Korea Aerospace Industries, Ltd. and Subsidiaries

Consolidated Financial Statements

December 31, 2012 and 2011

Report of Independent Auditors

To the Board of Directors and Shareholders of
Korea Aerospace Industries, Ltd.

We have audited the accompanying consolidated statements of financial position of Korea Aerospace Industries, Ltd. and its subsidiaries (collectively referred to as the "the Group") as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Group'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 consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of Korea Aerospace Industries, Ltd. and its subsidiaries as of December 31, 2012 and 2011, and their financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea("Korean IFRS").

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those who are informed about Korean auditing standards and their application in practice.

Seoul, Korea
March 14, 2013

This report is effective as of March 14, 2013, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Korea Aerospace Industries, Ltd. and Subsidaries
Consolidated Statements of Financial Position
December 31, 2012 and 2011

(In millions of Korean won)

	Notes	2012		2011	
Assets					
Current Assets					
Cash and cash equivalents	5	₩	223,403	₩	65,951
Short-term financial instruments	4,5		14,467		13,158
Short-term available-for-sale financial assets	5,8		13		3
Trade receivables	5,6		226,911		77,958
Due from customers for contract work	5,23		142,128		523,810
Other short-term financial assets	5,6		21,620		13,267
Inventories	7		349,712		286,285
Other assets	11		197,778		93,893
Income tax refund receivable			6,674		-
Total current assets			1,182,706		1,074,325
Non-current assets					
Long-term available-for-sale financial assets	5,8		19,295		18,565
Other long-term financial assets	5,6		9,561		11,257
Investments in associates and jointly controlled entities	9		3,578		4,799
Property, plant and equipment	10		401,684		375,381
Intangible assets	10		220,272		210,038
Deferred income tax assets	28		55,426		61,111
Total assets		₩	1,892,522	₩	1,755,476

Korea Aerospace Industries, Ltd. and Subsidaries
Consolidated Statements of Financial Position
December 31, 2012 and 2011

(In millions of Korean won)

	Notes		2012		2011
Liabilities and Equity					
Current Liabilities					
Trade payables	5,12	₩	137,915	₩	133,953
Other short-term financial liabilities	5,12		76,751		60,590
Short-term borrowings	5,13		56,122		217,981
Due to customers for contract work	23		265,847		16,872
Income tax payable			-		19,328
Other short-term liabilities	14		36,103		45,293
Total current liabilities			572,738		494,017
Non-current liabilities					
Long-term borrowings	5,13		161,133		173,472
Long-term debentures payable	5,13		100,000		100,000
Other long-term financial liabilities	5,12		17,756		16,674
Retirement benefit obligations	15		150,324		121,880
Other long-term liabilities			3,234		3,864
Total liabilities			1,005,185		909,907
Equity attributable to owners of the parent					
Capital stock	18		487,376		487,376
Share premium			124,078		124,078
Retained earnings	19		267,082		225,840
Other components of equity	20,21		9,027		8,425
			887,563		845,719
Non-controlling interests			(226)		(150)
Total equity			887,337		845,569
Total liabilities and equity		₩	1,892,522	₩	1,755,476

The accompanying notes are an integral part of these consolidated financial statements.

Korea Aerospace Industries, Ltd. and Subsidaries
Consolidated Statements of Comprehensive Income
December 31, 2012 and 2011

(in millions of Korean won, except per share amounts)

	Notes		2012		2011
Sales	23	₩	1,534,606	₩	1,286,128
Cost of sales	24		1,310,614		1,099,779
Gross profit			223,992		186,349
Selling, general and administrative expenses	24,25		98,207		81,800
Operating income			125,785		104,549
Other income	26		8,984		5,894
Other expense	26		16,749		4,831
Financial income	27		29,339		26,493
Financial expenses	27		54,653		38,208
Gain on valuation of equity-method investments	9		-		143
Loss on valuation of equity-method investments	9		1,222		768
Profit before income tax			91,484		93,272
Income tax expense	28		17,455		20,042
Profit for the year			74,029		73,230
Profit(loss) attributable to :					
Owners of the parent			74,105		73,421
Non-controlling interests			(76)		(191)
Other comprehensive income(loss), net of tax					
Gain on valuation of long-term available-for-sale financial assets	8		586		389
Foreign currency translation differences			(44)		3
Actuarial losses	15		(13,368)		(9,600)
			(12,826)		(9,208)
Total comprehensive income for the year		₩	61,203	₩	64,022
Comprehensive income attributable to :					
Owners of the parent			61,279		64,213
Non-controlling interests			(76)		(191)
Earnings per share attributable to owners of the parent (in Korean won)					
Basic earnings per share	22	₩	760	₩	801
Diluted earnings per share	22	₩	760	₩	801

The accompanying notes are an integral part of these consolidated financial statements.

Korea Aerospace Industries, Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
Yeasrs ended December 31, 2012 and 2011

(In millions of Korean won)

	Equity attributable to owners of the parent					
	Capital stock	Share premium	Retained earnings	Other components of equity	Non-controlling interests	Total
Balance at January 1, 2011	₩ 429,860	₩ -	₩ 171,595	₩ 5,251	₩ 41	₩ 606,747
Comprehensive income						
Profit for the year	-	-	73,421	-	(191)	73,230
Gains on valuation of available-for-sale financial assets	-	-	-	389	-	389
Foreign currency translation differences	-	-	-	3	-	3
Actuarial losses	-	-	(9,600)	-	-	(9,600)
Total comprehensive income	-	-	63,821	392	(191)	64,022
Transactions with owners						
Cash dividends	-	-	(9,576)	-	-	(9,576)
Changes in treasury stock	-	-	-	273	-	273
Stock options	-	-	-	25	-	25
Conversion of preferred share to common share	(2,484)	-	-	2,484	-	-
Increase in paid-in capital	60,000	124,078	-	-	-	184,078
Total transactions with owners	57,516	124,078	(9,576)	2,782	-	174,800
Balance at December 31, 2011	₩ 487,376	₩ 124,078	₩ 225,840	₩ 8,425	₩ (150)	₩ 845,569

