about Korean auditing standards and their application in practice.

Ernst & Young Han Young

March 7, 2014

This audit report is effective as of March 7, 2014, the auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying separate financial statements and may result in modifications to this report.

Daewoo International Corporation
Separate statements of financial position
As at December 31, 2012 and 2013

		Korean won in millions		U.S dollars in thousands
	Notes	2012	2013	(Note2)
				2013
Assets				
Current assets				
Cash and cash equivalents	4,30	₩ 196,541	₩ 73,732	US\$ 69,868
Trade and other receivables	5,30	3,209,963	3,545,168	3,359,394
Other current financial assets	6,30	26,881	23,306	22,085
Derivative financial assets	19,30	50,708	24,388	23,110
Other current assets	7	100,568	77,464	73,405
Inventories	8	383,007	409,542	388,081
		<u>3,967,668</u>	<u>4,153,600</u>	<u>3,935,943</u>
Non-current assets				
Trade and other receivables	5,39	447,320	504,717	478,269
Other non-current financial assets	6,30	249,975	323,232	306,294
Investment in subsidiaries and associates	10	624,312	701,534	664,772
Property, plant and equipment	3,11	362,921	394,807	374,118
Intangible assets	3,12	1,252,424	1,527,355	1,447,318
Investment properties	3,13	25,325	45,726	43,330
Deferred tax assets	28	59,194	88,705	84,057
		<u>3,021,471</u>	<u>3,586,076</u>	<u>3,398,158</u>
Total assets		<u>₩ 6,989,139</u>	<u>₩ 7,739,676</u>	<u>US\$ 7,334,101</u>
Liabilities and equity				
Current liabilities				
Trade and other payables	14,30	₩ 1,196,115	₩ 1,711,544	US\$ 1,621,855
Borrowings	15,30	1,903,316	1,994,328	1,889,821
Current portion of bond	15,30	-	210,476	199,447
Derivative financial liabilities	19,30	54,261	34,500	32,692
Other current liabilities	16	95,127	102,826	97,438
Current tax liabilities	28	245,616	33,217	31,477
		<u>3,494,435</u>	<u>4,086,891</u>	<u>3,872,730</u>
Non-current liabilities				
Trade and other payables	14,30	15,547	22,378	21,205
Borrowings	15,30	568,496	557,888	528,653
Bonds	15,30	718,535	802,182	760,147
Other non-current liabilities	16	19,940	3,593	3,405
Employee benefit liabilities	17	14,005	16,333	15,477
Provisions	18,19	35,284	34,765	32,943
		<u>1,371,807</u>	<u>1,437,139</u>	<u>1,361,830</u>
Total liabilities		<u>4,866,242</u>	<u>5,524,030</u>	<u>5,234,560</u>

(Continued)

Daewoo International Corporation
 Separate statements of financial position (cont'd)
 As at December 31, 2012 and 2013

		Korean won in millions		U.S dollars in thousands (Note2)
	Notes	2012	2013	2013
Equity				
Issued capital	20	₩ 569,381	₩ 569,381	539,544
Capital surplus	20	333,161	333,161	315,703
Accumulated other comprehensive income	6,21	29,947	29,136	27,609
Retained earnings	22	1,190,408	1,283,968	1,216,685
Total equity		2,122,897	2,215,646	2,099,541
Total equity and liabilities		₩ 6,989,139	₩ 7,739,676	US\$ 7,334,101

The accompanying notes are an integral part of the financial statements.

Daewoo International Corporation
Separate statements of comprehensive income
For the years ended December 31, 2012 and 2013

	Notes	Korean won in millions		U.S dollars in thousands (Note2)
		2012	2013	2013
Sales	3	₩ 16,760,372	₩ 16,601,358	US\$ 15,731,411
Cost of sales	23	(15,945,975)	(15,802,379)	(14,974,300)
Gross profit		814,397	798,979	757,111
Selling and administrative expense	23,24,27,30	(685,574)	(659,949)	(625,366)
Operating profit		128,823	139,030	131,745
Finance income	26,30	1,357,100	892,904	846,114
Finance costs	26,30	(1,038,080)	(857,674)	(812,730)
Other income	25,27,30	74,936	10,822	10,255
Other expenses	25,27,30	(63,784)	(15,822)	(14,993)
Profit for the year before tax		458,995	169,260	160,391
Income tax expense	28	(162,518)	(21,313)	(20,196)
Profit before tax from continuing operations		296,477	147,947	140,195
Profit (loss) after tax for the year from discontinued operation	9	9,564	(15,406)	(14,599)
Profit for the year	3	₩ 306,041	₩ 132,541	US\$ 125,596
Other comprehensive income				
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>				
Net gain (loss) on valuation of available-for-sale financial asse	6,21,28,30	519	(811)	(769)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>				
Re-measurement gains (losses) on defined benefit obligator	17,28	5,291	(4,818)	(4,565)
Other comprehensive income for the year, net of tax		5,810	(5,629)	(5,334)
Total comprehensive income for the year, net of tax		₩ 311,851	₩ 126,912	US\$ 120,262
Earnings per share for continuing operations:				
(Korean won and U.S dollars in units)				
- Basic	29	₩ 2,724	₩ 1,299	US\$ 1.23
- Diluted	29	₩ 2,526	₩ 1,299	US\$ 1.23
Earnings per share				
(Korean won and U.S dollars in units)				
- Basic	29	₩ 2,812	₩ 1,164	US\$ 1.10
- Diluted	29	₩ 2,609	₩ 1,164	US\$ 1.10

The accompanying notes are an integral part of the financial statements.

Daewoo International Corporation
Separate statements of changes in equity
For the years ended December 31, 2012 and 2013

	Korean won in millions					U.S dollars in thousands (Note2)
	Issued Capital	Capital surplus	Accumulated other comprehensive income	Retained earnings	Total	Total
As at January 1, 2012	₩ 515,904	₩ 75,700	₩ 29,428	₩ 899,712	₩ 1,520,744	US\$ 1,441,054
Profit for the year	-	-	-	306,041	306,041	290,004
Net gain on valuation loss on available-for-sale financial assets	-	-	519	-	519	492
Re-measurement gains on defined benefit plans	-	-	-	5,291	5,291	5,014
Total comprehensive income	-	-	519	311,332	311,851	295,510
Dividends (Note 22)	-	-	-	(20,636)	(20,636)	(19,555)
Conversion of convertible bonds into ordinary shares	53,477	257,461	-	-	310,938	294,644
At December 31, 2012	₩ 569,381	₩ 333,161	₩ 29,947	₩ 1,190,408	₩ 2,122,897	US\$ 2,011,653
						-
As at January 1, 2013	₩ 569,381	₩ 333,161	₩ 29,947	₩ 1,190,408	₩ 2,122,897	US\$ 2,011,653
Profit for the year	-	-	-	132,541	132,541	125,596
Net loss on valuation gain on available-for-sale financial assets	-	-	(811)	-	(811)	(769)
Re-measurement losses on defined benefit plans	-	-	-	(4,818)	(4,818)	(4,566)
Total comprehensive income	-	-	(811)	127,723	126,912	120,261
Dividends (Note 22)	-	-	-	(34,163)	(34,163)	(32,373)
At December 31, 2013	₩ 569,381	₩ 333,161	₩ 29,136	₩ 1,283,968	₩ 2,215,646	US\$ 2,099,541

The accompanying notes are an integral part of the financial statements.

Daewoo International Corporation
Separate statements of cash flows
For the years ended December 31, 2012 and 2013

	Korean won in millions		U.S dollars in thousands (Note2)
	2012	2013	2013
Operating activities			
Profit for the year	₩ 306,041	₩ 132,541	US\$ 125,596
Non-cash adjustment to reconcile profit for the year to net cash flows:			
Depreciation of property, plant and equipment	11,942	13,593	12,881
Depreciation of investment properties	532	532	504
Amortisation of intangible assets	3,998	11,210	10,623
Severance benefits	14,252	13,005	12,324
Bad debt expenses	(12,266)	5,670	5,373
Share-based compensation expense	13	-	-
Interest expense	139,990	50,432	47,789
Loss on impairment of available-for-sale financial assets	-	435	412
Loss on disposal of available for sale financial assets	1	-	-
Loss on disposal of associates	-	508	481
Loss on foreign currency translation	106,171	72,578	68,775
Loss on settlement of derivatives instruments	245,007	180,782	171,309
Loss on valuation of derivatives instruments	110,402	122,367	115,955
Loss on redemption of borrowings	30,363	1,759	1,667
Other bad debt expenses	18,215	5,324	5,045
Loss on disposal of property, plant and equipments	357	41	39
Loss on disposal of intangible assets	-	32	30
Loss on disposal of business	-	26,451	25,065
Loss on valuation of intangible assets	-	975	924
Loss on impairment of investment in associates	5,003	-	-
Loss on impairment of investment in subsidiaries	22,944	-	-
Income tax expense	165,571	16,395	15,536
Provision for product warranties	-	5	5
Loss on valuation of inventory	21,760	242	229
Financial guarantee expenses	936	742	703
Contribution to provision for contingencies	824	743	704
Contribution to provision for restoration	126	130	123
Interest income	(43,041)	(39,889)	(37,799)
Dividend income	(53,099)	(28,358)	(26,872)
Gain on foreign currency translation	(116,201)	(80,898)	(76,659)
Gain on disposal of assets classified as held for sale	(19,207)	-	-
Gain on settlement of derivatives instruments	(238,043)	(247,869)	(234,880)
Gain on valuation of derivatives instruments	(91,968)	(59,606)	(56,483)
Gain on disposal of associates	(346,623)	-	-
Gain on disposal of subsidiaries	(2,256)	-	-
Reversal of allowance for doubtful accounts	(7,713)	(479)	(454)
Gain on disposal of property, plant and equipments	(300)	(57)	(54)
Gain on disposal of intangible assets	(608)	(725)	(687)
Gain on disposal of lease assets	-	(164)	(155)
Gain on redemption of convertible bonds	(339)	-	-
Gain on valuation of convertible bonds	(14,719)	-	-
Reversal of provision for contingencies	(16,163)	-	-
Reversal of loss on valuation of inventory	-	(15,549)	(14,734)
Gain on disposal of available for sale financial assets	(923)	(40)	(38)
Reversal of impairment loss on non-current assets held for sale	(13,263)	-	-
Reversal of impairment loss on intangible assets	(455)	-	-
Financial guarantee income	(2,974)	(1,345)	(1,275)

(Continued)

Daewoo International Corporation
Statements of cash flows (cont'd)
For the years ended December 31, 2012 and 2013

	Korean won in millions		U.S dollars in thousands (Note2)
	2012	2013	2013
Working capital adjustments:			
Decrease (increase) in other current receivables	(13,002)	5,830	5,524
Increase in trade receivables	(65,316)	(549,127)	(520,352)
Decrease (increase) in inventories	383,522	(33,078)	(31,345)
Decrease in other current assets	49,081	20,084	19,032
Decrease (increase) in derivative financial assets	(40,302)	10,885	10,315
Increase in trade accounts payable	181,895	465,441	441,051
Increase (decrease) in other current payables	(17,581)	24,211	22,942
Increase in other current liabilities	31,645	8,438	7,996
Decrease in other non-current payables	(35,177)	(690)	(654)
Decrease in provision for contingencies	(554)	-	-
Payment of retirement benefit	(1,670)	(1,033)	(979)
Contribution in plan assets	(12,656)	(14,246)	(13,499)
Interest received	48,735	8,388	7,948
Dividends received	53,099	28,358	26,872
Interest paid	(144,700)	(69,261)	(65,632)
Income tax paid	(1,152)	(256,509)	(243,067)
Net cash flows from (used in) operating activities	640,154	(170,796)	(161,846)
Investing activities			
Increase in short-term loans receivable	(4,882)	(2,866)	(2,716)
Increase in long-term loans receivable	(190,259)	(84,474)	(80,047)
Decrease in long-term other receivable	51,564	-	-
Increase in short-term financial instruments	(12,369)	(9,418)	(8,924)
Decrease in financial assets held to maturity	1	1	1
Proceeds from disposal of available-for-sale financial assets	1,596	990	938
Proceeds from disposal of investment in subsidiaries	6,792	76,561	72,549
Proceeds from disposal of investment in associates	1,196,594	-	-
Decrease (increase) in guarantee deposits	(1,948)	1,109	1,050
Decrease in long-term guarantee deposits	544	252	239
Proceeds from disposal of property, plant and equipment	393	996	944
Proceeds from disposal of intangible assets	1,228	1,500	1,421
Acquisition of available-for-sale financial assets	(13,796)	(1,098)	(1,040)
Acquisition of associates	(42,697)	(43,605)	(41,320)
Acquisition of subsidiaries	(5,818)	-	-
Acquisition of property, plant, and equipment	(88,488)	(87,934)	(83,326)
Acquisition of intangible assets	(230,511)	(269,389)	(255,272)
Acquisition of investment properties	-	(20,935)	(19,838)
Proceeds from government grants	-	47	45
Proceeds from disposal of business	-	126,809	120,164
Net cash flows from (used in) investing activities	667,944	(311,454)	(295,132)
Financing activities			
Increase (decrease) in short-term borrowings	(935,966)	78,348	74,242
Proceeds from long-term borrowings	222,126	117,248	111,104
Repayment of long-term borrowings	(499,410)	(101,806)	(96,471)
Issuance of bonds	-	416,313	394,497
Redemption of bonds	(150,000)	(116,210)	(110,120)
Redemption of convertible bonds	(2,415)	-	-
Increase in long-term guarantee deposits received	928	-	-
Dividends paid	(20,636)	(34,163)	(32,373)
Transaction cost on issue of shares	(370)	-	-
Net cash flows from (used in) financing activities	(1,385,743)	359,730	340,879
Net decrease in cash and cash equivalents	(77,645)	(122,520)	(116,099)
Net foreign exchange difference	(189)	(289)	(275)
Cash and cash equivalents at January 1	274,375	196,541	186,242
Cash and cash equivalents at December 31	₩ 196,541	₩ 73,732	US\$ 69,868

The accompanying notes are an integral part of the financial statements.

1. Corporate information

Daewoo International Corporation (the Company) was incorporated on December 27, 2000 as a result of a spin-off by the trading segment of Daewoo Corporation.

The Company is engaged in various business activities, such as providing export services, export agency services, intermediary trading, manufacturing, distribution and natural resource development. The primary products sold by the Company include various industrial grade steel, metals, chemicals, transportation equipment, machinery, ships, plants, electronics, grain and petroleum.

The Company listed its shares on the Korea Exchange on March 23, 2001. The Company's issued capital as at spin-off date, amounted to ₩93,100 million and as at December 31, 2013 amounted to ₩569,381 million, through several rounds of debt-for-equity swaps and share dividends. The Company's major stockholder is POSCO Co., Ltd., which owns 60.31% of the Company's total outstanding shares.

2. Basis of preparation and summary of significant accounting policies

Basis of preparation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in accordance with Korea International Financial Reporting Standards (KIFRS) enacted by *The Corporate External Audit Law*.

The accompanying separate financial statements have been translated into English from the Korean language financial statements. In the event of differences in interpreting the financial statement, or the independent auditors' report thereon, the Korean version which is used for regulatory purposes, shall prevail.

Daewoo International Corporation is the parent entity of its subsidiaries (collectively referred to as the "Group") and the consolidated financial statements of the Group prepared in accordance with KIFRS have been issued separately.

Financial statements translation

The accompanying 2012 separate financial statements are expressed in Korean won, and solely for convenience of the reader, have been translated into United States dollars at the rate of ₩1,055.3 to US\$1, the year-end exchange rate on December 31, 2013. Such translation should not be construed as a representation that the Korean won amount can actually be converted into United States dollars at the exchange rate used for the purpose of such translation.

Summary of significant accounting policies

Subsidiaries, associates and jointly controlled entities

Pursuant to *KIFRS 1027*, the accompanying separate financial statements are accounted for, by a parent, investor in an associate on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees. Moreover, *KIFRS 1027* requires that, in separate financial statements, investments in subsidiaries or associates should be accounted for at cost. All dividends should be recognized in profit or loss within separate financial statements once the right to receive payment has been established.

2. **Basis of preparation and summary of significant accounting policies (cont'd)**

Summary of significant accounting policies (cont'd)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable excluding taxes or duty. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The specific recognition criteria described below must also be met before revenue is recognized.

When the collectability of an amount already included in revenue becomes uncertain, the uncollectible amount or the amount in respect of which recovery has ceased to be probable is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue received from transactions where the Company acts as an agent without assuming the risks and rewards of ownership of the goods is recognized on a net basis.

Rendering of services

Revenue from the rendering of services is recognized by reference to the stage of completion when the amount of revenue can be measured reliably, the stage of completion of the transaction can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

Dividends

Dividends income is recognized when the Company's right to receive the payment is established.

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

Financial assets

All financial assets are recognized initially at fair value plus transactions costs, except in the case of financial assets recorded at fair value through profit or loss. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The Company determines the classification of its financial assets at initial recognition.

2. **Basis of preparation and summary of significant accounting policies (cont'd)**

Summary of significant accounting policies (cont'd)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance costs in the income statement. Transaction costs attributable to the acquisition of the financial asset at fair value through profit or loss are charged to current operation.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to maturity when the Company has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the EIR, less impairment. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized in income statement in finance costs.