Korea Aerospace Industries, Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
Yeasrs ended December 31, 2012 and 2011

(In millions of Korean won)

	Equity attributable to owners of the parent					
	Capital stock	Share premium	Retained earnings	Other components of equity	Non-controlling interests	Total
Balance at January 1, 2012	₩ 487,376	₩ 124,078	₩ 225,840	₩ 8,425	₩ (150)	₩ 845,569
Comprehensive income						
Profit for the year	-	-	74,105	-	(76)	74,029
Gains on valuation of available-for-sale financial assets	-	-	-	586	-	586
Foreign currency translation differences	-	-	-	(44)	-	(44)
Actuarial losses	-	-	(13,368)	-	-	(13,368)
Total comprehensive income	-	-	60,737	542	(76)	61,203
Transactions with owners						
Cash dividends	-	-	(19,495)	-	-	(19,495)
Stock options	-	-	-	60	-	60
Total transactions with owners	-	-	(19,495)	60	-	(19,435)
Balance at December 31, 2012	487,376	₩ 124,078	₩ 267,082	₩ 9,027	₩ (226)	₩ 887,337

The accompanying notes are an integral part of these consolidated financial statements.

Korea Aerospace Industries, Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2012 and 2011

(In millions of Korean won)

	Notes	2012		2011
Cash Flows from operating activities				
Profit for the year		74,029	₩	73,230
Adjustments	29	137,289		99,258
Changes in operating assets and liabilities	29	288,001		(252,284)
Interest received		1,356		3,630
Interest paid		(18,646)		(16,478)
Income tax paid		(33,690)		(35,342)
Net cash generated from used in operating activities		448,339		(127,986)
Cash flows from investing activities				
Net proceeds(outflow) from short-term financial instruments		(1,309)		6,133
Proceeds from disposal of available-for-sale financial assets		31		2
Acquisition of available-for-sale financial assets		-		(3)
Increase in other financial assets		(430)		(1,433)
Decrease in other financial assets		694		1,940
Acquisition of jointly controlled entities		-		(2,805)
Proceeds from disposal of property, plant and equipment		198		51
Acquisition of property, plant and equipment		(63,559)		(39,521)
Proceeds from disposal of intangible assets		130		18
Acquisition of intangible assets		(41,196)		(70,397)
Acquisition of a subsidiary		-		3,501
Net cash used in investing activities		(105,441)		(102,514)

Korea Aerospace Industries, Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2012 and 2011

(In millions of Korean won)

	Notes	2012	2011
Cash flows from financing activities			
Increase in paid-in capital		₩ -	₩ 184,078
Proceeds from disposal of treasury stock		-	273
Acquisition of treasury stock		-	1
Proceeds from short-term borrowings		317,317	137,910
Repayment of short-term borrowings		(546,320)	(282,422)
Proceeds from long-term borrowings		54,146	96,113
Increase in debentures		-	100,000
Payment of dividends		(19,493)	(9,563)
Receipt of governments grants		8,737	25,815
Net cash provided by (used in) financial activities		(185,613)	252,205
Effects of exchange rate changes on cash and cash equivalents		167	358
Net increase in cash and cash equivalents		157,452	22,063
Beginning of the year		65,951	43,888
End of the year		₩ 223,403	₩ 65,951

The accompanying notes are an integral part of these consolidated financial statements.

1. General Information

Korea Aerospace Industries, Ltd. ("the Company") and its subsidiaries (collectively referred to as 'the Group') has prepared the consolidated financial statements in accordance with Korean IFRS 1027, *'Consolidated and separate financial statements'*. Its consolidated subsidiaries are Korea Aerospace F.W. Inc. and KAI Image. KAI-EC and S&K Aerospace Co., Ltd. are accounted for using the equity method of accounting.

Korea Aerospace Industries, Ltd. was incorporated on October 1, 1999, under the laws of the Republic of Korea. The Company is engaged in the production and sale of aircraft and its spare parts. On June 30, 2011, the Company was listed on the Korea Stock Exchange. As of December 31, 2012, the share capital of the Company amounts to ₩487,376 million and the Company's major shareholder is Korea Finance Corporation with 26.41% ownership (Note 18).

The Company's consolidated subsidiaries as of December 31, 2012, are as follows:

Subsidiaries	Location	Year end	Percentage of ownership(%)
KAI Image	**Domestic**	**December 31**	**50.00**[1]
Korea Aerospace F.W. Inc	**America**	**December 31**	**100.00**

[1] As the Company has the power to appoint and dismiss the majority of the members of the board of directors according to the agreement with other shareholders, KAI Image is included as a consolidated subsidiary, even though the ownership in KAI Image is 50%.

A summary of financial data of subsidiaries as of and for the year ended December 31, 2012, follows:

(In thousands of Korean won)

Name of subsidiaries	KAI Image	Korea Aerospace F.W. Inc
Assets	235,253	659,250
Liabilities	688,379	12,990
Equity	(453,126)	646,260
Sales	61,613	1,940,225
Profit(loss) for the year	(80,208)	60,776
Total comprehensive income(loss) for the year	(80,208)	60,776

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The Group's financial statements for the annual period beginning on January 1, 2011, have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.1.1 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The Group changed its accounting policy to present the operating income after deducting cost of sales, and selling and administrative expenses from revenue, in accordance with the amendment of Korean IFRS 1001, *Presentation of Financial Statements.*

The Group applies the accounting policy retroactively in accordance with the amended standards and the comparative consolidated statement of income is restated by reflecting adjustments resulting from the retrospective application. As a result of the changes in the accounting policy, other income and expenses of ₩8,984 million and ₩16,749 million, respectively, for the year ended December 31, 2012 (2011: ₩5,894 million and ₩4,831 million, respectively), which include gain/loss on disposal of property, plant and equipment, commission income, rental income and others, classified as operating income under the previous standard, were excluded from operating income. Consequently, operating income for the years ended December 31, 2012 and 2011, was higher by ₩7,765 million and lower by ₩1,063 million, respectively, as compared to the amounts under the previous standard. However, there is no material impact on net income and earnings per share for the years ended December 31, 2012 and 2011.