Available-for-sale financial assets

Available-for-sale financial assets include equity investments and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the other comprehensive income to the income statement in other operating income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using EIR, less impairment. The EIR amortization is included in finance income in the income statement.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a Company of financial assets is impaired. A financial asset or a Company of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, objective evidence includes a significant or prolonged decline in the fair value of the investment below its cost.

For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Evidence of impairment includes the Company's historical loss experience for receivables with similar credit risk characteristics, increased number of delayed payments and significant change of national or local economic conditions that correlate with defaults on the receivables.

2. **Basis of preparation and summary of significant accounting policies (cont'd)**

Summary of significant accounting policies (cont'd)

Impairment of financial assets (cont'd)

For financial assets carried at amortized cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced directly, except for loans and receivables. The carrying amount of loans and receivables is reduced through use of an allowance account. If the loans and receivables have been extinguished, the loans and receivables are written off and offset against the related allowance account.

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, the previously recognized impairment loss is reversed to the extent that the asset's carrying amount does not exceed what the amortized cost would have been had impairment loss not been recognized. However, impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognized (i.e. removed from the Company's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined using the first-in, first-out method, except for materials in-transit which are stated at cost by the specific identification method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2. Basis of preparation and summary of significant accounting policies (cont'd)

Summary of significant accounting policies (cont'd)

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale or for distribution to equity holders of the parent if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets and disposal groups classified as held for sale or as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to sell are the incremental costs directly attributable to the sales, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale or as held for distribution.

Assets and liabilities classified as held for sale or for distribution are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is:

- A component of the Group that is a CGU or a group of CGUs
- Classified as held for sale or distribution or already disposed in such a way, or
- A major line of business or major geographical area

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Additional disclosures are provided in Note 9. All other notes to the financial statements mainly include amounts for continuing operations, unless otherwise mentioned.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. 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. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Subsequent cost is recognized in the carrying amount of the item of property, plant and equipment, if the following recognition criteria are met.

- (a) it is probable that future economic benefits associated with the item will flow to the Company and;
- (b) the cost can be measured reliably.

The carrying amount of the replaced part is expensed, and the expenditures related to repair and maintenance are reflected in current operation as incurred.

2. **Basis of preparation and summary of significant accounting policies (cont'd)**

Summary of significant accounting policies (cont'd)

Property, plant and equipment (cont'd)

Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

	Years
Buildings	20~54
Structures	15~40
Machinery	4~25
Others	2~8

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Investment properties

Property held to earn rental income or for capital appreciation is classified as investment property. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost, net of accumulated depreciation and/or accumulated impairment losses.

Subsequent cost is recognized in the carrying amount of the item of property, plant and equipment, if the following recognition criteria are met.

- (a) it is probable that future economic benefits associated with the item will flow to the Company and;
- (b) the cost can be measured reliably.

The carrying amount of the replaced part is expensed, and the expenditures related to repair and maintenance are reflected in current operation as incurred.

Depreciation of investment properties other than land is calculated on a straight-line basis. The useful lives and depreciation method of investment properties are same as those of property, plant and equipment.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meet the recognition criteria. Development expenditure not capitalized are expensed in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives except for mining rights are amortized using the straight-line method over the useful economic life of 5~20 years. Mining rights are amortized using the unit of production method.

2. **Basis of preparation and summary of significant accounting policies (cont'd)**

Summary of significant accounting policies (cont'd)

Intangible assets (cont'd)

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The Company engages in the development of natural resources either by entering into contracts for sharing the extracted natural resources or by acquiring interests in the related projects. Expenditures related to natural resources are recognized as either exploration and evaluation assets, development assets or mining rights. The nature of these intangible assets is as follows:

Exploration and evaluation assets

Exploration and evaluation assets consist of expenditures for topographical studies, geophysical studies and trenching. These assets are reclassified as development assets when the reserves are proven successful.

Development assets

Development assets consist of expenditures for the evaluation of oil fields, facility construction, drilling for viability and others. These development assets are reclassified as mining rights at inception of the extraction.

Mining rights

Mining rights (production wells) consist of operation costs for improving productivity, oil reservoir management for prediction of oil output and production optimization, and increasing the return rate of crude oil. Mining rights are amortized using the unit of production method.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount. 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.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Companies of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in the income statement. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

2. **Basis of preparation and summary of significant accounting policies (cont'd)**

Summary of significant accounting policies (cont'd)

Leases

The determination of whether an arrangement is, (or contains), a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for (i) whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or (ii) the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Company as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the income statement on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Foreign currency translation

These 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.

At the end of each reporting period, foreign currency monetary items are translated using the closing rate. Exchange differences arising on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. Any investment income on the temporary investment of those borrowings is deducted from borrowing costs. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2. **Basis of preparation and summary of significant accounting policies (cont'd)**

Summary of significant accounting policies (cont'd)

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

When the grant relates to an expense item, it is deducted in reporting the related expenses. When the grant relates to an asset, it is presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset. It is recognized in profit or loss over the life of depreciable asset as a reduced depreciation expenses.

Financial liabilities and equity instrument

Equity instruments

An equity instruments is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities

Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as of fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments. Gains or losses on liabilities held for trading are recognized in the income statement.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognized in the income statement.

Other financial liabilities

Other financial liabilities are recognized initially at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

2. Basis of preparation and summary of significant accounting policies (cont'd)

Summary of significant accounting policies (cont'd)

Severance benefit

The Company operates a defined benefit pension plan, which requires contributions to be made to a separately administered fund.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Company) and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Company recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognizes the following changes in the net defined benefit obligation under 'cost of sales' and 'selling and administrative expenses' in consolidated statement of profit or loss (by function).

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

2. Basis of preparation and summary of significant accounting policies (cont'd)

Summary of significant accounting policies (cont'd)

Deferred tax (cont'd)

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustments would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or in profit or loss.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) 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. When it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability, a contingent liability is disclosed, but not recognized.

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 the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

2. **Basis of preparation and summary of significant accounting policies (cont'd)**

Summary of significant accounting policies (cont'd)

Derivatives

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss. For the purpose of hedge accounting, hedges are classified as fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair value hedges

Under a fair value hedge, the change in the fair value of a hedging derivative is recognized in the income statement and the change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognized in the income statement.

Fair value hedges (cont'd)

When the hedging instrument expires or is sold, terminated or exercised, hedge no longer meets the criteria for hedge accounting or the entity revokes the designation of hedge relationship, the hedge accounting is discontinued prospectively.

Embedded derivatives

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

2. Basis of preparation and summary of significant accounting policies (cont'd)

Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Pension benefits

The present value of the defined benefit obligation is determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

2. **Basis of preparation and summary of significant accounting policies (cont'd)**

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to KIFRS effective as at January 1, 2013:

KIFRS 1110 Consolidated Financial Statements and KIFRS 1027 Separate Financial Statements

KIFRS 1110 'Consolidated Financial Statements' that have been newly adopted, supersedes the provisions on accounting for consolidated financial statements of KIFRS 1027 'Consolidated Financial Statements and Separate Financial Statements' and K-IFRIC 2012 'Consolidation : Special Purpose Entities'. New standard has adopted the single dominant model that applies to all companies, including special purpose organization. According to new standards, management required more significant judgment for determining dominant of company then applying KIFRS 1027. The revision of KIFRS 1027 'Separate Financial Statements' prescribe the separate financial statements and the related accounting treatment and disclosure requirements.

The amendments have no impact on the Group's financial position or performance.

KIFRS 1111 Joint Arrangements and KIFRS 1028 Investment in Associates and Joint Ventures

New standard KIFRS 1111 'Joint Arrangements' will replace KIFRS 1031 'Interests in Joint Ventures' and KIFRIC 2013 'Jointly Controlled Entities - Non-Monetary Contributions by Venturers'. Joint venture classified joint operation, joint controlled assets and jointly controlled entity, by prior KIFRS 1031 'Interests in Joint Ventures'. New standard changes joint ventures to joint arrangements and categorizes joint operation and joint venture. The standard is prohibited joint ventures recognized directly in equity by applying proportionate consolidation and only allowed the equity method.

K-IFRS1028 the amended K-IFRS1111 'joint agreement' and KIFRS1112 'Disclosure of interests in the other companies' is the title of the newly established standards as the current 'investments in associates' in 'investments in associates and joint enterprise' was changed. The standard apply associates investments and joint ventures for using the equity method.

The amendments have no impact on the Group's financial position or performance.

KIFRS 1113 Fair Value Measurement

KIFRS 1113 establishes a single source of guidance under KIFRS for all fair value measurements. KIFRS 1113 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under KIFRS. KIFRS 1113 defines fair value as an exit price. As a result of the guidance in KIFRS 1113, the Company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. KIFRS 1113 also requires additional disclosures.

Application of KIFRS 1113 has not materially impacted the fair value measurements of the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 30.

2. Basis of preparation and summary of significant accounting policies (cont'd)

New and amended standards and interpretations (cont'd)

KIFRS 1001 Presentation of Items of Other Comprehensive Income – Amendments to KIFRS 1001

The amendments to KIFRS 1001 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g. net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g. revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes.

KIFRS 1019 Employee Benefits

KIFRS 1019 revisions include a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognized in profit or loss, instead, there is a requirement to recognize interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized.

According to amendment, the Group changes the method of accounting return on plan assets and past service cost. The amendments have no significant impact on the Group's financial position or performance.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below.

Investment Entities (Amendments to KIFRS 1110, KIFRS 1112 and KIFRS 1027)

These amendments are effective for annual periods beginning on or after January 1, 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under KIFRS 1110. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company, since none of the entities in the Company would qualify to be an investment entity under KIFRS 1110.

KIFRS 1032 Offsetting Financial Assets and Financial Liabilities - Amendments

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after January 1, 2014. These amendments are not expected to be relevant to the Company.

2. **Basis of preparation and summary of significant accounting policies (cont'd)**

Standards issued but not yet effective(cont'd)

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to KIFRS 1036 Impairment of Assets

These amendments remove the unintended consequences of KIFRS 1113 on the disclosures required under KIFRS 1036. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014.

KIFRS 1039 Novation of Derivatives and Continuation of Hedge Accounting – Amendments

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

KIFRS 2121 Levies – Amendments

KIFRS 2121 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. KIFRS 2121 is effective for annual periods beginning on or after January 1, 2014. The Company does not expect that KIFRS 2121 will have material financial impact in future financial statements.

Date of authorization for issue

The financial statements of the Company for the year ended December 31, 2013 will be authorized for issue at the meeting of the Board of Directors held on January 28, 2014 and scheduled for approval at the shareholders' meeting to be held on March 17, 2014

3. Segment information

Operating segment

For management purposes, the Company has three reportable operating segments (trading, natural resource development, and others). Accounting policies of each segment are the same as those of the Company mentioned in Note 2.

The financial performance and financial position of each segment for the year ended December 31, 2013 are as follows:

	Korean won in millions				U. S. dollars in thousands (Note 2)
	Trading	Natural resource development	Others	Total	Total
Sales	₩ 16,441,398	₩ 105,795	₩ 54,165	₩ 16,601,358	US\$ 15,731,411
Profit for the year	61,008	68,505	3,028	132,541	125,596
Total asset	5,306,939	2,314,962	117,775	7,739,676	7,334,101
Total liabilities	5,152,222	347,656	24,152	5,524,030	5,234,560

Geographic information

Sales by geographic area are based on the geographical location of the market and customers.

Sales by geographic area for the year ended December 31, 2013 are as follows:

	Korean won in millions					U. S. dollars in thousands (Note 2)
	Domestic	Asia (excluding China)	China	North America	Others	Total
Total sales	₩ 2,198,161	₩ 5,666,291	₩ 3,090,253	₩ 1,228,480	₩ 4,418,173	₩ 16,601,358
Non-current assets ¹	1,965,418	328	163	-	1,979	1,967,888
						US\$ 1,864,766

¹ Non-current assets consist of PP&E, intangible assets and investment properties.

4. Cash and cash equivalents

Cash and cash equivalents as at December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Cash	₩ 58	₩ 120	US\$ 114
Passbook account and checking account	144,314	53,482	50,679
Other cash equivalents	52,169	20,130	19,075
	₩ 196,541	₩ 73,732	US\$ 69,868

5. Trade and other receivables

Trade and other receivables as at December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2013	
Current:				
Trade receivables	₩ 3,124,942	₩ 3,492,346	US\$ 3,309,340	
Allowance for doubtful accounts	(26,964)	(26,986)	(25,572)	
Other receivables	98,860	66,668	63,174	
Allowance for doubtful accounts	(636)	(1,026)	(972)	
Accrued income	169	103	98	
Short-term guarantee deposits	2,392	382	362	
Short-term loans receivable	11,200	13,716	12,997	
Allowance for doubtful accounts	-	(35)	(33)	
	3,209,963	3,545,168	3,359,394	
Non-current:				
Long-term loans receivable	314,698	379,294	359,418	
Long-term other receivables	127,014	119,337	113,084	
Long-term guarantee deposits	5,609	6,086	5,767	
	447,321	504,717	478,269	
	₩ 3,657,284	₩ 4,049,885	US\$ 3,837,663	

Allowance for doubtful accounts

Changes in allowance for doubtful accounts related to trade receivables for the years ended December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2013	
Beginning balance	₩ 56,963	₩ 26,964	US\$ 25,551	
Bad debt expenses (Reversal of allowance for doubtful accounts)	(12,266)	5,670	5,373	
Write-off	(16,846)	(5,565)	(5,273)	
Foreign exchange translation loss (gain)	(887)	(83)	(79)	
Ending balance	₩ 26,964	₩ 26,986	US\$ 25,572	

As at December 31, 2013 trade receivables factored with recourse with a book value amounting to ₩965,522 million were not derecognized. Cash received for the factoring of such receivables was accounted for as short-term borrowings (See note 19-3).

The Company factored the above trade receivable to financial institutions with recourse. The Company retains the risks of ownership arising from credit risk such as default of debtors. The fair values of the above receivables transferred and the related borrowings are not significantly different from their book value.

6. Other financial assets

Other current financial assets

Other current financial assets as at December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2013	
Deposits in financial institutions	₩ 26,880	₩ 23,306	US\$ 22,085	
Held-to-maturity investments (bond)	1	-	-	
	₩ 26,881	₩ 23,306	US\$ 22,085	

Other non-current financial assets

Other non-current financial assets as at December 31, 2012 and 2013 are as follow:

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2013	
Deposits in financial institutions	₩ 18	₩ 12	US\$ 11	
Special deposit	143,953	221,416	209,814	
Available-for-sale financial assets	106,004	101,804	96,469	
	₩ 249,975	₩ 323,232	US\$ 306,294	

Available-for-sale financial assets

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

	Korean won in millions						U. S. dollars in thousands (Note 2)	
	2012		2013				2013	
	Book value	Number of shares	Equity ownership (%)	Acquisition cost	Fair value or net asset value	Book value	Book value	
<u>Capital contribution:</u>								
Nok-san Dyeing Association	₩ 2,845	-	-	₩ -	₩ -	₩ -	US\$ -	-
<u>Marketable securities:</u>								
Maruichi Steel Tube Ltd.	2,964	120,000	0.12	2,933	3,202	3,202		3,034
TK-Chemical Co., Ltd	14,480	8,000,000	8.89	14,818	14,280	14,280		13,532
	17,444			17,751	17,482	17,482		16,566
<u>Non-marketable securities:</u>								
The Korea Economic Daily	974	178,881	0.96	1,952	1,612	974		923
Korea Delphi Automotive Systems Corp.	49,656	1,835,520	7.70	9,178	48,564	48,564		46,019
Hanil Daewoo Cement Mfg Co., Ltd.	135	300,000	15.00	135	-	-		-
Shinpoong Daewoo Pharma Co., Ltd.	343	-	4.64	343	42,813	343		325

6. Other financial assets (cont'd)

Other non-current financial assets (cont'd)

Available-for-sale financial assets (cont'd)

	Korean won in millions						U. S. dollars in thousands (Note 2)	
	2012		Owner -ship (%)	2013		Fair value or net asset value	2013	
	Book value	Number of shares		Acquisition cost		Book value	Book value	
Chemcross Com., Inc.	₩ 226	200,000	1.17	₩ 226	₩ 213	₩ 226	US\$ 214	
CJ Philippines Incorporation	349	109,200	10.00	349	2,484	349	331	
Daewoo Motors Co., Ltd.	29	305,289	0.32	29	-	29	27	
K. K. Korea Kamchatka Co., Ltd.	-	328	10.00	-	-	-	-	
POSCO-Malaysia Sdn. Bhd.	5,175	16,414,000	13.40	5,154	-	5,175	4,904	
CES Co., Ltd.	600	156,000	5.34	600	452	600	569	
KNOC Inam., Ltd.	-	10	10.00	-	-	-	-	
Central Corporation	1,859	100,474	10.98	1,859	6,673	1,859	1,762	
Rheoforge Co., Ltd.	600	600,000	11.48	600	532	300	284	
Korea Investment Private Placement KEXIM Carbon Credit Special Asset Fund No. 1	357	-	0.04	1,020	342	342	324	
Hanmi ADM Co., Ltd.	1,000	10,000	16.67	1,000	1,602	1,000	948	
Dongjin Vietnam Co., Ltd.	803	20,000	10.00	803	441	803	761	
POSCO Assan TST Steel Industry A.S.	15,460	24,096,526	10.00	15,460	9,438	15,460	14,650	
ADM21	1,000	200,000	3.15	1,000	1,345	1,000	948	
Hunchun Pohang Hyundai International Logistics Complex Development Co., Ltd.	5,540	-	10.00	5,540	5,833	5,540	5,250	
Daewoo Pan-Pacific Co., Ltd.	950	-	-	-	-	-	-	
TES MI s.r.o.	523	-	3	523	-	523	496	
POSCO-ITPC S.p.A	-	-	10	781	598	781	740	
Jilin Kdac Co., LTD	-	-	7	85	523	85	81	
MIJU STEEL MFG CO., LTD	-	909,391	1.49	182	182	182	172	
KG Power	-	1,457,847	6.69	45	45	45	43	
Others	136	-	-	190	190	142	132	
	85,715			47,054	123,882	84,322	79,903	
	₩ 106,004			₩ 64,805	₩ 141,364	₩ 101,804	US\$ 96,469	

Investments in marketable securities, Maruichi Steel Tube Ltd., and TK-Chemical Co., Ltd were stated at fair market value as at December 31, 2013. Investment in Korea Delphi Automotive Systems Corp. ("KDASC") was stated at fair value of ₩26,458 per share by using the discounted cash flow method under the income approach. Investment in Korea Investment Private Placement KEXIM Carbon Credit Special Asset Fund No. 1 was valued at net asset value (NAV) as at December 31, 2013. The resulting unrealized gains arising from fair value adjustments on available-for-sale financial assets amounting to ₩29,136 million (US\$27,609 thousand) were

6. Other financial assets (cont'd)

Other non-current financial assets (cont'd)

recorded in other accumulated comprehensive income, net of deferred income tax effect (liability) of ₩9,302 million (US\$8,815 thousand)

Available-for-sales financial assets other than marketable securities and investment in KDASC and Korea Investment Private Placement KEXIM Carbon Credit Special Asset Fund No. 1 were recorded at cost as those securities do not have quoted market prices in active markets and the fair value of those securities could not be measured reliably.