(b) New standards and interpretations not yet adopted

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2012, and not early adopted by the Group are as follows:

- Amendment of Korean IFRS 1001, Presentation of Financial Statements

Korean IFRS 1001, *Presentation of Financial Statements*, was amended to require other comprehensive income items to be presented into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently. This is effective for annual periods beginning on or after July 1, 2012, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

- Amendments to Korean IFRS 1019, Employee Benefits

According to the amendments to Korean IFRS 1019, *Employee Benefits*, the use of a 'corridor' approach is no longer permitted, and therefore all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are now changed to calculating net interest expense (income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities (assets). This amendment will be effective for annual periods beginning on or after January 1, 2013, and the Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

- Enactment of Korean IFRS 1113, Fair Value Measurement

Korean IFRS 1113, *Fair value measurement*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRSs. Korean IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within the Korean IFRSs. This amendment will be effective for annual periods beginning on or after January 1, 2013, and the Group expects that the application of this enactment would not have a material impact on its consolidated financial statements.

- Enactment of Korean IFRS 1110, 'Consolidated financial statements'

The standard explains the principle of control which is the basis for determining which entities are consolidated in the consolidated financial statements. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard set out further guidance where it is difficult to determine the control. The standard will be effective for the fiscal year beginning January 1, 2013. The Group is in the process of assessing the impact of the standard on the consolidated financial statements

- Enactment of Korean IFRS 1111, 'Joint arrangements Introduction'

The standard reflects the essence of joint arrangements and focuses on the rights and obligations of the parties to the joint arrangements rather than on the legal forms of the arrangements. The standard classifies joint arrangements into joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint operator accounts for the assets, liabilities, revenues and expenses in relation to its interest in the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. co-venturers) have rights to the net assets of the arrangement. Joint venturers account for the investment using the equity method. The standard will be effective for the fiscal year beginning January 1, 2013. The Group is in the process of assessing the impact of the standard on the consolidated financial statements.

- Enactment of Korean IFRS 1112, 'Disclosure of interests in other entities'

The standard provides disclosure requirements for all types of equity investments in other entities including subsidiaries, joint arrangements, associates, consolidated structured entity and unconsolidated structured entity. The standard will be effective for the fiscal year beginning January 1, 2013. The Group is in the process of assessing the impact of the standard on the consolidated financial statements.

2.2 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean-IFRS1027, *Consolidated and Separate Financial Statements*.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Group also assesses the existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies and others.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is measured as the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition- by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with Korean-IFRS1039, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Unrealized losses are also eliminated after recognizing impairment of transferred assets. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor’s share of the profit or loss of the investee after the date of acquisition. The Group’s investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group’s share of post-acquisition profit or loss is recognized in the comprehensive income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as 'impairment loss on investment in an associate' in the comprehensive income statement.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized in the comprehensive income statement.

(e) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties (co-venturers) exercise joint control. As with associates, investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in jointly controlled entities include goodwill identified on acquisition, net of accumulated impairment loss.
The Group does not recognize its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

2.3 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Korean won.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the comprehensive income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

2.4 Cash Flow Statements

Cash flow statements are prepared using the indirect method and foreign currency cash flows are translated at average exchange rates.

2.5 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are considered as short-term borrowings in the statements of financial position.

2.6 Financial Assets

(a) Classification

The Group classifies its financial assets in the following categories: loans and receivables, available-for-sale financial assets, and financial liabilities at amortized cost. The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group’s loans and receivables comprise ‘cash and cash equivalents’, ‘trade receivables’, and ‘other financial assets’ in the statement of financial position.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months after the end of the reporting period.

Financial liabilities carried at amortized cost

The Company classifies non-derivative financial liabilities as financial liabilities measured at amortized cost, except for financial liabilities at fair value through profit or loss or financial liabilities that arise when a transfer of a financial asset does not qualify for de-recognition. In this case, the transferred asset continues to be recognized and a financial liability is measured as the consideration received. Financial liabilities carried at amortized cost are included in non-current liabilities, except for maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

(b) Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the comprehensive income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets carried at fair value through profit or loss are presented in the comprehensive income statement within 'other gains and losses, net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the comprehensive income statement as part of 'other income' when the Group's right to receive dividend payments is established.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the comprehensive income statement as 'other gains and losses, net'. Dividends on available-for-sale equity instruments are recognized in the comprehensive income statement as part of 'other income' when the Group's right to receive dividend payments is established.

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(d) De-recognition

Financial assets are derecognized when the contractual rights to receive cash flows from the investments have expired or have been transferred and the Group has substantially transferred all risks and rewards of ownership. If the risk and rewards of ownership of transferred assets have not been substantially transferred, the Group reviews the level of control retained over that asset and the extent of its continuing involvement to determine if transfers do not qualify for de-recognition.

(e) Impairment of financial assets

(1) Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties;

Impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted using the initial effective interest rate. The carrying amount of the asset is reduced by the impairment loss amount and the amount of the loss is recognized in the comprehensive income statement. In practice, the Group may measure impairment loss based on the fair value of financial asset using an observable market price.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (for example, an improvement in debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the comprehensive income statement.