Restricted deposits

Deposits in financial institutions and special deposit amounting to ₩223,714 million (US\$211,991 thousand) is restricted to use in accordance with relevant financial agreements.

7. Other current assets

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

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Advance payments	₩ 91,083	₩ 95,945	US\$ 90,917
Allowance for doubtful accounts	(18,232)	(20,965)	(19,866)
Prepaid expenses	27,717	2,484	2,354
	₩ 100,568	₩ 77,464	US\$ 73,405

8. Inventories

Inventories as at December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Merchandise	₩ 306,477	₩ 298,644	US\$ 282,994
Valuation allowance	(21,298)	(5,742)	(5,441)
Finished goods	4,970	-	-
Valuation allowance	(154)	-	-
Semi-finished goods	6,537	-	-
Valuation allowance	(180)	-	-
Work-in-process	2,048	-	-
Raw materials	5,496	2,638	2,600
Valuation allowance	(55)	-	-
Subsidiary materials	1,354	-	-
Valuation allowance	(45)	-	-
Supplies	356	33	31
Materials-in-transit	77,501	114,140	108,159
Valuation allowance	-	(171)	(162)
	₩ 383,007	₩ 409,542	US\$ 388,081

9. Discontinued operations

By the resolution of the Board of Directors date on October 31, 2013, the Company entered into the sales and purchase agreement to fully transfer the business of Busan Factory which manufactures textile. Transfer of the business of Busan Factory was completed on December 30, 2013.

Transferred book value of disposed assets and liabilities at completion date were as follows

	Korean won in millions		U. S. dollars in thousands (Note 2)	
Assets:				
Financial assets	₩	71,492	US\$	67,746
Advanced payments and prepaid expenses		243		230
Inventories		21,849		20,704
Investment assets		4,626		4,384
Property, plant and equipment		108,423		102,741
Intangibles assets		1,271		1,204
Other assets		210		199
Total assets	₩	208,114	US\$	197,208
Liabilities:				
Trade and other payables	₩	30,453	US\$	28,857
Other liabilities		668		633
Borrowings		217		206
Net defined benefit liability		1,755		1,663
Total liabilities	₩	33,093	US\$	31,359
Net assets	₩	175,021	US\$	165,849

Profit or loss from discontinued operation which represent financial performance of Busan Factory in 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2013	
Sales	₩ 251,002	₩ 241,042	US\$ 228,411	
Cost of sales	(221,076)	(216,187)	(204,858)	
Selling and administration expenses	(17,757)	(17,516)	(16,598)	
Financial income(expense)	136	781	740	
Other income(expense)	312	100	95	
Loss on disposal for business	-	(28,545)	(27,049)	
Profit before tax from a discontinued operations	12,617	(20,325)	(19,260)	
Income tax (expense) related to discontinued operation	(3,053)	4,919	4,661	
Profit for the year from a discontinued operation	₩ 9,564	₩ (15,406)	US\$ (14,599)	

9. Discontinued operations (cont'd)

Net cash flows from discontinued operation for the years ended December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2013	
Operating activities	₩ 4,006	₩ 4,911	US\$ 4,654	
Investing activities	(9,389)	(10,843)	(10,275)	
Financing activities	12,348	(746)	(707)	
	₩ 6,965	₩ (6,678)	US\$ (6,328)	

Basic earnings per share from discontinued operations are as follow (Korean won in millions, except per share amounts):

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2013	
Profit (loss) for the year from discontinued operation	₩ 9,564	₩ (15,406)	US\$ (14,599)	
Weighted-average number of shares of ordinary stock outstanding	108,847,740	113,876,291	113,876,291	
Basic earnings (loss) per share from discontinued operations (Korean won and U.S dollars in units)	₩ 88	₩ (135)	US\$ (1.28)	

Diluted earnings (loss) per share from discontinued operations are as follow (Korean won in millions, except for per share amounts):

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2013	
Profit (loss) for the year from discontinued operation	₩ 9,564	₩ (15,406)	US\$ (14,599)	
Profit (loss) for the year from discontinued operation adjusted for the effect of dilution	₩ 9,564	₩ (15,406)	US\$ (14,599)	
Weighted-average number of shares of ordinary stock outstanding	108,847,740	113,876,291	113,876,291	
Adjustment for assumed conversion of debt	5,103,751	-	-	
Weighted average number of ordinary shares adjusted for the effect of dilution	113,951,491	113,876,291	113,876,291	
Diluted earnings (loss) per share from discontinued operations (Korean won and dollars in units)	₩ 84	₩ (135)	US\$ (1.28)	

Daewoo International Corporation
Notes to separate financial statements
December 31, 2012 and 2013

10. Investment in subsidiaries and associates

Investment in subsidiaries and associates as at December 31, 2012 and 2013 are as follows:

	Korean won in millions						U. S. dollars in thousands (Note 2)	
	2012			2013			2013	
	Equity ownership (%)	Book value		Equity ownership (%)	Book value		Book value	
<Subsidiaries>								
Daewoo Int'l (America) Corp.	100.00	₩	29,590	100.00	₩	29,590	US\$	28,039
Daewoo Int'l (Deutschland) GmbH	100.00		9,724	100.00		9,724		9,214
Daewoo Int'l Japan Corp.	100.00		4,729	100.00		4,729		4,481
Daewoo Int'l Singapore Pte. Ltd.	100.00		3,711	100.00		3,711		3,517
Daewoo Italia S.R.L.	100.00		3,621	100.00		3,621		3,431
Daewoo Int'l Mexico S.A. De C.V.	100.00		2,905	100.00		2,905		2,753
Daewoo Int'l Shanghai Co., Ltd.	100.00		8,807	100.00		8,807		8,345
Daewoo Int'l (M) Sdn. Bhd.	100.00		2,192	100.00		2,192		2,077
Daewoo Int'l India Private Ltd.	100.00		2,299	100.00		2,299		2,179
Myanmar Daewoo Ltd.	100.00		6,104	100.00		701		664
Daewoo STC Vietnam Ltd. ⁷	100.00		1,778	100.00		-		-
Daewoo Textile Fergana LLC	100.00		5,856	100.00		5,856		5,549
Daewoo Textile Bukhara LLC	100.00		18,952	100.00		18,952		17,959
Daewoo Paper Manufacturing Co., Ltd. ³	33.84		-	33.84		-		-
Tianjin Daewoo Paper Manufacturing Co., Ltd. ³	25.00		-	25.00		-		-
Daewoo (China) Co., Ltd.	100.00		34,967	100.00		34,967		33,135
Daewoo International Australia Holdings Pty. Ltd.	100.00		126,766	100.00		126,766		120,123
Daewoo AAPC Corporation	100.00		5,027	100.00		5,027		4,764
Daewoo Int'l Cameroon S.A	100.00		2,186	100.00		3,095		2,933
Daewoo Handels GmbH ⁴	100.00		-	-		-		-
Daewoo Canada Ltd. ⁴	100.00		-	-		-		-
Daewoo El Salvador S.A. De C.V.	88.00		-	88.00		-		-
Gezira Tannery Co., Ltd. ⁵	60.00		-	-		-		-
Brasil Saopaulo Steel Processing Center	51.00		13,116	51.00		13,116		12,429
PT. Bio Inti Agrindo	85.00		25,191	85.00		29,777		28,217
Daewoo Int'l Vietnam Co., Ltd.	100.00		4,613	100.00		4,613		4,371
MCM Korea Co., Ltd. ⁵	100.00		50	-		-		-
MYANMAR DAEWOO INT'L CORP. ⁶	-		-	100.00		5,403		5,120
DAEWOO E&P CANADA CORP. ⁶	-		-	100.00		8,603		8,152
DAEWOO POWER AND INFRA ⁶ (PTY) LTD.	-		-	100.00		-		-
		₩	312,184		₩	324,454	US\$	307,452
<Associates>								
IQ Power Asia Co., Ltd. ¹	15.70		-	15.16		53		50
Blue Ocean Recovery PEF No. 1	27.50		33,300	27.50		33,300		31,555
POSCO Mexico Processing Center Holding LLC	29.00		11,508	29.00		11,508		10,905
POSCO Europe Steel Distribution Center Ltd.	20.00		1,160	20.00		1,160		1,099
POSCO IJPC	20.00		4,665	20.00		4,665		4,421
Shanghai Lansheng Daewoo Corporation	49.00		7,957	49.00		7,957		7,540
Shanghai Waigaogiao Free Trade Zone Lansheng Daewoo Int'l Trading Co., Ltd.	49.00		876	49.00		876		830
Hanjung Power Pty. Ltd.	49.00		7,489	49.00		7,489		7,097
Myanmar Korea Timber Int'l Ltd. ⁵	45.00		1,534	-		-		-
General Medicines Co., Ltd.	33.00		2,990	33.00		2,990		2,833

10. Investment in subsidiaries and associates (cont'd)

	Korean won in millions				U. S. dollars in thousands (Note 2)
	2012		2013		2013
	Equity ownership (%)	Book value	Equity ownership (%)	Book value	Book value
Korea LNG Ltd.	20.00	2,749	20.00	2,749	2,605
KG Power (M) Sdn. Bhd.	20.00	-	20.00	-	-
Global Komsco Daewoo LLC	35.00	4,445	35.00	4,445	4,212
South-East Asia Gas Pipeline Company Ltd.	25.04	150,778	25.04	150,778	142,877
N.I. Co., Ltd.	50.00	-	50.00	-	-
Daewoo (Thailand) Co., Ltd.	49.00	-	49.00	-	-
Korea Siberia Wood CJSC	50.00	3,473	50.00	3,473	3,291
DMSA/AMSA ²	4.00	79,204	4.00	137,578	130,369
Daewoo Global Development PTE. LTD. ⁶	-	-	30.00	8,059	7,636
	60.00	312,128		377,080	357,320
		₩ 624,312		₩ 701,534	US\$ 664,772

¹The IQ Power Asia Co., Ltd. are classified as investment in an associate even though the Company's percentage of ownership is below 20%, as the Company is able to exercise significant influence on the investee.

²The DMSA/AMSA are classified as investment in an associate even though the Company's percentage of ownership is below 20%, as the Company is able to exercise significant influence on the investee

³The ownership interest in Daewoo Paper Manufacturing Co., Ltd. and Tianjin Daewoo Paper Manufacturing Co., Ltd. represent direct interests owned by the Company. The ownership interest owned by the consolidated group which consists of the Company and its subsidiaries are 67% and 54%, respectively.

⁴Daewoo Handels GmbH's bankruptcy procedure has been completed, and Daewoo Canada Ltd has been removed from the subsidiaries in 2013 by completion of liquidation procedure.

⁵In 2013, Myanmar Korea Timber Int'l Ltd, Gezira Tannery Co., Ltd. MCM Korea Co., Ltd. were fully disposed of.

⁶In 2013, Myanmar Daewoo Int'l Corporation, Daewoo E&P Canada Corporation, Daewoo Power and Infra (Pty) Ltd., Daewoo Global Development Pte. Ltd. were newly established.

⁷In 2013, Daewoo STC Vietnam Ltd. was disposed of with the disposal of Busan Factory.

11. Property, Plant and equipment

Property, plant and equipment as at December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
	₩	₩	US\$
Acquisition cost	482,366	450,850	427,224
Accumulated depreciation and impairment loss	(119,303)	(55,945)	(53,013)
Government subsidy	(142)	(98)	(93)
Book value	₩ 362,921	₩ 394,807	US\$ 374,118

11. Property, Plant and equipment (cont'd)

Change in the acquisition cost of property, plant and equipment for the years ended December 31, 2012 and 2013 are as follows (Korean won in millions):

2012						
	Jan 1, 2012	Acquisitions	Disposals	Others	Business disposal	Dec 31, 2012
Land	₩ 77,813	₩ -	₩ -	₩ -	₩ -	₩ 77,813
Buildings	100,476	16	-	259	-	100,751
Structures	10,063	498	(4)	-	-	10,557
Machinery	62,669	150	(1,368)	3,297	-	64,748
Others	51,799	3,267	(4,886)	6,684	-	56,864
Construction -in-progress	94,700	87,173	-	(10,240)	-	171,633
	<u>₩ 397,520</u>	<u>₩ 91,104</u>	<u>₩ (6,258)</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 482,366</u>
2013						
	Jan 1, 2013	Acquisitions	Disposals	Others	Business disposal	Dec 31, 2013
Land	₩ 77,813	₩ -	₩ -	₩ -	₩ (59,905)	17,908
Buildings	100,751	-	-	14	(42,139)	58,626
Structures	10,557	75	-	-	(3,130)	7,502
Machinery	64,748	16,540	(297)	244,875	(69,482)	256,384
Others	56,864	1,429	(1,557)	936	(9,622)	48,050
Construction -in-progress	171,633	136,882	-	(245,825)	(310)	62,380
	<u>₩ 482,366</u>	<u>₩ 154,926</u>	<u>₩ (1,854)</u>	<u>₩ -</u>	<u>₩ (184,588)</u>	<u>450,850</u>
U. S. dollars in thousands (Note 2)	<u>US\$ 457,089</u>	<u>US\$ 146,808</u>	<u>US\$ (1,757)</u>	<u>US\$ -</u>	<u>US\$ (174,915)</u>	<u>427,225</u>

Construction-in-progress related to Offshore Pipeline in Myanmar which amounted to ₩239,813 million (US\$227,246 thousands) was transferred to machinery in 2013.

Change in accumulated depreciation and impairment loss of property, plant and equipment for the years ended December 31, 2012 and 2013 are as follows (Korean won in millions):

2012					
	Jan 1, 2012	Depreciation	Disposals	Business disposal	Dec 31, 2012
Buildings	₩ 19,714	₩ 2,217	₩ -	₩ -	₩ 21,931
Structures	3,197	494	-	-	3,691
Machinery	55,714	1,830	(1,342)	-	56,202
Others	34,527	7,419	(4,467)	-	37,479
	<u>₩ 113,152</u>	<u>₩ 11,960</u>	<u>₩ (5,809)</u>	<u>₩ -</u>	<u>₩ 119,303</u>
2013					
	Jan 1, 2013	Depreciation	Disposals	Business disposal	Dec 31, 2013
Buildings	₩ 21,931	₩ 2,182	₩ -	₩ (9,801)	₩ 14,312
Structures	3,691	512	-	(1,164)	3,039
Machinery	56,202	3,320	(279)	(57,423)	1,820
Others	37,479	7,600	(595)	(7,710)	36,774
	<u>₩ 119,303</u>	<u>₩ 13,614</u>	<u>₩ (874)</u>	<u>₩ (76,098)</u>	<u>₩ 55,945</u>
U. S. dollars in thousands (Note 2)	<u>US\$ 113,051</u>	<u>US\$ 12,901</u>	<u>US\$ (828)</u>	<u>US\$ (72,110)</u>	<u>US\$ 53,014</u>

12. Intangible assets

Intangible assets as at December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Acquisition Cost	₩ 1,344,585	₩ 1,648,812	US\$ 1,562,411
Accumulated amortization and impairment losses	(81,435)	(94,525)	(89,572)
Government grants	(10,726)	(26,932)	(25,521)
Book value	₩ 1,252,424	₩ 1,527,355	US\$ 1,447,318

Change in acquisition cost of intangible assets for the years ended December 31, 2012 and 2013 are as follows (Korean won in millions):

2012						
	Jan 1, 2012	Addition	Disposals	others	Business disposal	Dec 31, 2012
Distributorship rights	₩ 1,033	₩ -	₩ -	₩ -	₩ -	₩ 1,033
Industrial proprietary rights	3,803	182	-	-	-	3,985
Mining right	70,444	5,136	-	-	-	75,580
Development cost	6,711	-	-	-	-	6,711
Exploration and evaluation assets	104,273	5,393	-	-	-	109,666
Development asset ¹	902,087	228,991	-	-	-	1,131,078
Membership	15,928	-	(620)	-	-	15,308
Others	1,224	-	-	-	-	1,224
	₩ 1,105,503	₩ 239,702	₩ (620)	₩ -	₩ -	₩ 1,344,585

2013						
	Jan. 1, 2013	Addition	Disposals	others	Business disposal	Dec. 31, 2013
Distributorship rights	₩ 1,033	₩ -	₩ -	₩ -	₩ -	₩ 1,033
Industrial proprietary rights	3,985	151	-	-	-	4,136
Mining right	75,580	14,799	-	451,904	-	542,283
Development cost	6,711	-	-	-	-	6,711
Exploration and evaluation assets	109,666	3,550	-	-	-	113,216
Development asset	1,131,078	289,016	-	(451,904)	-	968,190
Membership	15,308	-	(806)	-	(1,259)	13,243
Others	1,224	-	-	-	(1,224)	-
	₩ 1,344,585	₩ 307,516	₩ (806)	₩ -	₩ (2,483)	₩ 1,648,812
U. S. dollars in thousands (Note 2)	US\$ 1,274,126	US\$ 291,401	US\$ (764)	US\$ -	US\$ (2,353)	US\$ 1,562,410

Development assets related to A-3 Block in Myanmar which amounted to ₩451,904 million (US\$ 428,223 thousand) transferred to mining rights as the production of gas from the gas field in this block commenced.

12. Intangible assets (cont'd)

Change in accumulated amortization and impairment losses of intangible assets for the years ended December 31, 2012 and 2013 are as follows (Korean won in millions):

		2012					
	Jan 1, 2012	Amortization	Disposals	Others	Business disposal	Dec 31, 2012	
Distributorship rights	₩ 1,033	₩ -	₩ -	₩ -	₩ -	₩ 1,033	
Industrial proprietary rights	2,868	386	-	-	-	3,254	
Exploration and evaluation assets	28,182	-	-	-	-	28,182	
Mining right	37,338	3,723	-	-	-	41,061	
Development cost	6,711	-	-	-	-	6,711	
Others	1,167	27	-	-	-	1,194	
	<u>₩ 77,299</u>	<u>₩ 4,136</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 81,435</u>	

		2013					
	Jan 1, 2013	Addition	Disposals	others	Business disposal	Dec 31, 2013	
Distributorship rights	₩ 1,033	₩ -	₩ -	₩ -	₩ -	₩ 1,033	
Industrial proprietary rights	3,254	364	-	-	-	3,618	
Exploration and evaluation assets	28,182	-	-	-	-	28,182	
Mining right	41,061	12,945	-	-	-	54,006	
Development cost	6,711	-	-	-	-	6,711	
Membership	-	-	-	975	-	975	
Others	1,194	18	-	-	(1,212)	-	
	<u>₩ 81,435</u>	<u>₩ 13,327</u>	<u>₩ -</u>	<u>₩ 975</u>	<u>₩ (1,212)</u>	<u>₩ 94,525</u>	
U. S. dollars in thousands (Note 2)	<u>US\$ 77,168</u>	<u>US\$ 12,629</u>	<u>US\$ -</u>	<u>US\$ 924</u>	<u>US\$ (1,148)</u>	<u>US\$ 89,573</u>	

Change in government grants for intangible assets for the years ended December 31, 2012 and 2013 are as follows (Korean won in millions):

		2012				
	Jan 1, 2012	Amortization	Others ¹	Business disposal	Dec 31, 2012	
Mining rights	₩ 1,292	₩ (138)	₩ -	₩ -	₩ 1,154	
Exploration and evaluation assets ¹	9,572	-	-	-	9,572	
	<u>₩ 10,864</u>	<u>₩ (138)</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 10,726</u>	

		2013				
	Jan 1, 2013	Amortization	Others ¹	Business disposal	Dec 31, 2013	
Mining rights	₩ 1,154	₩ (141)	₩ -	₩ -	₩ 1,013	
Exploration and evaluation assets	9,572	-	16,347	-	25,919	
	<u>₩ 10,726</u>	<u>₩ (141)</u>	<u>₩ 16,347</u>	<u>₩ -</u>	<u>₩ 26,932</u>	
U. S. dollars in thousands (Note 2)	<u>US\$ 10,164</u>	<u>US\$ (134)</u>	<u>US\$ 15,490</u>	<u>US\$ -</u>	<u>US\$ 25,520</u>	

¹Represents forgivable borrowings for impaired mines that are to be exempted from repayment and have been reclassified as government grants.

12. Intangible assets (cont'd)

Joint operation

Mining right and development asset and machinery include the Company's share in jointly controlled asset. As of December 31, 2013, list of joint operation are as follows:

	Activities	Interest (%)	Location
Myanmar A-1/A-3 field	Gas field development and gas production	51.00	Myanmar
Offshore midstream	Gas transportation facilities	51.00	Myanmar

13. Investment properties

Investments properties as at December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Acquisition cost	₩ 61,226	₩ 82,161	₩ 77,856
Accumulated depreciation and impairment loss	(35,902)	(36,435)	(34,526)
Book value	₩ 25,324	₩ 45,726	₩ 43,330

Change in acquisition cost of investment properties for the years ended December 31, 2012 and 2013 are as follows (Korean won in millions):

	2012			
	Jan 1, 2012	Additions	Disposals	Dec 31, 2012
Land	₩ 11,534	₩ -	₩ -	₩ 11,534
Building	47,203	-	-	47,203
Structures	2,489	-	-	2,489
	₩ 61,226	₩ -	₩ -	₩ 61,226
	2013			
	Jan 1, 2013	Additions	Disposals	Dec 31, 2013
Land	₩ 11,534	₩ -	₩ -	₩ 11,534
Building	47,203	-	-	47,203
Structures	2,489	-	-	2,489
Construction-in-progress	-	20,935	-	20,935
	₩ 61,226	₩ 20,935	₩ -	₩ 82,161
U. S. dollars in thousands (Note 2)	US\$ 58,018	US\$ 19,838	US\$ -	US\$ 77,856

Construction-in-progress represents the advance payment and the incidental cost for the acquisition of North East Asia Trade Tower (NEATT) in Songdo.

13. Investment properties (cont'd)

Change in accumulated depreciation and impairment loss of investments properties for the years ended December 31, 2012 and 2013 are as follows (Korean won in millions):

2012				
	Jan. 1, 2012	Disposals	Depreciation	Dec. 31, 2012
Land	₩ 4,631	₩ -	₩ -	₩ 4,631
Building	29,846	-	405	30,251
Structures	891	-	129	1,020
	₩ 35,368	₩ -	₩ 534	₩ 35,902

2013				
	Jan. 1, 2013	Disposals	Depreciation	Dec. 31, 2013
Land	₩ 4,631	₩ -	₩ -	₩ 4,631
Building	30,251	-	405	30,656
Structures	1,020	-	129	1,148
	₩ 35,902	₩ -	₩ 534	₩ 36,435
U. S. dollars in thousands (Note 2)	US\$ 34,021	US\$ -	US\$ 505	US\$ 34,526

The fair value of investment properties except construction-in-progress amounted to ₩26,507 million (US\$25,118 thousand) as at December 31, 2013. The fair value of construction-in-progress cannot be measured reliably as the rentable area of NEATT is not determined.

14. Trade and other payables

Trade and other payables as at December 31, 2012 and 2013 are as follows;

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Current:			
Trade payables	₩ 1,061,560	₩ 1,493,262	US\$ 1,415,012
Other payables	126,211	211,113	200,050
Accrued expenses	5,094	6,332	6,000
Guarantee deposits received	3,250	837	793
	1,196,115	1,711,544	1,621,855
Non-current:			
Long-term other payables	6,233	13,081	12,396
Long-term guarantee deposits received	8,165	8,417	7,976
Financial guarantee liabilities	1,149	880	834
	15,547	22,378	21,205
	₩ 1,211,662	₩ 1,733,922	US\$ 1,643,060

15. Borrowings

Borrowings as at December 31, 2012 and 2013 are as follows:

		Annual interest rates as at Dec. 31, 2013	Korean won in millions		U. S. dollars in thousands (Note 2)			
Creditor					2013			
Current borrowings:								
Short-term borrowings:								
Banker's usance and others	Woori Bank and others	0.6~0.9%	₩	1,884,266	₩	1,939,817	US\$	1,838,166
Current-portion of long-term borrowings:								
Borrowings	AKA BANK and others	6M Euribor +0.45% and others		24,230		58,192		55,143
Less: present value discount				(5,180)	(3,681)	(3,488)		
				19,050	54,511	51,655		
				1,903,316	1,994,328	1,889,821		
Non-current borrowings:								
Korean won denominated borrowings:								
Work-out debt from Creditor Council	Korea Trade Insurance Corporation	-		27,642		13,821		13,097
Others	Korea Resources Corporation and others	A treasury bond(3 Years) return						
		2.25% and others		14,884	14,549	13,787		
				42,526	28,370	26,884		
Foreign-currency denominated borrowings:								
Work-out debt from Creditor Council	AKA Bank	6M Euribor +0.45%		26,804		21,179		20,068
Forgivable borrowings	Korea National Oil Corporation and others	1.0~6.0% and others		241,422		253,546		240,259
Others	Korea National Oil Corporation and others	3M Libor +1.50% and others		276,525		265,074		251,184
			544,751	539,799	511,511			
				587,277	568,169	538,395		
Less: present value discount				(18,780)	(10,281)	(9,742)		
				568,497	557,888	528,653		
			₩	2,471,813	₩	2,552,216	US\$	2,418,476

15. Borrowings (cont'd)

Bonds as at December 31, 2012 and 2013 are as follows:

	Annual interest rates as at Dec. 31, 2013	Korean won in millions		U. S. dollars in thousands (Note 2)
		2012	2013	2013
Current-portion of bond:				
3rd unsecured bond	3M USD Libor + 1.50%	₩ -	₩ 211,060	US\$ 200,000
Less: discount on bonds		-	(584)	(553)
		-	210,476	199,447
Non-current bond:				
5-1st unsecured bond	4.43%	200,000	200,000	189,520
5-2nd unsecured bond	3M USD Libor +1.95%	107,110	-	-
6th unsecured bond (Shogun bond)	3M USD Libor + 1.50%	214,220	-	-
7th unsecured bond	4.32%	200,000	200,000	189,520
8-1th unsecured bond	2.92%	-	150,000	142,140
8-2th unsecured bond	3.09%	-	150,000	142,140
9th unsecured bond	3M SOR + 1.25%	-	104,094	98,640
		721,330	804,094	761,960
Less: discount on bonds		(2,795)	(1,913)	(1,813)
		718,535	802,181	760,147
		₩ 718,535	₩ 1,012,657	US\$ 959,594

16. Other liabilities

Other liabilities as at December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Current:			
Advances received	₩ 78,412	₩ 92,912	US\$ 88,043
Withholdings	16,716	9,914	9,395
	95,128	102,826	97,438
Non-current:			
Long-term withholdings	19,940	3,593	3,405
	₩ 115,068	₩ 106,419	US\$ 100,843

17. Employee benefit liability

The Company operates a defined benefit pension plan for its employees and uses the projected unit credit method in the actuarial valuation of plan assets and the defined benefit obligation.

Principal assumptions used in actuarial valuation

	2012	2013
Discount rate (%)	3.41%~3.47%	3.81%~3.91%
Future salary increases (%)	3.60%~5.00%	3.5%~5.30%
Expected retirement rate (%)	7%	7.7%

Sensitivity analysis

Discount rate

	1% decrease	1% increase
Impact on net defined benefit obligation of change Rate	₩ 6,201 7.75%	₩ (5,400) (6.75%)

Future salary increases

	1% decrease	1% increase
Impact on the defined benefit obligation of change Rate	₩ (5,391) (7.58%)	₩ 6,055 6.74%

Net benefit expense recognized in the income statement

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Current service cost	₩ 13,642	₩ 12,712	US\$ 12,046
Net Interest cost	629	293	278
	₩ 14,271	₩ 13,005	US\$ 12,324

Amounts recognized in the statement of financial position

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Present value of defined benefit obligation	₩ 67,413	₩ 66,057	US\$ 62,595
Fair value of plan assets	(53,408)	(49,724)	(47,118)
	₩ 14,005	₩ 16,333	US\$ 15,477

17. **Employee benefit liability (cont'd)**

Changes in the present value of the defined benefit obligation

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2013	
Beginning balance	₩ 66,125	₩ 67,413	US\$ 63,880	
Current service cost	13,642	12,712	12,046	
Interest cost	2,836	2,365	2,241	
Benefits paid	(7,246)	(8,784)	(8,324)	
Re-measurement gains/(losses) in OCI	(7,189)	6,289	5,959	
- Actuarial changes arising from changes in demographic assumptions	(3,100)	1,599	1,515	
- Actuarial changes arising from changes in financial assumptions	(4,089)	4,690	4,444	
Business disposal	-	(13,938)	(13,208)	
Other	(755)	-	-	
Ending balance	₩ 67,413	₩ 66,057	US\$ 62,594	

Changes in the fair value of plan assets

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2012	
Beginning balance	₩ 44,330	₩ 53,408	US\$ 50,609	
Contribution by employer	12,656	14,246	13,499	
Expected return on plan assets	2,207	2,072	1,963	
Benefits paid	(5,576)	(7,751)	(7,345)	
Re-measurement gains/(losses) in OCI	(209)	(68)	(64)	
- Actuarial changes arising from changes in financial assumptions	(209)	(68)	(64)	
Business disposal	-	(12,183)	(11,545)	
Ending balance	₩ 53,408	₩ 49,724	US\$ 47,117	

17. Employee benefit liability (cont'd)

Re-measurement gains/(losses) in OCI

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Re-measurement of defined benefit obligation	₩ 7,189	₩ (6,289)	US\$ (5,959)
Re-measurement of plan assets	(209)	(68)	(64)
	6,980	(6,357)	(6,023)
Income tax effect	(1,689)	1,538	1,457
Other comprehensive income	₩ (4,819)	₩ (4,819)	US\$ (4,566)

18. Provisions

Provisions as at December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Provision for contingencies	₩ 30,920	₩ 30,330	US\$ 28,741
Provision for restoration	4,024	4,090	3,876
Provision for product warranties	340	345	327
	₩ 35,284	₩ 34,765	US\$ 32,944

Changes in provisions for the year ended December 31, 2013 is as follows:

	Korean won in millions				U. S. dollars in thousands (Note 2)
	Provision for contingencies	Provision for restoration	Provision for product warranties	Total	Total
Beginning balance	₩ 30,920	₩ 4,024	₩ 340	₩ 35,284	US\$ 33,435
Provision	743	130	5	878	832
Foreign currency translation	(1,333)	(64)	-	(1,397)	(1,324)
Ending balance	₩ 30,330	₩ 4,090	₩ 345	₩ 34,765	US\$ 32,943

19. Commitments and contingencies

Contingent liabilities carried over from Daewoo Corporation prior to the spin-off

On July 22, 2000, the shareholders of Daewoo Corporation's stockholders approved the spin-off of two business segments which were established as separate entities, Daewoo International Corporation and Daewoo Engineering & Construction Co., Ltd. (Daewoo E&C), with the former representing the international trading division and the latter representing the construction division. Certain creditors approved the spin-off while others disapproved. Creditors approving the spin-off entered into a work-out agreement on March 15, 2000, transferring certain of Daewoo Corporation's liabilities to the Group and to Daewoo E&C, which resulted in the Group becoming a primary debtor or guarantor for such transferred liabilities.

Regarding the probable claims on liabilities from both consenting and dissenting creditors, the Group estimated ₩23,299 million (US\$22,078 thousand) as the amount of provision on the basis of the settlement agreement with some creditors and other information.

Upon the disposal of Daewoo Cement (Shandong) Co., Ltd. (DCCL) in 2012, the Company assumed a part of the guarantee obligation which DCCL had provided to the creditors of Shandong Daewoo Automotive Components Ltd. (SDAC). The Group estimated ₩7,031 million (US\$6,603 thousand) as the amount of provision to settle such guarantee obligation.

The Company reflected those amount as a provision for contingencies in the statement of financial position as follows (Korean won in millions):

	Provision			As at Dec 31, 2013	Principle debt amount
	As at Jan 1, 2013	Net contribution (reversal)	Foreign currency translation		
Creditors of Daewoo Corp.	₩ 23,784	₩ 743	₩ (1,228)	₩ 23,299	₩ 212,162
Creditors of SDAC	₩ 7,136	-	(105)	7,031	23,874
	₩ 30,920	₩ 743	₩ (1,333)	₩ 30,330	₩ 236,036
U. S. dollars in thousands (Note 2)	US\$ 29,300	US\$ 704	US\$ (1,263)	US\$ 28,741	US\$ 223,667

The above total amount of provision for contingencies related to creditors of Daewoo Corporation was proportionately allocated between the Company and Daewoo E&C in an appropriate proportion.

In May 2002, Industrial Development Bank of India (IDBI), a creditor of Daewoo Motors India Ltd. (DMIL), to which Daewoo Corporation provided a payment guarantee, filed a petition with the court of Delhi/Mumbai against DMIL to exercise its rights to dispose of DMIL's assets for settlement of the related obligations. Accordingly, the Company estimated the probable loss of the pending petitions and reflected the amount in provisions for contingencies as at December 31, 2013.