(2) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company uses the criteria refer to (1) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of comprehensive income. Impairment losses on equity instruments recognized in the statement of comprehensive income are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

2.7 Trade Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.8 Inventories

The quantities of inventories are determined using the perpetual method and periodic inventory count, while the cost of inventories are determined by the specific identification, except for raw materials, sub-materials and supplies on which FIFO method is applied, are stated at the lower of cost and net realizable value. The cost of finished goods and work-in-progress comprises, raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.9 Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure directly attribute to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to expenses in the comprehensive income statements during the financial period in which they are incurred. Capitalized interest is added to the cost of the underlying assets.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Estimated useful lives
Buildings and Structures	30 years
Machinery	8 years
Tools and equipment	4 years
Vehicles	4 years

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within the comprehensive income statement

2.10 Borrowing Costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.11 Intangible Assets

(a) Development costs and Long-term development projects

The Group capitalizes certain development costs when outcome of development plan is for practical enhancement, probability of technical and commercial achievement for the development plans are high, and the necessary cost is reliably estimable. Capitalized costs, comprising raw materials, direct labor and related overhead, are amortized by straight-line method and unit of production method over their useful lives. In presentation, accumulated amortization amount and accumulated impairment amount are deducted from capitalized costs associated with development activities. The Group recognizes other development costs as an expense in the period in which they are incurred.

(b) Membership rights

Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the entity. All membership rights are tested annually for impairment and stated at cost less accumulated impairment.

(c) Industrial property rights

Industrial property rights are shown at historical cost. Industrial property rights have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of industrial property rights over their estimated useful lives.

(d) Other intangible assets

Other intangible assets such as software which meet the definition of an intangible asset are amortized using the straight-line method over their estimated useful lives when the asset is available for use. Other intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount exceeds its recoverable amount.

	Amortization method	Estimated useful lives
Development costs	Straight-line method, unit of production method	20 years
Long-term development projects	Unit of production method	-
Industrial property rights	Straight-line method	5 ~ 20 years
Other intangible assets	Straight-line method, unit of production method	5 ~ 20 years

2.12 Impairment of Non-financial Assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill are reviewed for possible reversal of the impairment at each reporting date.

2.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the comprehensive income statement over the period of the borrowings using the effective interest method. The Group classifies the liability as current unless it has an unconditional right to delay the settlement of the borrowing.

2.14 Employee Benefits

(a) Retirement benefit obligations

The Group operates retirement benefit plans. A retirement benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of financial position in respect of defined benefit pension plan is the present value of the defined benefit obligations at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent acturies using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

(b) Share-based payments

The Group operates equity-settled, share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted with considerations to market performance conditions and non-vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the comprehensive income statement, with a corresponding adjustment to equity.

2.15 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provisions due to passage of time is recognized as an interest expense.

A contingent liability is recognized when the Group has a possible obligation arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or the Group has a present obligation as a result of past events but 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 liability.

2.16 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are declared.

2.17 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts, returns and value added taxes, after elimination of intra-group transactions.

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Revenue from the sale of goods are recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

(b) Sales of services

The Group recognizes revenue from the sale of services under the percentage-of-completion method. Revenue is generally recognized based on the costs incurred to date as a percentage to the total estimated costs to be incurred.

(c) Construction contracts

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed and are capable of being reliably measured.

The Group uses the 'percentage-of-completion method' to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. The Group also presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

(d) Interest income

Interest income is recognized using the effective interest method according to the time passes. When a loan and receivables are impaired, the Group reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognized using the original effective interest rate.

(e) Dividend income

Dividend income is recognized when the right to receive payment is established.

2.18 Government grants

Grants from a government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are presented as a deduction from related assets and are credited to depreciation over the useful lives of the related assets.

2.19 Income tax expense and deferred taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the comprehensive income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owner of the parent by the weighted average number of common shares outstanding during reporting period.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of dilutive potential common shares. Dilutive potential common shares are included in the calculation of diluted earnings per share only when the dilution is effective.

2.21 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (Note 33).

The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

3. Critical Accounting Estimates and Judgments

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimations and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Revenue recognition

Revenue from construction contract work is recognized using the percentage-of-completion method, applied by the Statements of K-IFRS1101, *Construction contracts*, under which revenue is generally based on the costs incurred to date as a percentage to the total estimated costs to be incurred.

(b) Income tax

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recorded, based on its best estimate, current taxes and deferred taxes that the Group will be liable in the future for the operating results as of the financial year end. However, the final tax outcome in the future may be different from the amounts that were initially recorded. Such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Provisions

The Group recognizes provisions for construction warranty claims and loss in construction contracts as of the reporting date. The amounts are estimated based on historical data.

(d) Retirement benefit obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the retirement benefit obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the pension benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Other key assumptions for retirement benefit obligations are based in part on current market conditions.

4. Financial assets subject to withdrawal restrictions

Short and long-term financial instruments subject to withdrawal restrictions as of December 31, 2012 and 2011, consist of the following:

(In millions of Korean won)	**2012**	**2011**	**Restriction**
Short-term financial instruments	9,467	6,377	Government grants
Short-term financial instruments	-	6,781	Pledged
Other long-term finance assets	17	19	Deposits for checking accounts
Total	9,484	13,177	

5. Financial instruments by category

Categorizations of financial instruments as of December 31, 2012, are as follows:

(In millions of Korean won)	**Loans and receivables**	**Available for sale financial assets**	**Total**	**Fair value**
Assets				
Cash and cash equivalents	223,403	-	223,403	223,403
Short -term financial instruments	14,467	-	14,467	14,467
Available-for-sale financial assets	-	19,308	19,308	19,308
Trade receivables	226,911	-	226,911	226,911
Due from customers for contract work	142,128	-	142,128	142,128
Other financial assets	31,181	-	31,181	31,181
Total	638,090	19,308	657,398	657,398

(In millions of Korean won)	**Financial liabilities measured at amortized cost**	**Fair value**
Liabilities		
Trade payables	137,915	137,915
Borrowings	217,255	215,127
Debentures	100,000	102,540
Other financial liabilities	94,507	96,508
Total	549,677	552,090

Categorizations of financial instruments as of December 31, 2011 (unaudited), are as follows:

(In millions of Korean won)	**Loans and receivables**	**Available for sale financial assets**	**Total**	**Fair value**
Assets				
Cash and cash equivalents	65,951	-	65,951	65,951
Short -term financial instruments	13,158	-	13,158	13,158
Available-for-sale financial assets	-	18,568	18,568	18,568
Trade receivables	77,958	-	77,958	77,958
Due from customers for contract work	523,810	-	523,810	523,810
Other financial assets	24,524	-	24,524	24,524
Total	705,401	18,568	723,969	723,969

(In millions of Korean won)	**Financial liabilities measured at amortized cost**	**Fair value**
Liabilities		
Trade payables	133,953	133,953
Borrowings	391,453	387,615
Debentures	100,000	102,793
Other financial liabilities	77,264	79,038
Total	702,670	703,399

The following table presents the financial assets and liabilities that are measured at fair value at December 31, 2012 and 2011 :

(In millions of Korean won)	**2012**			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets	-	-	19,187	19,187

	2011			
(In millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets	-	-	18,447	18,447

The levels of the fair value hierarchy and its application to financial assets and liabilities are described below

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

For available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be measured reliably are measured at cost.

The changes in the financial assets on level 3, December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	**2012 (available-for-sale financial assets)**	**2011 (available-for-sale financial assets)**
Balance as of January 1	18,447	17,821
Acquisitions	-	3
Valuation (Other Comprehensive income)	771	625
Disposals	(31)	(2)
Balance as of December 31	19,187	18,447

Income and loss of financial instruments by category as of December 31, 2012, are as follows:

(In millions of Korean won)	**Loans and receivables**	**Available-for-sale financial assets**	**Financial Liabilities measured at amortized cost**	**total**
Interest income	3,232	48	-	3,280
Interest expenses	-	-	19,306	19,306
Reversal of allowance for bad debts	66	-	-	66
Gain on foreign currency translation	1,240	-	513	1,753
Loss on foreign currency translation	4,707	-	-	4,707
Other comprehensive income	-	585	-	585

Income and loss of financial instruments by category as of December 31, 2011, are as follows:

(In millions of Korean won)	**Loans and receivables**	**Available-for-sale financial assets**	**Financial liabilities measured at amortized cost**	**total**
Interest income	6,376	169	-	6,545
Interest expenses	-	-	18,619	18,619
Reversal of allowance for bad debts	70	-	-	70
Gain on foreign currency translation	2,225	-	-	2,225
Loss on foreign currency translation	4,550	-	3,215	7,765
Other comprehensive income	-	389	-	389

6. Trade receivables and other financial assets

Trade receivables and other financial assets as of December 31, 2012, and 2011, consist of the following:

(In millions of Korean won)	**2012**	**2011**
Current assets		
Trade receivables	226,911	77,958
Other receivables	21,529	13,212
Accrued income	92	56
	248,532	91,226
Non-current asset		
Long-term financial instruments	78	333
Long-term other receivables	7,225	8,658
Long-term loans to employees	93	148
Deposits	2,165	2,119
	9,561	11,258
Total	258,093	102,484

The aging analysis of trade receivables as of December 31, 2012, and 2011, follows:

(In millions of Korean won)	**2012**	**2011**
Receivables not past due	220,482	71,056
Past due but not impaired		
Up to12 months	6,142	5,977
Over 12 months	287	925
	6,429	6,902
Impaired		
Over 12 months	1,004	1,070
Total	227,915	79,028
Provision	(1,004)	(1,070)
	226,911	77,958

Changes in provision for impairment of trade receivables for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	**2012**	**2011**
Balance as of January 1	1,070	1,140
Reversal of allowance for bad debts	(66)	(70)
Balance as of December 31	1,004	1,070

7. Inventories

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

(In millions of Korean won)	**2012**	**2011**
Finished goods	7,407	8,708
Work-in-process	154,590	125,116
Raw materials	110,420	86,681
Supplies	9,089	9,995
Raw materials in-transit	68,206	55,785
Total	349,712	286,285

As of December 31, 2012, the Group's inventories and property, plant and equipment are insured for ₩1,208 billion (2011: ₩1,027 billion). In addition, the Group carries product liability insurance with a ceiling of ₩2,261 billion (2011: ₩3,382 billion).

The cost of inventories recognized as expense and included in cost of sales amounting ₩1,310,614 million (2011 : ₩1,099,779 million).

8. Available-for-sale financial assets

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

(In millions of Korean won)	2012		2011
	Acquisition cost	**Book value**	**Book value**
Government and public bonds	16	16	47
Subordinated bonds	400	400	400
Equity securities	12,645	18,892	18,121
	13,061	19,308	18,568
Less: in current portion	(13)	(13)	(3)
Total	13,048	19,295	18,565

Debt securities as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	**Maturities**	**2012**	**2011**
Municipal bonds	2013.01.31	13	16
Government housing bonds	2016.09.30	3	31
Woori Bank subordinated bonds	2014.09.17 ~2015.06.19	400	400
Total		416	447

Equity securities as of December 31, 2012 and 2011, consist of the following:

(In millions of Korean won)	**Ownership percentage (%)**	**2012**	**2011**
Korea Defense Industrial Association[1]	16.5	18,771	18,000
Korea Software Financial Cooperative[2]	0.1	121	121
Total		18,892	18,121

[1] The Group's net proportionate share in the assets of the investee is measured at fair value.

[2] Fair value could not be determined reliably. Therefore, it has been valued as its acquisition cost.

[2] Korea Software Financial Cooperative provided a guarantee to the Group and the investment has been pledged as collateral for Korea Software Financial Cooperative (Note 17).