Further, Daewoo Corporation filed for bankruptcy with the Seoul Central District Court on May 25, 2006 and received the adjudication of bankruptcy on June 16, 2006. As at December 31, 2013, the bankruptcy proceedings of Daewoo Corporation are in progress.

19. Commitments and contingencies (cont'd)

Contingent liabilities carried over from Daewoo Corporation prior to the spin-off (cont'd)

Pending litigations

As at December 31, 2013, the Company is involved in pending lawsuits and defends are as follows (Korean won in millions, foreign currency in thousands):

Jurisdiction	Plaintiff	Description of litigation	Litigation claim amounts	
Overseas	LBA	Claim for damage	EUR	5,000
	IDBI	Claim for discharge of guarantee obligation	INR	4,458,849
	Republic of Iraq	Claim for damage		Undefined
	Robert Bosch LLC	Claim for unfair trade investigation		-
	DMSA	Claim for damage	US\$	199,862
	Logistec USA Inc.	Claim for damage	US\$	75
	CBX RESOURCES, LLC	Claim for damage		Undefined
	Bayoil (USA), Inc.and 3	Claim for damage		Undefined
	Petrochemical Commercial Company	Claim for payments	EUR	3,270
	Henghou Industries (Hong Kong) Limited	Claim for damage	CNY	14,089
	Ningbo Foreign Trade Co.,Ltd.	Claim for damage	CNY	28,112
	2 individuals	Claim for return of unjust enrichment	US\$	433
	Receiver of Daewoo Corps.	Claim for refund of surplus profit	KRW	500
Domestic	Employees	Claim for additional wage	KRW	628
	Employees	Claim for additional wage	KRW	47

The Company is involved in 15 pending lawsuits as a plaintiff as at December 31, 2013.

The ultimate outcome of these lawsuits cannot presently be determined. Therefore, the Company has not established potential liabilities that may arise as a result of above litigations as at December 31, 2013 other than contingent liabilities related to the litigation involving the creditors of Daewoo Corporation.

19. Commitments and contingencies (cont'd)

Receivables transferred

The L/C Nego receivables and D/A Nego receivables due from overseas customers have been factored to financial institutions with recourse. The following table presents the Company's L/C Nego and D/A Nego whose payments are not yet due as at December 31, 2013 (Korean won in millions, foreign currency in thousands):

Foreign currency unit	Foreign currency amount		Korean won equivalent
	D/A Nego	L/C Nego	
AUD	2,535	-	₩ 2,383
CNY	-	48,850	8,504
EUR	87,193	20,187	156,374
GBP	4,284	-	7,456
JPY	3,353,501	-	33,691
KRW	-	394	394
NZD	1,412	-	1,223
USD	534,547	181,360	755,497
			₩ 965,522

Letter of credit facilities

The Company maintains overdraft facilities with Woori Bank and others for overdraft limits of up to ₩7,000 million. There is no outstanding balance as at December 31, 2013. As at December 31, 2013, the Company has letter of credit facilities ("L/C") with Woori Bank and others, document against acceptance facilities ("D/A") and other trading facilities as follows (US dollar in thousands):

	Bank	Credit line amount		Outstanding balance	
Local L/C	Woori Bank and others	US\$	828,882	US\$	595,362
L/C	Woori Bank and others	US\$	2,120,729	US\$	1,965,772
D/A	Woori Bank and others	US\$	1,930,551	US\$	872,073
Credit line in foreign currency	Woori Bank and others	US\$	515,428	US\$	93,416
P-Bond and others	Korea EXIM Bank and others	US\$	527,301	US\$	326,700

Collateral

The Company has pledged 45 blank promissory notes and 13 blank checks as collateral to Korea National Oil Corporation and others for contract performance guarantees as at December 31, 2013.

19. Commitments and contingencies (cont'd)

Derivatives

The Company entered into currency forwards contracts and commodity futures contracts with Korea development Bank and other financial institutions to hedge against foreign exchange risks and inventory price risks, and details on the maximum credit line amounts are as follows (US dollar and Euro in thousands and Korean won in millions):

Contract	Bank	Derivative credit lines		Details
Currency forwards	Woori Bank	US\$	15,000	Limit of loss
	Busan Bank	₩	10,000	Limit of loss
	Kookmin Bank	₩	15,000	Limit of loss
	Citibank Korea	US\$	50,000	Limit of risk transaction
	SC Bank Korea	US\$	120,000	Limit of transaction
	HSBC	US\$	20,000	Limit of risk transaction
	UOB ¹	US\$	200,000	Limit of transaction
	China Communication Bank	US\$	20,000	Limit of transaction
	China Construction Bank	US\$	100,000	Limit of transaction
	JP Morgan	US\$	50,000	Limit of transaction
	Deutsche Bank	EU€	10,000	Limit of loss
	Credit Agricole	US\$	50,000	Limit of risk transaction
	Hana Bank	US\$	50,000	Limit of risk transaction
	Korea Exchange Bank	US\$	20,000	Limit of risk transaction
Commodity futures	JP Morgan	US\$	25,000	Limit of loss
		US\$	25,000	Limit of transaction
	Triland	US\$	20,000	Limit of loss
		US\$	20,000	Limit of transaction
	Mitsui Bussan	US\$	10,000	Limit of loss
		US\$	10,000	Limit of transaction
	Toyota	US\$	13,000	Limit of loss
		US\$	13,000	Limit of transaction
	Societe General	US\$	10,000	Limit of loss
		US\$	12,000	Limit of transaction
	Daishin Securities Co., Ltd.	US\$	5,000	Limit of loss

¹ Includes limit of transaction on currency swap contracts

19. Commitments and contingencies (cont'd)

Derivatives (cont'd)

Details of unsettled contracts for currency forwards, commodity futures and currency swap contract are as follows (Korean won in millions):

Currency forwards

Currency unit	Unsettled contractual amount		Accumulated valuation gain (loss)
	Long position	Short position	
USD	₩ 10,732	₩ 657,209	₩ 232
EUR	117,277	389,418	(5,489)
JPY	72,624	104,655	1,556
CNY	-	45,198	(215)
AED	3,688	350	-
SAR	399	-	-
CHF	1,074	169	37
CAD	-	51,004	344
GBP	26,219	56,642	(1,212)
AUD	13,889	6,640	(112)
NZD	338	598	8
	₩ 246,240	₩ 1,311,883	₩ (4,851)
U. S. dollars in thousands (Note 2)	US\$ 233,336	US\$ 1,243,137	US\$ (4,597)

Commodity futures

Commodity	Unsettled contractual amount		Accumulated valuation gain (loss)
	Long position	Short position	
Aluminum	₩ 18,016	₩ 128,399	₩ 2,115
Copper	169,726	291,313	(3,586)
Nickel	45,015	89,386	634
Tin	3,595	27,660	599
Zinc	-	437	6
Fuel Oil	36,979	18,396	60
Rubber	537	2,388	63
JPY	515	2,446	51
	₩ 274,383	₩ 560,425	₩ (58)
U. S. dollars in thousands (Note 2)	US\$ 260,005	US\$ 531,058	US\$ (55)

19. Commitments and contingencies (cont'd)

Derivatives (cont'd)

Currency swap

	Unsettled contractual amount		Expirati on date	Swap	Valuation gain (loss)
	Long position	Short position			
Currency swap	₩ 105,631	₩ 104,094	Nov. 25, 2015	Pay 3 month US\$ Libor Receive 3 month SGD SOR	₩ (1,877)
U. S. dollars in thousands (Note 2)	<u>US\$ 100,096</u>	<u>US\$ 98,639</u>			<u>US\$ (1,779)</u>

Changes in the book value of derivative financial assets (liabilities) for the year ended December 31, 2013 are as follows:

	Jan 1, 2013	Settlement amount	Valuation gain	Valuation loss	Dec 31, 2013
Currency forwards	₩ (6,793)	₩ 6,751	₩ 8,855	₩ (13,664)	₩ (4,851)
Commodity futures	(1,410)	1,451	9,751	(9,850)	(58)
Currency swap	-	-	-	(1,877)	(1,877)
Firm commitment contracts	4,650	47,999	41,000	(96,975)	(3,326)
	<u>₩ (3,553)</u>	<u>₩ 56,201</u>	<u>₩ 59,606</u>	<u>₩ (122,366)</u>	<u>₩ (10,112)</u>
U. S. dollars in thousands (Note 2)	<u>US\$ (3,367)</u>	<u>US\$ 53,256</u>	<u>US\$ 56,483</u>	<u>US\$ (115,954)</u>	<u>US\$ (9,582)</u>

The Company uses commodity futures and other financial instruments to hedge its commodity price risks and other risks attributable to firm sales or purchase contracts. The Company applies fair value hedge accounting under which the firm sales or purchase contracts (the firm commitment contract) are designated as the hedged item with commodity futures and others as hedging instruments.

The firm commitment contracts in connection with commodity futures and currency forwards were valued at fair value. As a result of such valuation, the resulting unrealized gains and losses on valuation were recorded as firm commitment contracts assets and liabilities, respectively.

For the year ended December 31, 2013, settled firm commitment contracts assets and liabilities amounting to ₩3,840 million and ₩44,159 million were deducted from cost of sales and added to sales, respectively.

19. Commitments and contingencies (cont'd)

Guarantee obligations

Guarantees provided by the Company to certain creditors on behalf of associates/debtors as at December 31, 2013 are as follows:

Creditor	Debtor	Limit amount		Outstanding balance		Year of expiration
		Foreign currency amounts (in thousands)	Korean won equivalent (in millions)	Foreign currency amounts (in thousands)	Korean won equivalent (in millions)	
Korea EXIM Bank	Daewoo Textile Bukhara LLC	US\$ 20,000	₩ 21,106	US\$ 20,000	₩ 21,106	2018
Korea EXIM Bank	Global Komsco Daewoo	US\$ 4,550	4,802	US\$ 3,413	3,601	2015
BOC Seoul	Global Komsco Daewoo	US\$ 3,500	3,694	US\$ 2,538	2,678	2017
Korea EXIM Bank	PT. Bio Inti Agrindo	US\$ 7,000	7,387	US\$ 7,000	7,387	2014
Korea EXIM Bank	PT. Bio Inti Agrindo	US\$ 12,000	12,664	US\$ 12,000	12,664	2019
Korea EXIM Bank	PT. Bio Inti Agrindo	US\$ 11,000	11,608	US\$ 11,000	11,608	2020
Korea EXIM Bank and others	AMSA, DMSA ¹	US\$ 149,000	157,240	US\$ 123,867	130,716	2015
Korea EXIM Bank and others	AMSA, DMSA ²	US\$ 16,133	17,026	US\$ 16,133	17,026	2014
Korea EXIM Bank	Sherritt International Corporation	US\$ 21,818	23,025	US\$ 6,308	6,657	2023
Korea EXIM Bank	Ambatovy Project Investments Ltd. ³	US\$ 65,455	69,074	US\$ 54,292	57,295	2019
SHB	Daewoo International (Deutschland) GmbH	EUR 15,000	21,844	EUR 1,771	2,579	2014
HSBC	Daewoo Paper Manufacturing Co., Ltd.	US\$ 12,500	13,191	US\$ 12,500	13,191	2014
NOVA SCOTIA N.Y	Daewoo International Mexico S.A. de C.V.	US\$ 30,000	31,659	US\$ 17,000	17,940	2014
ING and others	POSCO Assan TST	US\$ 20,933	22,090	US\$ 20,933	22,090	2019
SMBC	Brasil Saopaulo Steel Processing Center	US\$ 20,000	21,106	US\$ 17,640	18,616	2014
		US\$ 393,889		US\$ 324,624		
		EUR 15,000	₩ 437,516	EUR 1,771	₩ 345,154	

¹Represents construction completion guarantees of up to US\$186,951 thousand for the natural resources development project at Ambatovy Nickel Mine (including cross guarantees on behalf of Sherritt International Corp.) as at December 31, 2012. In the event of construction interruption arising from changes in the political environment, the guarantee may be extended to 2014.

²Represents cross guarantees of up to US\$ 16,133 thousand which have been provided on behalf of Sherritt International Corp. as additional completion guarantee of the natural resources development project at Ambatovy Nickel Mine as at December 31, 2012.

³Represents payment guarantees on behalf of Sherritt International Corp. of up to US\$21,818 thousand and Ambatovy Project Investments Ltd. up to US\$52,364 thousand. In connection with the borrowings related to the natural resources development of Ambatovy Nickel Mine. Should Sherritt International Corp. obtain additional financing from its creditors, the payment guarantee provided by the Company shall decrease by the equivalent amount of additional financing.

19. Commitments and contingencies (cont'd)

Guarantee obligations (cont'd)

Principal debtors listed above are related parties of the Company, excluding Sherritt International Corp and Ambatovy Project Investments Ltd. (See also Note 31).

Investment in DMSA and AMSA (book value: ₩137,578 million) have been pledged as collateral to various creditors in connection with the above payment guarantees.

Other commitments

Written put option

Canada Baptiste project

In accordance with the Joint Investment Agreement between the Company and Devonian Private Equity Fund (Devonian PEF), Devonian PEF has a put option to sell its interest in Canada Baptiste Project to the Company with minimum guaranteed return of 6.5% per annum for 6 months from 4 years after execution of investments. As at December 31, 2013, Devonian PEF's interest in Canada Baptiste Project amounted to ₩52,767 million (US\$50,002 thousand).

Daewoo Global Development Pte. Ltd.

In accordance with the Shareholders' Agreement and the Put Option Agreement between the Company and other shareholders of Daewoo Global Development Pte. Ltd. (DGDP), the financial investor in DGDP (FI) or any successor of FI has a put option to sell its equity interest in DGDP and its subordinated loan to DGDP to other shareholders Company for 3 years and 9 months from the first capital contribution date. The guaranteed return on the put option is 5.25% per annum on the equity interest and 10% per annum on the subordinated loan. If FI exercises its put option, the Company and the shareholders should buy the equity interest and the subordinated loan put by FI in proportion to the percentage of ownership. Other shareholders except the Company can reject to buy the equity interest and the subordinated loan. Amounts of the shares underlying the put option as of December 31, 2013 are ₩10,476 million (US\$9,927 thousand) and there is no subordinated loan.

Support for Korea Siberia Wood CJSC ("KOSIWOOD")

The Company and the other participation in KOSIWOOD should jointly provide subordinated loan in case that KOSIWOOD would suffer from lack of fund for redemption of borrowings (principal amount: US\$4,000 thousand) and related interests.

20. Capital stock and capital surplus

Issued capital

Issued capital as at December 31, 2013 is as follows (Korean won in millions):

	Number of shares authorized	Number of shares issued	Par value	Share capital	Paid-in capital in excess of par value (Capital surplus)
Ordinary shares	500,000,000	113,876,291	₩ 5,000	₩ 569,381	₩ 333,145
U. S. dollars in thousands (Note 2)				US\$ 539,544	US\$ 315,687

20. Capital stock and capital surplus (cont'd)

Capital surplus

Capital surplus as at December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2013	
Paid-in capital in excess of par value	₩ 333,145	₩ 333,145	US\$	315,687
Gain on disposal of treasury stock	16	16		15
	₩ 333,161	₩ 333,161	US\$	315,702

21. Accumulated other comprehensive income

Accumulated other comprehensive income fully comprises of gain on valuation of available-for-sale financial assets. Changes in gain on valuation of available-for-sale financial assets for the years ended December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2012	
Beginning balance	₩ 29,428	₩ 29,947	US\$	28,378
Changes during the year	684	(1,070)		(1,014)
Tax effect	(165)	259		245
Ending balance	₩ 29,947	₩ 29,136	US\$	27,609

22. Retained earnings

Retained earnings as at December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2013	
Legal reserve ¹	₩ 15,258	₩ 18,675	US\$	17,696
Voluntary reserve ²	861,000	1,136,000		1,076,471
Unappropriated	314,150	129,293		122,518
	₩ 1,190,408	₩ 1,283,968	US\$	1,216,685

¹The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid, until such reserve equals 50% of its issued capital. The reserve is not available for the payment of cash dividends, but may be transferred to issued capital, or used to reduce accumulated deficit, if any.

² Voluntary reserve consists of a reserve for business expansion.

22. Retained earnings (cont'd)

Statements of appropriations of retained earnings

	Korean won in thousands		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Retained earnings before appropriations:			
Unappropriated retained earnings carried forward from the prior year	₩ 2,817,648	₩ 1,570,640	US\$ 1,488
Actuarial losses	5,291,144	(4,818,226)	(4,566)
Profit for the year	306,041,024	132,540,678	125,595
	314,149,816	129,293,092	122,517
Appropriations:			
Legal reserve	3,416,289	3,416,289	3,237
Reserve for business expansion	275,000,000	90,000,000	85,284
Cash dividends	34,162,887	34,162,887	32,373
	312,579,176	127,579,176	120,894
Unappropriated retained earnings to be carried forward to the next year	₩ 1,570,640	₩ 1,713,916	US\$ 1,624

Appropriations approval dates for 2013 and 2012 are March 17, 2014 and March 25, 2013, respectively.