Changes in gain on valuation of available-for-sale financial assets as of December 31, 2012 and 2011, consist of the following:

	2012

(in millions of Korean won)	**January 1**	**Changes**	**December 31**
Valuation amount	5,476	771	6,247
Deferred income tax effect	(1,303)	(185)	(1,488)
Total	4,173	586	4,759

		2011	
(in millions of Korean won)	**January 1**	**Changes**	**December 31**
Valuation amount	4,851	625	5,476
Deferred income tax effect	(1,067)	(236)	(1,303)
Total	3,784	389	4,173

9. Investments in associate and jointly controlled entity

Investments in associate and jointly controlled entity as of December 31, 2012 and 2011, and their summarized financial information as of and for the years ended December 31, 2012 and 2011, is as follows:

				2012			
(In millions of Korean won)	**Ownership (%)**	**Acquisition Cost**	**Recorded Book Value**	**Assets**	**Liability**	**Sales**	**Net income(loss)**
Jointly controlled entity							
KAI-EC	51.00	2,805	942	2,573	726	-	(2,147)
Associate							
S&K Aerospace Co., Ltd.	29.41	1,000	2,636	37,793	28,832	12,483	(431)
Total		3,805	3,578				

				2011			
(In millions of Korean won)	**Ownership (%)**	**Acquisition Cost**	**Recorded Book Value**	**Assets**	**Liability**	**Sales**	**Net income(loss)**
Jointly controlled entity							
KAI-EC[1]	51.00	2,805	2,037	4,438	444	-	(1,506)
Associate							
S&K Aerospace Co., Ltd.	29.41	1,000	2,762	33,542	24,150	11,627	488
Total		3,805	4,799				

[1] Considering unanimity rule in the articles of KAI-EC, it is classified as a joint venture, irrespective of the Group's ownership percentage of 51%.

Details of changes in investments in associates and jointly controlled entities under the equity method for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	**2012**			
	January 1	**Acquisition**	**Gain(loss) on valuation of equity method**	**December 31**
KAI-EC	2,037	-	(1,095)	942
S&K Aerospace Co., Ltd.	2,762	-	(126)	2,636
Total	4,799	-	(1,221)	3,578

(In millions of Korean won)	**2011**			
	January 1	**Acquisition**	**Gain(loss) on valuation of equity method**	**December 31**
KAI-EC	-	2,805	(768)	2,037
S&K Aerospace Co., Ltd.	2,619	-	143	2,762
Total	2,619	2,805	(625)	4,799

10. Property, Plant and Equipment, and Intangible Assets

Property, plant and equipment as of December 31, 2012 and 2011, consist of the following:

(In millions of Korean won)	**2012**		
	Acquisition cost	**Accumulated depreciation**	**Balance**
Land	83,521	-	83,521
Buildings	244,828	(78,196)	166,632
Structures	37,619	(12,753)	24,866
Machinery	210,610	(145,664)	64,946
Tools and equipment	235,877	(189,964)	45,913
Vehicles	1,780	(1,125)	655
Construction-in-progress	9,726	-	9,726
Machinery-in-transit	5,425	-	5,425
Total	829,386	(427,702)	401,684

(In millions of Korean won)	2011		
	Acquisition cost	Accumulated depreciation	Balance
Land	83,521	-	83,521
Buildings	240,544	(70,072)	170,472
Structures	36,146	(11,607)	24,539
Machinery	184,177	(135,377)	48,800
Tools and equipment	203,644	(170,616)	33,028
Vehicles	1,454	(942)	512
Construction-in-progress	10,248	-	10,248
Machinery-in-transit	4,261	-	4,261
Total	763,995	(388,614)	375,381

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

(In millions of Korean won)	2012					
	January 1	Acquisitions / Capital expenditures	Disposals / Abandonment / Impairment	Depreciation	Transfers	December 31
Land	83,521	-	-	-	-	83,521
Buildings	170,472	2,743	-	(8,124)	1,541	166,632
Structures	24,539	1,201	-	(1,146)	271	24,865
Machinery	48,800	20,934	-	(10,695)	5,907	64,946
Tools and equipment	33,028	29,227	(6)	(20,629)	4,294	45,914
Vehicles	512	395	-	(252)	-	655
Construction-in-progress	10,248	9,134	-		(9,656)	9,726
Machinery-in-transit	4,261	3,521	-		(2,357)	5,425
Total	375,381	67,155	(6)	(40,846)	-	401,684

(In millions of Korean won)	2011					
	January 1	Acquisitions / Capital expenditures	Disposals / Abandonment / Impairment	Depreciation	Transfers	December 31
Land	83,521	-	-	-	-	83,521
Buildings	156,582	4,833	-	(7,483)	16,540	170,472
Structures	24,871	397	-	(1,125)	396	24,539
Machinery	32,053	8,277	-	(6,727)	15,197	48,800
Tools and equipment	38,920	11,785	(13)	(18,496)	832	33,028
Vehicles	355	381	(26)	(198)	-	512
Construction-in-progress	18,154	10,248	-	-	(18,154)	10,248
Machinery-in-transit	15,472	3,600	-	-	(14,811)	4,261
Total	369,928	39,521	(39)	(34,029)	-	375,381

As of December 31, 2012, the Group's inventories, and property, plant and equipment are insured for ₩1,208 billion (2011: ₩1,027 billion). In addition, the Group carries product liability insurance with a ceiling of ₩2,261 billion (2011: ₩3,382 billion) and general insurance for vehicles. The aforementioned package of insurance has been pledged as collateral for borrowings from Korea Development Bank up to a maximum of ₩550 billion.

As of December 31, 2012 and 2011, the Group's property, plant and equipment are pledged as collaterals for borrowings from Korea Development Bank for up to ₩550 billion (Note 13).

The depreciation expense classified by accounts for the years ended December 31, 2012 and 2011, is as follows:

(In millions of Korean won)	2012	2011
Cost of sales	40,001	33,123
Development costs	58	115
Selling, general and administrative expenses	787	791
Total	40,846	34,029

Intangible assets as of December 31, 2012 and 2011, consist of the following:

(In millions of Korean won)	2012			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment**	**Book value**
Industrial property rights	833	(559)	(1)	273
Software	10,427	(3,324)	-	7,103
Facility usage rights	78	(56)	-	22
Long-term development projects	83,002	(17,913)	-	65,089
Development costs	211,301	(19,977)	(53,026)	138,298
Memberships	1,756	-	-	1,756
Other intangible assets	10,311	(2,580)	-	7,731
Total	317,708	(44,409)	(53,027)	220,272

(In millions of Korean won)	2011			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment**	**Book value**
Industrial property rights	855	(656)	(1)	198
Software	5,540	(2,152)	-	3,388
Facility usage rights	78	(53)	-	25
Long-term development projects	71,115	(11,458)	-	59,657
Development costs	193,181	(14,117)	(42,022)	137,042
Memberships	1,450	-	-	1,450
Other intangible assets	10,311	(2,033)	-	8,278
Total	282,530	(30,469)	(42,023)	210,038

Changes in intangible assets for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	2012				
	January 1	**Acquisitions / Capital expenditures[1]**	**Disposals / Impairment**	**Amortization**	**December 31**
Industrial property rights	198	119	-	(45)	272
Software	3,388	4,886	-	(1,171)	7,103
Facility usage rights	25	-	-	(3)	22
Long-term development projects	59,657	6,557	-	(1,125)	65,089
Development costs	137,042	22,332	(11,005)	(10,071)	138,298
Memberships	1,450	438	(131)	-	1,757
Other intangible assets	8,278	-	-	(547)	7,731
Total	210,038	34,332	(11,136)	(12,962)	220,272

(In millions of Korean won)	2011				
	January 1	**Acquisitions / Capital expenditures[1]**	**Disposals / Impairment**	**Amortization**	**December 31**
Industrial property rights	175	61	-	(38)	198
Software	2,089	2,634	-	(1,335)	3,388
Facility usage rights	27	-	-	(2)	25
Long-term development projects	42,660	17,976	-	(979)	59,657
Development costs	116,344	24,047	-	(3,349)	137,042
Memberships	1,253	220	(21)	-	1,452
Other intangible assets	8,786	-	-	(510)	8,276
Total	171,334	44,938	(21)	(6,213)	210,038

[1] Amounts after deducting the government grants.

The amortization expense classified by accounts for the years ended December 31, 2012 and 2011, is as follows:

(In millions of Korean won)	**2012**	**2011**
Cost of sales	8,311	1,889
Development costs	1	44
Selling, general and administrative expenses	4,650	4,280
Total	12,962	6,213

11. Other assets

Other assets as of December 31, 2012 and 2011, consist of the following:

(In millions of Korean won)	**2012**	**2011**
Current assets		
Advanced payments	192,330	88,968
Prepaid expenses	5,448	4,925
Total	197,778	93,893

12. Trade payables and Other financial liabilities

Trade payables and other financial liabilities as of December 31, 2012 and 2011, consist of the following:

(In millions of Korean won)	**2012**	**2011**
Current liabilities		
Trade payables	137,915	133,953
Other payables	22,081	4,887
Accrued expenses	54,654	55,690
Unpaid dividends	16	13
	214,666	194,543
Non-current liabilities		
Long-term other payables	17,756	16,674
Total	232,422	211,217

13. Borrowings and Debentures payable

Short-term and long-term borrowings as of December 31, 2012 and 2011, consist of the following:

(In millions of Korean won)	2012	2011
Current liabilities		
Short-term borrowings	657	70,470
Short-term borrowings in foreign currencies	-	69,198
Current maturities of long-term borrowings	57,315	51,134
Less : Present value discount[1]	(1,850)	(2,178)
Current maturities of long-term borrowings in foreign currencies	-	29,357
	56,122	217,981
Non-current liabilities		
Long-term borrowings	163,198	168,527
Less : Present value discount[1]	(2,065)	(2,394)
Long-term borrowings in foreign currencies	-	7,339
	161,133	173,472
Total	217,255	391,453

[1] The interest rate of the defense industry loans is lower than the market interest rate (3.81%~ 8.19%). The loan amount is discounted using the market interest rate as its fair value. The difference between the undiscounted amount and the fair value has been accounted for as government grants.

As of December 31, 2012 and 2011, the Group's property, plant and equipment are pledged as collaterals for borrowings from Korea Development Bank for up to ₩550 billion(Note 10). As of December 31, 2011, the Group also provided time deposits in foreign currency amounting to ₩6,800 miliion as collaterals for Korea Development Bank and Korea Exchange Bank.

Debentures as of December 31, 2012 and 2011, consist of the following:

(In millions of Korean won)	Issue date	Maturity date	Interest Rate(%)	2012 Book value	2011 Book value
17th (Unguaranteed, Public offering)	2011.10.10	2014.10.10	4.35	100,000	100,000

Book value and fair value of the long-term borrowings and debentures as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	2012		2011	
	Book value	**Fair value**[1]	**Book value**	**Fair value**
Short-term borrowings	56,122	56,122	217,981	217,981
Long-term borrowings	161,133	159,005	173,472	169,634
Debentures	100,000	102,540	100,000	102,793
Total	317,255	317,667	491,453	490,408

[1] The fair value of long-term borrowings is calculated by discounting the nominal amount of cash outflows with the weighted average interest rate of 3.48% (2011 : 3.71%).