Dividends

Details of dividends declared for the years ended December 31, 2012 and 2013 and are as follows:

	Korean won in thousands		U. S. dollars in thousands (Note 2)
	2012	2013	2013
	Cash dividend	Cash dividend	Cash dividend
Number of shares (A)	113,876,291	113,876,291	113,876,291
Dividend per share (dividend ratio)(B)	₩ 300(6%)	₩ 300(6%)	US\$ 284(6%)
Dividends (A x B)	₩ 34,162,887	₩ 34,162,887	US\$ 32,373

23. Expenses disclosed by nature

Cost of sales and selling and administrative expenses disclosed by nature for the years ended December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Cost of goods sold	₩ 15,942,389	₩ 15,787,921	US\$ 14,960,600
Employee welfare benefits	97,595	101,261	95,955
Depreciation of property, plant and equipment	8,817	10,498	9,948
Amortization of intangible asset	3,971	11,192	10,606
Depreciation of investment properties	532	532	504
Others	578,244	550,924	522,054
	₩ 16,631,548	₩ 16,462,328	US\$ 15,599,666

24. Selling and administrative expenses

Details of selling and administrative expenses for the years ended December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Salaries	₩ 97,595	₩ 101,216	US\$ 95,912
Expenses related to defined benefit plan	11,695	10,069	9,541
Employee benefits welfare	15,941	16,707	15,832
Share-based compensation expense	13	-	-
Travel	8,496	8,212	7,782
Communication	3,457	3,189	3,022
Utility	342	4,371	4,142
Taxes and dues	2,211	1,904	1,804
Rental	12,832	12,111	11,476
Depreciation	8,817	8,844	8,381
Amortization	386	364	345
Repairs	515	265	251
Insurance	21,724	17,816	16,882
Entertainment	555	437	414
Advertising	2,012	2,562	2,428
Packaging	470	1,097	1,040
Freight	362,751	344,851	326,780
Shipping	30,814	33,083	31,349
Commissions	102,728	73,516	69,664
Bad debt expenses	(12,266)	5,670	5,373
Supplies	727	577	547
Car maintenance	2,345	1,975	1,872
Publication	384	355	336
Training	1,009	911	863
Research and development	1,514	2,612	2,475

24. Selling and administrative expenses (cont'd)

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Sales promotion	6,974	6,153	5,831
Exhibition	407	164	155
Samples	311	164	155
Miscellaneous	678	669	634
Conference	137	85	81
	<u>₩ 685,574</u>	<u>₩ 659,949</u>	<u>US\$ 625,367</u>

25. Other income and expenses

Other income

Details of other income for the years ended December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Gain on disposal of subsidiaries	2,256	-	-
Gain on disposal of property, plant and equipment	101	36	34
Gain on disposal of intangible assets	608	725	687
Gain on disposal of non-current assets held for sale	19,207	-	-
Gain on disposal of lease assets	-	164	155
Gain on disposal of available-for-sale financial assets	2	40	38
Reversal of allowance for doubtful accounts	7,713	479	454
Reversal of provision for contingencies	16,163	-	-
Reversal of impairment loss on intangible assets	13,263	-	-
Reversal of impairment loss on non-current assets held for sale	455	-	-
Others	15,168	9,377	8,886
	<u>₩ 74,936</u>	<u>₩ 10,821</u>	<u>US\$ 10,254</u>

25. Other income and expenses (cont'd)

Other expenses

Details of other expenses for the years ended December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Contribution to provisions for restoration	₩ 126	₩ 130	US\$ 123
Other bad debt expense	18,215	5,314	5,036
Loss on disposal of property, plant and equipment	357	41	39
Loss on disposal of intangible assets	-	32	30
Loss on impairment of intangible assets	-	975	924
Donations	833	1,685	1,597
Contribution to provision for contingencies	824	743	704
Loss on impairment of available-for-sale financial assets	-	435	412
Loss on settlement of associates	-	508	481
Loss on impairment of associates	27,947	-	-
Loss on disposal of available-for-sale financial assets	1	-	-
Miscellaneous expense	15,481	5,959	5,647
	<u>₩ 63,784</u>	<u>₩ 15,822</u>	<u>US\$ 14,993</u>

26. Finance income and costs

Finance income

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

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Gain on disposal of associates	₩ 346,307	₩ -	US\$ -
Gain on disposal of available-for-sale financial assets	921	-	-
Interest income	42,163	38,815	36,781
Financial guarantee income	2,974	1,345	1,275
Dividends income	53,012	28,342	26,857
Gain on foreign currency transaction	450,493	436,102	413,249
Gain on foreign currency translation	116,160	80,827	76,591
Gain on valuation of derivatives	91,968	59,605	56,482
Gain on settlement of derivatives	238,044	247,868	234,879
Gain on valuation of convertible bonds	14,719	-	-
Gain on redemption of convertible bonds	339	-	-
	<u>₩ 1,357,100</u>	<u>₩ 892,904</u>	<u>US\$ 846,114</u>

26. Finance income and costs (cont'd)

Finance costs

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

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Interest expenses	₩ 139,990	₩ 50,432	US\$ 47,789
Financial guarantee expense	936	742	703
Loss on foreign currency transaction	373,759	412,525	390,908
Loss on foreign currency translation	106,035	72,510	68,710
Loss on valuation of derivatives	110,401	122,367	115,955
Loss on settlement of derivatives	245,008	180,783	171,310
Loss on redemption of borrowings	30,363	1,759	1,667
Loss on disposal of trade accounts receivable	31,588	16,556	15,688
	₩ 1,038,080	₩ 857,674	US\$ 812,730

Interest income

Details of interest income for the years ended December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Interest income on cash equivalents	₩ 10,409	₩ 4,796	US\$ 4,545
Other interest income	31,754	34,019	32,236
	₩ 42,163	₩ 38,815	US\$ 36,781

Interest expense

Details of interest expense for the years ended December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Interest on borrowings	₩ 91,558	₩ 66,373	US\$ 62,895
Other interest expense	59,763	23,282	22,062
	151,321	89,655	84,957
Less: capitalization of borrowing costs	(11,331)	(39,223)	(37,168)
	₩ 139,990	₩ 50,432	US\$ 47,789

27. Impairment of financial instrument

Details of impairment of financial instrument for the years ended December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Bad debt expense	₩ (12,266)	₩ 5,670	US\$ 5,373
Other bad debt expense	678	620	588
Less: reversal of allowance for doubtful accounts	(7,692)	(181)	(172)
Loss on impairment of available-for- sale financial assets	-	435	412
	₩ (19,280)	₩ 6,544	US\$ 6,201

28. Income taxes

The major components of income tax expenses for the years ended December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Current income taxes	₩ 250,683	₩ 44,109	US\$ 41,798
Changes in deferred income tax arising from temporary differences	(85,637)	(15,389)	(14,583)
Changes in deferred income tax arising from tax credit carryforwards	6,602	(14,123)	(13,383)
Income tax charged directly to equity	(6,077)	1,797	1,703
Income tax expense	₩ 165,571	₩ 16,394	US\$ 15,535
Income tax expense related to continuing operation	162,518	21,313	20,196
Income tax expense related to discontinued operation	3,053	(4,919)	(4,661)

28. Income taxes (cont'd)

Reconciliation between tax expense and the product of accounting profit multiplied by statutory tax rate for the years ended December 31, 2012 and 2013 is as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Profit before tax from continuing operation	₩ 458,995	₩ 169,260	US\$ 160,390
Profit before tax from discontinued operation	12,617	(20,325)	(19,260)
Accounting profit before income tax	₩ 471,612	₩ 148,935	US\$ 141,130
Tax at the statutory income tax rate	₩ 114,130	₩ 35,580	US\$ 33,716
Adjustments:			
Non-taxable income			
(2012: ₩7,640 million, 2013: ₩498 million)	(1,849)	(121)	(115)
Non-deductible expenses			
(2012: ₩548 million, 2013: ₩598 million)	133	145	137
Effect of deferred income tax not recognized			
(2012: ₩49,071 million, 2013: ₩(13,834) million)	11,875	(3,348)	(3,173)
Tax credits	(10,226)	(10,556)	(10,003)
Adjustments to the portion of dividend income which is non-taxable	47,803	-	-
Others	3,705	(5,306)	(5,028)
Income tax expense	₩ 165,571	₩ 16,394	US\$ 15,535
Effective income tax rates	35.11%	11.01%	11.01%

Income tax charged directly to equity for the years ended December 31, 2012 and 2013 are as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Gain and loss on valuation of available-for-sale financial assets	₩ (166)	₩ 259	US\$ 245
Actuarial gain and loss	(1,689)	1,538	1,457
Capital surplus arising from conversion of convertible bonds	(4,222)	-	-
	₩ (6,077)	₩ 1,797	US\$ 1,702

28. Income taxes (cont'd)

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

Account	2012			
	January 1, 2012	Recognized in profit and loss	Recognized directly to equity	December 31, 2012
Gain on valuation of derivatives	₩ (1,162)	₩ 378	₩ -	₩ (784)
Loss on impairment of investments	28,820	(5,936)	-	22,884
Investment in subsidiaries and associates	(98,185)	102,727	-	4,542
Severance and retirement benefits	9,642	3,973	(1,689)	11,926
Severance insurance deposits	(8,165)	(2,479)	-	(10,644)
Amortization of present value discount	5,627	(960)	-	4,667
Debt restructuring	(5,404)	453	-	(4,951)
Extraordinary losses	5,593	5,534	-	11,127
Allowance for doubtful accounts	13,098	(11,072)	-	2,026
Depreciation	4,621	(871)	-	3,750
Loss on impairment of property, plant and equipment	16,525	(679)	-	15,846
Capitalized borrowing costs	(21,082)	(2,670)	-	(23,752)
Accrued expense	23,780	(5,846)	-	17,934
Debt-for-equity swap	1,812	-	-	1,812
Loss (gain) on foreign currency translation	862	(824)	-	38
Convertible bonds	7,784	(3,562)	(4,222)	-
Gain on valuation of available-for-sale financial assets	(9,395)	-	(166)	(9,561)
Gain on revaluation of property, plant and equipment	(13,032)	-	-	(13,032)
Financial guarantee liabilities	(866)	687	-	(179)
Borrowings with low interest rates	683	1,964	-	2,647
Forgivable borrowings	8,251	8,460	-	16,711
Prepaid interest expenses	(3,048)	3,048	-	-
Others	3,920	(611)	-	3,309
	(29,321)	91,714	(6,077)	56,316
Tax credit carryforwards	9,479	(6,602)	-	2,877
	₩ (19,842)	₩ 85,112	₩ (6,077)	₩ 59,193

Daewoo International Corporation
Notes to separate financial statements
December 31, 2012 and 2013

28. Income taxes (cont'd)

Account	2013			
	January 1, 2013	Recognized in profit and loss	Recognized directly to equity	December 31, 2013
Gain on valuation of derivatives	₩ (784)	₩ 2,068	₩ -	₩ 1,284
Loss on impairment of investments	22,884	1,714	-	24,598
Investment in subsidiaries and associates	4,542	(5,731)	-	(1,189)
Severance and retirement benefits	11,926	(380)	1,538	13,084
Severance insurance deposits	(10,644)	(1,857)	-	(12,501)
Amortization of present value discount	4,667	(1,238)	-	3,429
Debt restructuring	(4,951)	306	-	(4,645)
Extraordinary losses	11,127	216	-	11,343
Allowance for doubtful accounts	2,026	(290)	-	1,736
Depreciation	3,750	(466)	-	3,284
Loss on impairment of property, plant and equipment	15,846	(679)	-	15,167
Capitalized borrowing costs	(23,752)	(6,661)	-	(30,413)
Accrued expense	17,934	14,256	-	32,190
Debt-for-equity swap	1,812	-	-	1,812
Loss (gain) on foreign currency translation	38	(29)	-	9
Gain on valuation of available-for-sale financial assets	(9,561)	-	259	(9,302)
Gain on revaluation of property, plant and equipment	(13,032)	13,032	-	-
Financial guarantee liabilities	(179)	(57)	-	(236)
Borrowings with low interest rates	2,647	(982)	-	1,665
Forgivable borrowings	16,711	(9,760)	-	6,951
Others	3,309	10,130	-	13,439
	56,316	13,592	1,797	71,705
Tax credit carryforwards	2,877	14,123	-	17,000
	₩ 59,193	₩ 27,715	₩ 1,797	₩ 88,705
U. S. dollars in thousands (Note 2)	US\$ 56,091	US\$ 26,263	US\$ 1,703	US\$ 84,057

The Company did not recognize deferred income tax assets and liabilities for deductible and taxable temporary differences, arising from investments in subsidiaries and associates amounting to ₩9,345 million (US\$8,855 thousand) (₩10,947 million in 2012) and ₩3,561 million (US\$3,374 thousand) (₩4,374 million in 2012) respectively as at December 31, 2013, in consideration of the uncertainty in realizing those temporary differences in future periods.

29. Earnings per share

Basic earnings per share

Basic earnings per share for the years ended December 31, 2012 and 2013 are calculated as follows (Korean won in millions, except for per share amounts):

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2013	
Profit for the year attributable to ordinary equity holders of the parent from continuing operations	₩ 296,477	₩ 147,947	US\$ 140,194	
Profit for the year attributable to ordinary equity holders	306,041	132,541	125,596	
Weighted average number of ordinary shares outstanding	108,847,740	113,876,291	113,876,291	
Basic earnings per share from continuing operations (Korean won and U.S. dollars in units)	2,724	1,299	1,231	
Basic earnings per share (Korean won and U.S dollars in units)	₩ 2,812	₩ 1,164	US\$ 1,103	

Details of weighted average number of ordinary shares outstanding for the year ended December 31, 2012 and 2013 are as follows:

	2012		
	Number of outstanding shares	Number of days outstanding	Weighted number of shares
Beginning balance	103,180,815	366/366	103,180,815
Conversion of convertible bonds into ordinary shares	152,089	242/366	100,562
	26,839	236/366	17,306
	71,571	231/366	45,172
	98,411	224/366	60,230
	4,473	200/366	2,444
	169,981	199/366	92,421
	178,929	196/366	95,820
	451,796	195/366	240,711
	912,537	194/366	483,694
	715,713	193/366	377,412
	7,913,137	192/366	4,151,153
	<u>113,876,291</u>		<u>108,847,740</u>
	2013		
	Number of outstanding shares	Number of days outstanding	Weighted number of shares
Beginning balance	113,876,291	365/365	113,876,291
	<u>113,876,291</u>		<u>113,876,291</u>

29. Earnings per share (cont'd)

Diluted earnings per share from continuing operations

Diluted earnings per share from continuing operations for the years ended December 31, 2012 and 2013 are calculated as follows (Korean won in millions, except for per share amounts):

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2013	
Profit for the year attributable to ordinary equity holders	₩ 296,477	₩ 147,947	US\$ 140,194	
Profit for the year attributable to ordinary equity holders adjusted for the effect of dilution	287,788	147,947	140,194	
Weighted average number of ordinary shares outstanding	108,847,740	113,876,291	113,876,291	
Adjustments on conversion of debt	5,103,751	-	-	
	113,951,491	113,876,291	113,876,291	
Diluted earnings per share from continuing operations (Korean won and U.S dollars in units)	₩ 2,526	₩ 1,299	US\$ 1,231	

Diluted earnings per share

Diluted earnings per share for the years ended December 31, 2012 and 2013 are calculated as follows (Korean won in millions, except for per share amounts):

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2013	
Profit for the year attributable to ordinary equity holders	₩ 306,041	₩ 132,541	US\$ 125,596	
Profit for the year attributable to ordinary equity holders adjusted for the effect of dilution	297,352	132,541	125,596	
Weighted average number of ordinary shares outstanding	108,847,740	113,876,291	113,876,291	
Adjustments on conversion of debt	5,103,751	-	-	
	113,951,491	113,876,291	113,876,291	
Diluted earnings per share from continuing operations (Korean won and U.S dollars in units)	₩ 2,609	₩ 1,164	US\$ 1,103	

29. Earnings per share (cont'd)

Profit for the year from continuing operation and profit for the year attributable to ordinary equity holders of the parent adjusted for the effect of dilution are calculated as follows:

	Korean won in millions	U. S. dollars in thousands (Note 2)
	2012	2012
Profit for the year attributable to ordinary equity holders of the parent from continuing operations	₩ 296,477	US\$ 280,941
Profit for the year attributable to ordinary equity holders of the parent	306,041	290,004
Interest expense on convertible bond, net of tax	2,725	2,582
Gain on valuation of convertible bond, net of tax	(11,157)	(10,572)
Gain on redemption of convertible bond, net of tax	(257)	(244)
Profit for the year attributable to ordinary equity holders of the parent from continuing operations adjusted for the effect of dilution	287,788	272,707
Profit for the year attributable to ordinary equity holders of the parent adjusted for the effect of dilution	₩ 297,352	US\$ 281,770

Details of dilutive potential shares for the year ended December 31, 2012 are as follows:

	Book value	Weighted average number of potential common shares
Debt-to-equity swap ¹	₩ 376	75,200
Convertible bonds ²	-	5,028,551
	₩ 376	5,103,751

¹Dilutive ordinary shares related to debt-to-equity swap are calculated by dividing the book value by par value of ₩5,000.

²Details of dilutive potential shares from convertible bonds are as follow:

	Number of outstanding shares	Number of days outstanding	Weighted number of shares
Convertible bonds	152,089	124/366	51,527
	26,839	130/366	9,533
	71,571	135/366	26,399
	98,411	142/366	38,181
	4,473	166/366	2,029
	169,981	167/366	77,560
	178,929	170/366	83,109
	451,796	171/366	211,085
	912,537	172/366	428,843
	715,713	173/366	338,302
	7,913,137	174/366	3,761,983
	10,695,476		5,028,551

30. Financial instruments

Capital risk management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders.

The Company monitors capital using a gearing ratio, which is net borrowings divided by total equity. The Company includes within net debt, interest bearing loans and borrowings, bonds and convertible bonds, less cash and cash equivalents, excluding discontinued operations.

	Korean won in millions		U. S. dollars in thousands (Note 2)	
	2012	2013	2013	
Total borrowings (A)	₩ 3,190,348	₩ 3,564,874	US\$ 3,378,067	
Cash and cash equivalents (B)	(196,541)	(73,732)	(69,868)	
Net borrowings (A-B)	₩ 2,993,807	₩ 3,491,142	US\$ 3,308,199	
Total equity (D)	₩ 2,122,898	₩ 2,215,646	US\$ 2,099,541	
Gearing ratio ((A-B)/D)	141%	158%	158%	

Classification of financial instruments

Financial assets by classification as at December 31, 2012 and 2013 are as follows (Korean won in millions):

	2012					
	Financial asset at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to- -maturity investments	Total	
Cash and cash equivalents	₩ -	₩ 196,541	₩ -	₩ -	₩ 196,541	
Trade and other receivables	-	3,209,963	-	-	3,209,963	
Other current financial assets	-	26,880	-	1	26,881	
Derivative financial assets	50,708	-	-	-	50,708	
Non-current trade and other receivables	-	447,321	-	-	447,321	
Other non-current financial assets	-	143,971	106,004	-	249,975	
	₩ 50,708	₩ 4,024,676	₩ 106,004	₩ 1	₩ 4,181,389	

30. Financial instruments (cont'd)

Classification of financial instruments (cont'd)

	2013					
	Financial asset at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Held-to- maturity investments	Total	
Cash and cash equivalents	₩ -	₩ 73,732	₩ -	₩ -	₩ 73,732	
Trade and other receivables	-	3,545,168	-	-	3,545,168	
Other current financial assets	-	23,306	-	-	23,306	
Derivative financial assets	24,388	-	-	-	24,388	
Non-current trade and other receivables	-	504,717	-	-	504,717	
Other non-current financial assets	-	221,428	101,804	-	323,232	
	₩ 24,388	₩ 4,368,351	₩ 101,804	₩ -	₩ 4,494,543	
U. S. dollars in thousands (Note 2)	US\$ 23,110	US\$ 4,139,440	US\$ 96,469	US\$ -	US\$ 4,259,019	

Financial liabilities by classification as at December 31, 2012 and 2013 are as follows (Korean won in millions):

	2012		
	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Total
Trade and other payables	₩ -	₩ 1,196,115	₩ 1,196,115
Borrowings	-	1,903,316	1,903,316
Derivative financial liabilities	54,261	-	54,261
Non-current trade and other payables	-	15,547	15,547
Long-term borrowings	-	568,497	568,497
Bonds	-	718,535	718,535
	₩ 54,261	₩ 4,402,010	₩ 4,456,271

30. Financial instruments (cont'd)

Classification of financial instruments (cont'd)

	2013		
	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Total
Trade and other payables	₩ -	₩ 1,711,544	₩ 1,711,544
Borrowings	-	1,994,328	1,994,328
Current bonds	-	210,476	210,476
Derivative financial liabilities	34,500	-	34,500
Non-current trade and other payables	-	22,378	22,378
Long-term borrowings	-	557,888	557,888
Bonds	-	802,181	802,181
	₩ 34,500	₩ 5,298,795	₩ 5,333,295
U. S. dollars in thousands (Note 2)	US\$ 32,692	US\$ 5,021,127	US\$ 5,053,819

30. Financial instruments (cont'd)

Classification of financial instruments (cont'd)

Profit and loss by category of financial instruments for the year ended December 31, 2012 are as follows (Korean won in millions):

	Financial asset at fair value through profit or loss	Loans and receivables	Available-for- sale financial assets	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Total
Bad debt expense	₩ -	₩ 12,266	₩ -	₩ -	₩ -	₩ 12,266
Other bad debt expense	-	(678)	-	-	-	(678)
Reversal of allowance for bad-debt	-	7,692	-	-	-	7,692
Gain on disposal of available-for-sales financial assets	-	-	1	-	-	1
Finance income (cost):						
Interest income	-	42,163	-	-	-	42,163
Interest expense	-	-	-	(3,595)	(136,395)	(139,990)
Dividend income	-	-	2,443	-	-	2,443
Gain (loss) on foreign currency translation	-	(100,257)	-	-	107,114	6,857
Gain (loss) on valuation of derivative financial instruments	91,968	-	-	(110,402)	-	(18,434)
Gain (loss) on transaction of derivative financial instruments	238,043	-	-	(245,007)	-	(6,964)
Gain (loss) on valuation convertible bonds	-	-	-	14,719	-	14,719
Gain on redemption of convertible bonds	-	-	-	(339)	-	(339)
Gain on disposal of available-for-sales financial assets	-	-	921	-	-	921
Loss on disposal of trade receivables	-	(31,588)	-	-	-	(31,588)
Loss on redemption of borrowings	-	-	-	-	(30,363)	(30,363)
Others	-	-	-	-	2,039	2,039
Other comprehensive income	-	-	684	-	-	684
	₩ 330,011	₩ (70,402)	₩ 4,049	₩ (344,624)	₩ (57,605)	₩ (138,571)

30. Financial instruments (cont'd)

Classification of financial instruments (cont'd)

Profit and loss by category of financial instruments for the year ended December 31, 2013 are as follows (Korean won in millions):

	Financial asset at fair value through profit or loss	Loans and receivables	Available-for- sale financial assets	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortized cost	Total
Bad debt expense	₩ -	₩ (5,670)	₩ -	₩ -	₩ -	₩ (5,670)
Other bad debt expense	-	(620)	-	-	-	(620)
Reversal of allowance for bad-debt	-	181	-	-	-	181
Finance income (cost):						
Interest income	-	39,815	-	-	-	39,815
Interest expense	-	-	-	-	(50,432)	(50,432)
Dividend income	-	-	2,117	-	-	2,117
Gain (loss) on foreign currency translation	37	(43,655)	-	-	50,624	7,006
Gain (loss) on valuation of derivative financial instruments	59,606	-	-	(122,367)	-	(62,761)
Gain (loss) on transaction of derivative financial instruments	247,868	-	-	(180,783)	-	67,085
Loss on disposal of trade receivables	-	(16,575)	-	-	-	(16,575)
Gain on disposal of available-for-sales financial assets	-	-	435	-	-	435
Loss on redemption of borrowings	-	-	-	-	(1,759)	(1,759)
Other comprehensive income	-	-	(1,070)	-	-	(1,070)
	₩ 307,511	₩ (26,524)	₩ 1,482	₩ (303,150)	₩ (1,567)	₩ (22,248)
U. S. dollars in thousands (Note 2)	US\$ 291,397	US\$ (25,134)	US\$ 1,404	US\$ (287,264)	US\$ (1,485)	US\$ (21,082)

Financial risk management

The Company is exposed to market risk (foreign currency risk and interest rate risk), credit risk, and liquidity risk. The primary purpose of Company's financial risk management is to detect potential risk which could decrease the Company's profit and to eliminate, reduce and hedge such risk to an acceptable level. The Company uses derivative financial instruments for hedging special risk such as foreign currency risk. Financial risk management policy of the Company has not changed since 2012.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: foreign currency risk, interest rate risk and other price risk.

30. Financial instruments (cont'd)

Foreign currency risk

The Company is exposed to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2011 and 2012, monetary assets and liabilities denominated in major foreign currencies, other than functional currencies are as follows:

		Korean won in millions				U. S. dollars in thousands (Note 2)			
		2012		2013		2013			
		Asset	Liability	Asset	Liability	Asset	Liability		
USD	₩	2,661,807	₩ 3,224,474	₩ 3,295,492	₩ 3,929,162	US\$ 3,122,801	US\$ 3,723,265		
JPY		110,278	70,949	103,589	73,413	98,161	69,566		
EUR	₩	285,030	₩ 259,860	₩ 344,671	₩ 244,713	US\$ 326,609	US\$ 231,890		

Effects of fluctuation in foreign exchange rates on the Company's functional currency by 10% on profit for the year ended December 31, 2013 are as follow (Korean won in millions):

		Increase by 10%		Decrease by 10%	
USD	₩	(63,367)	₩ 63,367		
JPY		3,018	(3,018)		
EUR		9,996	(9,996)		
	₩	(50,353)	₩ 50,353		
U. S. dollars in thousands (Note 2)	US\$	(47,714)	US\$ 47,714		

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's borrowings and bonds with floating interest rates.

As at December 31, 2013, with all other variables remaining constant, a change in 1% of the floating interest rate on borrowings will have an effect of ₩6,574 million on the Company's profit for the year.

Credit risk

Credit risk is the risk that counterparties will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company's exposure to the credit risk relates operating and financial activities.

30. Financial instruments (cont'd)

Trade and other receivables

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance.

Other assets

Credit risks associated with the Company's other assets which consist of cash, short-term deposits and short-term and long-term loans arise from the default by the counterparties. Maximum exposure to credit risks will be the book value of the other assets. The Company deposits its surplus funds in Woori Bank and other financial institutions whose credit ratings are high, therefore, credit risk related to financial institutions is considered limited.

Maximum exposure to credit risk

As at December 31, 2012 and 2013 the maximum exposure to credit risk of the Company as follows:

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Cash and cash equivalents	₩ 196,541	₩ 73,732	US\$ 69,868
Trade and other receivables	3,209,963	3,545,168	3,359,394
Other current financial assets	26,881	23,306	22,085
Derivative financial assets	50,708	24,388	23,110
Non-current trade and other receivables	447,320	504,717	478,269
Other non-current financial assets	249,975	323,232	306,294
Financial guarantee contract	360,673	345,154	327,067
	₩ 4,542,061	₩ 4,839,697	US\$ 4,586,087

30. Financial instruments (cont'd)

Fair value of financial instruments (cont'd)

Book value and fair value of financial instruments as at December 31, 2012 and 2013 are as follows:

	Korean won in millions				U. S. dollars in thousands (Note 2)			
	2012		2013		2013			
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets								
Financial assets carried at amortized cost:								
Cash and cash equivalents	₩ 196,541	₩ 196,541	₩ 73,732	₩ 73,732	US\$ 69,868	US\$ 69,868		
Trade and other receivables	3,209,963	3,209,963	3,545,168	3,545,168	3,359,394	3,359,394		
Other current financial assets	26,881	26,881	23,306	23,306	22,085	22,085		
Non-current trade and other receivables	447,321	447,321	504,717	504,717	478,269	478,269		
Other non-current financial assets	143,971	143,971	221,429	221,429	209,826	209,826		
	<u>4,024,677</u>	<u>4,024,677</u>	<u>4,368,352</u>	<u>4,368,352</u>	<u>4,139,442</u>	<u>4,139,442</u>		
Financial assets carried at fair value:								
Derivative financial assets	50,708	50,708	24,388	24,388	23,110	23,110		
Available-for-sale financial assets ¹	67,458	67,458	66,388	66,388	62,909	62,909		
	<u>118,166</u>	<u>118,166</u>	<u>90,776</u>	<u>90,776</u>	<u>86,019</u>	<u>86,019</u>		
	<u>₩ 4,142,843</u>	<u>₩ 4,142,843</u>	<u>₩ 4,459,128</u>	<u>₩ 4,459,128</u>	<u>US\$ 4,225,461</u>	<u>US\$ 4,225,461</u>		
Financial liabilities								
Financial liability carried at amortized cost:								
Trade and other payables	₩ 1,196,115	₩ 1,196,115	₩ 1,711,544	₩ 1,711,544	US\$ 1,621,855	US\$ 1,621,855		
Current borrowings	1,903,316	1,903,316	1,994,328	1,994,328	1,889,821	1,889,821		
Current bonds	-	-	210,476	210,476	199,447	199,447		
Non-current trade and other payables	15,547	15,547	22,378	22,378	21,205	21,205		
Borrowings	568,497	568,497	557,888	557,888	528,653	528,653		
Bonds	718,535	718,535	802,182	802,182	760,146	760,146		
	<u>4,402,010</u>	<u>4,402,010</u>	<u>5,298,796</u>	<u>5,298,796</u>	<u>5,021,127</u>	<u>5,021,127</u>		
Financial liability carried at fair value:								
Derivative financial liabilities	54,261	54,261	34,500	34,500	32,692	32,692		
	<u>54,261</u>	<u>54,261</u>	<u>34,500</u>	<u>34,500</u>	<u>32,692</u>	<u>32,692</u>		
	<u>₩ 4,456,271</u>	<u>₩ 4,456,271</u>	<u>₩ 5,333,296</u>	<u>₩ 5,333,296</u>	<u>US\$ 5,053,819</u>	<u>US\$ 5,053,819</u>		

¹Excludes equity securities carried at cost as the fair value of those securities could not be measured reliably.

30. Financial instruments (cont'd)

Fair value of financial instruments (cont'd)

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques.

Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. Fair value of derivative financial instruments that are traded in active market is measured by reference to quoted market price.

The Company used the interest rate for U.S. government treasury bills in determining the fair value of the derivative financial assets and liabilities valued at level 2 hierarchy. Also, the Company used the risk-free interest rate of 3.89% and market risk premium of 6.95% in determining the fair value of available-for-sale financial assets valued at level 3 hierarchy.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

30. Financial instruments (cont'd)

Fair value of financial instruments (cont'd)

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

	Level 1		Level 2		Level 3		Total
Financial assets measures at fair value :							
Available-for-sale financial assets	₩	17,482	₩	342	₩	48,564	₩ 66,388
Derivative financial assets		-		24,388		-	24,388
Assets for which fair values are disclosed:							
Cash and cash equivalents	₩	120	₩	73,612	₩	-	₩ 73,732
Trade and other receivables		-		-		3,545,168	3,545,168
Other current financial assets		-		23,306		-	23,306
Non-current trade and other receivables		-		-		504,717	504,717
Other non-current financial assets		-		221,429		-	221,429
Investment properties		-		-		26,507	26,507
Liabilities measures at fair value :							
Derivative financial liabilities	₩	-	₩	34,500	₩	-	₩ 34,500
Liabilities for which fair values are disclosed:							
Trade and other payables	₩	-	₩	-	₩	1,711,544	₩ 1,711,544
Short-term borrowings		-		1,994,328		-	1,994,328
Current-portion of bond		-		210,476		-	210,476
Non-current trade and other payables		-		-		22,378	22,378
Long-term borrowings		-		557,888		-	557,888
Bond		-		802,182		-	802,182

Daewoo International Corporation
Notes to separate financial statements
December 31, 2012 and 2013

31. Related party transactions

Significant transactions with related parties for the years ended December 31, 2012 and 2013 and the related account balances outstanding as at December 31, 2012 and 2013 are summarized as follows (Korean won in millions):

	2012					
	Sales and others			Purchase and others		
	Sales	Others	Total	Purchase	others	Total
Parent company:						
POSCO Co., Ltd.	₩ 10,562	₩ 5,169	₩ 15,731	₩ 4,271,317	₩ 133	₩ 4,271,450
Subsidiary:						
Daewoo Shanghai Waigaoqiao Co., Ltd.	77,907	-	77,907	61,207	15	61,222
Daewoo Int'l Vietnam co., Ltd.	3	-	3	-	2,063	2,063
Daewoo Int'l (America) Corp.	1,002,544	-	1,002,544	24,593	328	24,921
Daewoo Int'l (Deutschland) GmbH.	294,969	-	294,969	15,283	728	16,011
Daewoo Int'l Japan Corp.	637,345	-	637,345	55,917	951	56,868
Daewoo Int'l Singapore Pte. Ltd.	627,541	-	627,541	47,582	731	48,313
Daewoo Italia S.R.L.	294,591	-	294,591	-	1,130	1,130
Daewoo (China) Co., Ltd.	101,079	-	101,079	3,546	3,628	7,174
PT. Rismar Daewoo Apparel	3,496	-	3,496	2,777	-	2,777
Daewoo Textile Fergana LLC	6,596	789	7,385	39,196	641	39,837
Daewoo Textile Bukara LLC	1,544	10	1,554	18,344	-	18,344
Daewoo Paper Manufacturing Co., Ltd.	7,899	-	7,899	406	-	406
Myanmar Daewoo Ltd.	-	-	-	-	645	645
Daewoo Int'l Mexico S.A De C.V.	19,042	-	19,042	3,765	2,151	5,916
Daewoo Int'l Guangzhou Corp.	36,641	-	36,641	24,228	1,165	25,393
Daewoo STC Vina Ltd.	-	-	-	1,894	-	1,894
Myanmar Int'l Ltd.	194	-	194	2,833	-	2,833
Daewoo Int'l (M) Sdn. Bhd.	30,384	-	30,384	-	2,049	2,049
Daewoo Int'l Shanghai Co., Ltd.	1,127	-	1,127	16,013	2,599	18,612
Daewoo Int'l India Private Limited	437	-	437	-	1,955	1,955
Associate:						
POSCO Mexico Processing Center Holding LLC	94,693	-	94,693	-	-	-
POSCO-ESDC Ltd.	-	-	-	-	80	80
POSCO IJPC	68,285	-	68,285	-	-	-
Shanghai Lansheng Daewoo Corporation	46,283	-	46,283	18,215	208	18,423
Shanghai Waigaoqiao Free Trade Zone Lansheng Daewoo Int'l Trading Co., Ltd	292,401	-	292,401	12,353	6	12,359
Hanjung power ltd	39	4,435	4,474	-	50	50
General Medicines Co., Ltd.	6,233	-	6,233	-	-	-
IQ Power Asia Co., Ltd.	-	-	-	1,469	-	1,469
Korea LNG Ltd	-	21,534	21,534	-	-	-
DMSA/AMSA	2,319	19,058	21,377	-	-	-
South-East Asia Gas Pipeline company limited	-	7,316	7,316	-	-	-
Global Komsco Daewoo LLC	-	-	-	-	71	71
Others:						
Affiliates of POSCO Co., Ltd.	1,266,919	-	1,266,919	372,401	7,060	379,461
	₩ 4,931,073	₩ 58,311	₩ 4,989,384	₩ 4,993,339	₩ 28,387	₩ 5,021,726

Daewoo International Corporation
Notes to separate financial statements
December 31, 2012 and 2013

31. Related party transactions (cont'd)

	2013					
	Sales and others			Purchase and others		
	Sales	Others	Total	Purchase	others	Total
Parent company:						
POSCO Co., Ltd.	₩ 16,297	₩ 2,843	₩ 19,140	₩ 3,522,678	₩ 65	₩ 3,522,743
Subsidiary:						
Daewoo Shanghai						
Waigaoqiao Co., Ltd.	54,645	-	54,645	13,983	-	13,983
Daewoo Int'l Vietnam Co., Ltd.	3	-	3	1,877	-	1,877
Daewoo Int'l (America) Corp.	981,712	-	981,712	16,669	-	16,669
Daewoo Int'l (Deutschland) GmbH	300,220	-	300,220	16,373	-	16,373
Daewoo Int'l Japan Corp.	404,438	-	404,438	84,557	1,117	85,674
Daewoo Int'l Singapore Pte. Ltd.	624,469	-	624,469	11,578	-	11,578
Daewoo Italia S.R.L.	240,240	-	240,240	5,568	-	5,568
Daewoo (China) Co., Ltd.	238,637	-	238,637	3,429	-	3,429
Daewoo Textile Fergana LLC	6,620	689	7,309	56,156	-	56,156
Daewoo Textile Bukhara LLC	1,954	51	2,005	20,123	-	20,123
Daewoo Paper Manufacturing Co., Ltd.	2,591	-	2,591	-	-	-
Daewoo Int'l Mexico S.A De C.V.	20,287	-	20,287	1,953	-	1,953
Daewoo Int'l Guangzhou Corp.	37,409	-	37,409	8,316	-	8,316
Daewoo STC Vina Ltd.	-	-	-	175	1,216	1,391
Daewoo Int'l (M) Sdn. Bhd.	71,872	-	71,872	1,537	-	1,537
Daewoo Int'l Shanghai Co., Ltd.	12,137	-	12,137	13,127	-	13,127
Daewoo Int'l India Private Limited	17,060	-	17,060	1,675	-	1,675
Daewoo E&P Canada Coporation	-	145	145	-	-	-
Brasil Sao Paulo Steel Process	35,424	-	35,424	-	-	-
Associate:						
POSCO Mexico Processing Center Holding LLC	98,719	-	98,719	-	-	-
POSCO-ESDC Ltd.	-	-	-	120	-	120
POSCO IJPC	78,469	-	78,469	-	-	-
Shanghai Lansheng Daewoo Corporation	16,080	-	16,080	1,411	-	1,411
Shanghai Waigaoqiao Free Trade Zone Lansheng Daewoo Int'l Trading Co., Ltd	261,604	-	261,604	10,607	-	10,607
Hanjung Power Ltd.	114	3,952	4,066	99	-	99
General Medicines Co., Ltd.	5,874	274	6,148	-	-	-
IQ Power Asia Co., Ltd.	2,490	-	2,490	-	-	-
Korea LNG Ltd.	-	21,999	21,999	-	-	-
DMSA/AMSA	344	9,914	10,258	-	-	-
KG Power (M) Sdh. Bhd.	-	-	-	2,380	-	2,380
South-East Asia Gas Pipeline Company Limited	-	20,879	20,879	-	-	-
Global Komsco Daewoo LLC	-	-	-	289	-	289
Others:						
Affiliates of POSCO Co., Ltd.	1,262,531	-	1,262,531	452,231	1,103	453,334
	₩ 4,792,240	₩ 60,746	₩ 4,852,986	₩ 4,246,911	₩ 3,501	₩ 4,250,412
U. S. dollars in thousands (Note 2)	US\$ 4,541,116	US\$ 57,563	US\$ 4,598,679	US\$ 4,024,364	US\$ 3,318	US\$ 4,027,681

Daewoo International Corporation
Notes to separate financial statements
December 31, 2012 and 2013

31. Related party transactions (cont'd)

	2012					
	Receivable and others			Payable and others		
	Receivable	Others	Total	Payable	Others	Total
Parent company:						
POSCO Co., Ltd.	₩ 685	₩ 45	₩ 730	₩ 357,446	₩ 1,378	₩ 358,824
Subsidiary:						
Daewoo Shanghai						
Waigaoqiao Co., Ltd.	8,238	129	8,367	377	14	391
Daewoo Int'l Vietnam Co., Ltd.	3	-	3	-	537	537
Daewoo Int'l (America) Corp.	255,824	2,335	258,159	-	59	59
Daewoo Int'l (Deutschland) GmbH	86,346	3	86,349	-	795	795
Daewoo Int'l Japan Corp.	116,326	22,520	138,846	485	291	776
Daewoo Int'l Singapore Pte. Ltd.	75,561	3,080	78,641	7,942	202	8,144
Daewoo Italia S.R.L	98,465	-	98,465	-	389	389
Daewoo (China) Co., Ltd.	11,563	-	11,563	-	908	908
Daewoo Textile Fergana LLC	4,227	16,084	20,311	2,802	617	3,419
Daewoo Textile Bukhara LLC	1,250	1,749	2,999	-	120	120
Daewoo Paper Manufacturing Co., Ltd.	14,091	7,475	21,566	-	-	-
Daewoo Int'l Mexico S.A De C.V.	2,813	-	2,813	1,582	652	2,234
Daewoo Int'l Guangzhou Corp.	3,976	-	3,976	9,572	220	9,792
Daewoo STC Vina Ltd.	-	122	122	-	2	2
Daewoo El Salvador S.A De C.V.	-	233	233	-	-	-
Daewoo Int'l (M) Sdn. Bhd.	7,226	-	7,226	-	407	407
Daewoo Int'l Shanghai Co., Ltd.	7	-	7	-	664	664
Daewoo Int'l India Private Limited	175	-	175	-	682	682
Daewoo Int' Cameroon S.A	-	-	-	-	61	61
Associate:						
POSCO Mexico Processing Center Holding LLC	28,962	-	28,962	-	-	-
POSCO-ESDC Ltd.	-	-	-	-	-	-
POSCO IJPC	34,726	-	34,726	-	-	-
Shanghai Lansheng Daewoo Corporation	14,228	-	14,228	68	17	85
Shanghai Waigaoqiao Free Trade Zone Lansheng Daewoo Int'l Trading Co., Ltd.	161,620	-	161,620	31	18	49
Hanjung power Ltd.	2,947	-	2,947	-	-	-
General Medicines Co., Ltd.	-	-	-	-	-	-
IQ Power Asia Co., Ltd.	-	2,206	2,206	-	-	-
Korea LNG Ltd.	4,513	139,546	144,059	-	-	-
DMSA/AMSA	3,755	240	3,995	-	-	-
South-East Asia Gas Pipeline Company Limited	-	170,834	170,834	-	-	-
Global Komsco Daewoo LLC	840	13	853	-	-	-
Others:						
Affiliates of POSCO Co., Ltd.	293,894	295	294,189	22,107	1,178	23,285
	₩ 1,232,261	₩ 366,909	₩ 1,599,170	₩ 402,412	₩ 9,211	₩ 411,623

Daewoo International Corporation
Notes to separate financial statements
December 31, 2012 and 2013

31. Related party transactions (cont'd)

	2013					
	Receivable and others			Payable and others		
	Receivable	Others	Total	Payable	Others	Total
Parent company:						
POSCO Co., Ltd.	₩ 9,319	₩ -	₩ 9,319	₩ 148,383	₩ 878	₩ 149,261
Subsidiary:						
Daewoo Shanghai Waigaoqiao Co., Ltd.	16,622	-	16,622	6,169	218	6,387
Daewoo Int'l Vietnam Co., Ltd.	-	-	-	-	189	189
Daewoo Int'l (America) Corp.	214,889	3,430	218,319	1,744	156	1,900
Daewoo Int'l (Deutschland) GmbH	109,889	1,651	111,540	-	102	102
Daewoo Int'l Japan Corp.	94,551	16,629	111,180	14,162	153	14,315
Daewoo Int'l Singapore Pte. Ltd.	122,216	-	122,216	-	107	107
Daewoo Italia S.R.L	40,764	189	40,953	1,064	200	1,264
Daewoo (China) Co., Ltd.	35,304	993	36,297	-	471	471
Daewoo Textile Fergana LLC	3,086	13,483	16,569	3,783	325	4,108
Daewoo Textile Bukhara LLC	1,254	733	1,987	-	34	34
Daewoo Paper Manufacturing Co., Ltd.	13,883	7,365	21,248	-	-	-
Tianjin Daewoo Paper Manufacturing Co., Ltd.	71	34	105	-	-	-
Daewoo Int'l Mexico S.A De C.V.	6,796	-	6,796	-	133	133
Daewoo Int'l Guangzhou Corp.	7,867	-	7,867	-	151	151
Daewoo STC Vina Ltd.	-	52	52	-	17	17
Daewoo El Salvador S.A DE C.V	-	230	230	-	-	-
Daewoo Int'l (M) Sdn. Bhd.	25,518	-	25,518	-	76	76
Daewoo Int'l Shanghai Co., Ltd.	4,337	-	4,337	8,413	143	8,556
Daewoo Int'l India Private Limited	2,471	-	2,471	-	246	246
Daewoo E&P Canada Coporation	-	8,467	8,467	-	-	-
Brasil Sao Paulo steel process	30,888	-	30,888	-	-	-
Daewoo Int' Cameroon S.A	-	-	-	-	21	21
Associate:						
POSCO Mexico Processing Center Holding LLC	32,279	-	32,279	-	-	-
POSCO-ESDC Ltd.	-	-	-	-	1	1
POSCO IJPC	46,805	224	47,029	-	-	-
Shanghai Lansheng Daewoo Corporation	4,201	-	4,201	-	127	127
Shanghai Waigaoqiao Free Trade Zone Lansheng Daewoo Int'l Trading Co., Ltd.	116,856	42	116,898	1,082	18	1,100
General Medicines Co., Ltd.	1,855	-	1,855	-	5	5
IQ Power Asia Co., Ltd.	2,303	-	2,303	-	-	-
Korea LNG Ltd	-	1,393	1,393	-	-	-
DMSA/AMSA	4,446	110,883	115,329	-	-	-
KG Power (M) Sdn. Bhd.	2,108	332	2,440	2,252	-	2,252
South-East Asia Gas Pipeline Company Limited	-	259,551	259,551	-	-	-
Global Komsco Daewoo LLC	775	67	842	-	-	-
Others:						
Affiliates of POSCO Co., Ltd.	294,520	2,389	296,909	52,371	681	53,052
	₩ 1,245,873	₩ 428,137	₩ 1,674,010	₩ 239,423	₩ 4,452	₩ 243,875
U. S. dollars in thousands (Note 2)	US\$ 1,180,587	US\$ 405,702	US\$ 1,586,288	US\$ 226,877	US\$ 4,219	US\$ 231,095

31. Related party transactions (cont'd)

	Jan 1, 2013	Increase ¹	Decrease ²	Foreign exchange translation	Dec 31, 2013
Daewoo E&P Canada Corporation	₩ -	₩ 8,946	₩ -	₩ (622)	₩ 8,324
DMSA/AMSA	137,097	16,795	(42,380)	(2,473)	109,039
South-east Asia Gas Pipeline Company Limited	170,834	94,663	-	(5,946)	259,551
	₩ 307,931	₩ 120,404	₩ (42,380)	₩ (9,041)	₩ 376,914
U. S. dollars in thousands (Note 2)	US\$ 291,795	US\$ 114,095	US\$ (40,159)	US\$ (8,567)	US\$ 357,163

¹Include capitalized interest

²Include debt-to-equity swap

Key management personnel compensation

Compensations for key management personnel for the years ended December 31, 2012 and 2013 are as follows (Korean won in millions):

	Korean won in millions		U. S. dollars in thousands (Note 2)
	2012	2013	2013
Salaries	₩ 10,530	₩ 11,466	US\$ 10,865
Long-term employee benefits	-	2,185	2,071
Severance benefits	7,749	7,822	7,412
	₩ 18,279	₩ 21,473	US\$ 20,348

31. Related party transactions (cont'd)

Guarantees provided to related parties

Guarantees provide to related parties as at December 31, 2012 and 2013 are as follows (Korean won in millions):

	Limit amount		Outstanding balance	
	2012	2013	2012	2013
Subsidiary:				
Daewoo Int'l (America) Corp.	₩ 10,711	₩ -	₩ 536	₩ -
Daewoo Int'l (Deutschland) GmbH	21,244	21,844	3,459	2,579
Daewoo Int'l Japan Corp.	24,950	-	-	-
Daewoo Int'l Singapore Pte. Ltd.	32,133	-	-	-
Daewoo Paper Manufacturing Co., Ltd.	13,389	13,191	13,389	13,191
Daewoo Textile Bukhara LLC	26,724	21,106	26,724	21,106
Narrabri Investment Pty. Ltd.	12,853	-	12,101	-
Daewoo International Mexico S.A. de C.V.	26,778	31,659	16,067	17,940
PT. Bio Inti Agrindo	20,351	31,659	20,351	31,659
Brasil Saopaulo Steel Processing Center	21,422	21,106	21,144	18,616
Associate:				
DMSA/AMSA	176,874	174,266	149,954	147,742
Global Komsco Daewoo LLC	6,374	8,496	6,374	6,279
Other related parties:				
POSCO Assan TST	22,421	22,090	22,421	22,090
	₩ 416,224	₩ 345,417	₩ 292,520	₩ 281,202
U. S. dollars in thousands (Note 2)	US\$ 394,413	US\$ 327,316	US\$ 277,191	US\$ 266,466

Independent audits' assessment on internal control over financial reporting

Managing Director
Daewoo International Corporation

We have reviewed the accompanying management's report on the operations of the internal control over financial reporting ("ICFR") of Daewoo International Corporation (the "Company") as of December 31, 2013. The Company's management is responsible for the design and operations of its ICFR, including the reporting of its operations. Our responsibility is to review management's ICFR report and issue a report based on our review. Management's report on the operations of the ICFR of the Company states that "Based on the assessment of the operations of the ICFR, the Company's ICFR has been effectively designed and has operated as of December 31, 2013, in all material respects, in accordance with the Best Practice Guideline of the ICFR."

We conducted our review in accordance with the ICFR review standards established by the Korean Institute of Certified Public Accountants. These standards require that we plan and perform our review to obtain less assurance than an audit as to management's report on the operations of the ICFR. A review includes the procedures of obtaining an understanding of the ICFR, inquiring as to management's report on the operations of the ICFR and performing a review of related documentation within limited scope, if necessary.

A company's ICFR consists of an establishment of related policies and organization to ensure that it is designed to provide reasonable assurance on the reliability of financial reporting and the preparation of financial statements for external financial reporting purposes in accordance with accounting principles generally accepted in the Republic of Korea. However, because of its inherent limitations, the ICFR may not prevent or detect material misstatements of the financial statements. Also, projections of any assessment of the ICFR on future periods are subject to the risk that ICFR may become inadequate due to the changes in conditions, or that the degree of compliance with the policies or procedures may be significantly reduced.

Based on our review of the management's report on the operations of the ICFR, nothing has come to our attention that causes us to believe that the management's report referred to above is not presented fairly, in all material respects, in accordance with the Best Practice Guideline for ICFR.

We conducted our review of the ICFR in existence as of December 31, 2013, and we did not review the ICFR subsequent to December 31, 2013. This report has been prepared for Korean regulatory purposes pursuant to the Act on External Audit of Stock Companies, and may not be appropriate for other purposes or for other users.



March 7, 2014

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

Managements' assessment on internal control over financial reporting

To the Board of Directors and Audit Committee of
Daewoo International Corporation

I, as the internal control over financial reporting officer ("ICFR Officer") of Daewoo International Corporation ("the Company"), assessed the status of the design and operations of the Company's Internal Control over Financial Reporting ("ICFR") for the year ended December 31, 2013.

The Company's management including the ICFR Officer is responsible for the design and operations of its ICFR. I, as the ICFR Officer, assessed whether the ICFR has been effectively designed and has operated 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 reporting and the preparation of financial statements for external financial reporting purposes. I, as the ICFR Officer, applied the Best Practice Guideline for ICFR for the assessment of design and operations of the ICFR.

Based on the assessment of the operations of the ICFR, the Company's ICFR has been effectively designed and has operated as of December 31, 2013, in all material respects, in accordance with the Best Practice Guideline of the ICFR.

January 28, 2014

Lee, Chang-Soon, ICFR Officer

Lee, Dong-Hee, Chief Executive Officer