14. Other liabilities

Other liabilities as of December 31, 2012 and 2011, consist of the following:

(In millions of Korean won)	**2012**	**2011**
Advances received	28,730	39,191
Unearned revenues	2,139	2,269
Withholdings	2,871	2,408
Deposits received	2,363	1,425
Total	36,103	45,293

15. Retirement benefit obligations

Retirement benefit obligations recognized on the statements of financial position as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	**2012**	**2011**
Present value of retirement benefit obligation	160,009	128,859
Fair value of plan assets	(9,685)	(6,979)
	150,324	121,880

Changes in the carrying amount of retirement benefit obligations for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	**2012**	**2011**
Balance as of January 1	128,859	103,512
Current service cost	18,110	15,886
Interest expenses of retirement benefit obligations	6,807	6,422
Benefits paid	(11,369)	(9,368)
Actuarial losses	17,602	12,407
Balance as of December 31	160,009	128,859

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

(In millions of Korean won)	**2012**	**2011**
Balance as of January 1	6,979	3,733
Expected return on plan assets	307	254
Contributions to plan assets	2,438	4,645
Benefits paid	(6)	(1,461)
Actuarial losses	(33)	(192)
Balance as of December 31	9,685	6,979

The details of pension expense recognized in the statement of comprehensive income for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	**2012**	**2011**
Current service cost	18,110	15,886
Interest expenses of retirement benefit obligations	6,807	6,422
Expected return on plan assets	(307)	(254)
Total	24,610	22,054
Cost of sales	21,167	19,012
Research and development expenses	630	436
Selling, general and administrative expenses	2,813	2,606
Total	24,610	22,054

The actual returns on plan assets for the years ended December 31, 2012 and 2011, amount to ₩ 274 million and ₩ 62million, respectively.

Details of accumulated actuarial loss recognized as other comprehensive income are as follows:

(In millions of Korean won)	**2012**	**2011**
Balance as of January 1	28,973	19,373
Actuarial losses for the year	13,368	9,600
Balance as of December 31	42,341	28,973

The key assumptions used for retirement benefit obligation calculations as of December 31, 2012 and 2011, are as follows:

	2012	**2011**
Discount rate	4.39%	5.34%
Salary increase rate	5.5%	4.80 ~ 6.30%
Expected rate of return on plan assets	4.40%	4.40%
Retirement age	58 years old	58 years old

Plan assets as of December 31, 2012 and 2011, consist of:

	2012	**2011**
Capital guaranteed investment	98.5%	97.8%
Contribution to the National Pension Fund	1.5%	2.2%
Total	100.0%	100.0%

16. Provisions

The changes in provisions for the years ended December 31, 2012 and 2011, are as follows:
(In millions of Korean won)

	2012				2011			
	January 1	**Increase**	**Decrease**	**December 31**	**January 1**	**Increase**	**Decrease**	**December 31**
Loss on the construction contract[1]	-	1,795	-	1,795	1,070	-	1,070	-
Penalty for construction delays[2]	-	7,816	-	7,816	54,620	29,490	84,110	-
Provision for construction warranty claims[3]	910	792	-	1,702	1,114	-	204	910
	910	10,403	-	11,313	56,804	29,490	85,384	910

[1] Provision for loss on the construction contract is made when there is an expected loss on the construction contract. Provision for loss on the construction contract as of December 31, 2012 and 2012, results from Police Multipurpose Helicopter Project.

[2] As of December 31, 2012, provision for the penalty in relation to the delay of Surion Project is based on the best estimate. As of December 31, 2011, provision for the penalty was made in relation to the delay of P-3 Project based on the amount of the penalty imposed by Defence Acquisition Program Administration.

[3] The Group makes provision for repair and maintenance based on the past experience.

The aforementioned provisions have been either deducted from the gross amount due from customers for contract work or added to the gross amount due to customers for contract work.

17. Commitments and Contingencies

(1) Major commitments with financial institutions as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won and in thousands of US dollars)

		Limit amount	
Description	**Financial institutions**	**2012**	**2011**
Bank Overdrafts	Woori Bank	7,000	7,000
	Korea Exchange Bank[2]	10,000	10,000
	Shinhan Bank	10,000	2,000
	Citi Bank[1]	8,000	8,000
Note Discounting arrangement	Woori Bank	20,000	20,000
Short-term loan agreement		50,000	50,000
General loan agreement	Kookmin Bank	-	5,000
Foreign currency checks and notes purchase agreement	Citi Bank[1]	USD 2,000	USD 6,000
Foreign currency L/C arrangement	Korea Development Bank	USD 5,000	USD 5,000
Foreign currency general loan agreement	Korea Exchange Bank[2]	USD 2,500	USD 2,500
General loan agreement		30,000	30,000
Other notes purchase agreement		USD 6,000	USD 6,000
Other foreign currency payment guarantee agreement		USD 1,500	USD 1,500
Import L/C agreement		USD 40,000	USD 40,000

[1] Aggregate limit amount of the agreements with Citibank is ₩ 13,000 million.
[2] Aggregate limit amount of the agreements with Korea Exchange Bank is ₩ 50,000 million.

(2) As of December 31, 2012, Korea Exim bank has provided payment guarantees of US$84,589 thousand in relation to the export of KT-1 and T-50 to Indonesia. In addition, Korea Development Bank has provided payment guarantees of US$ 127,372 thousand with respect to export guarantee for KT-1 TEU, KT1-TEU off-set performance guarantees, and refund guarantees for deposits received for KT-1 Peru. Also, BNP Paribas and other banks have provided payment guarantees of EUR 54,794 thousand and US$ 1,600 thousand for KHP EC S/B LC and others. In addition, Korea Exchange bank has provided payment guarantees of US$2,456 thousand in relation to the export of KT-1 to Indonesia. Also, Shinhan Bank has provided payment guarantees of US$ 1,592 thousand in relation to the export of KT-1 TEU and C-130. As of December 31, 2011,

Korea Exim bank has provided payment guarantees of US$7,100 thousand in relation to the export of KT-1 to Indonesia. In addition, Korea Development Bank has provided payment guarantees of US$167,641 thousand with respect to export guarantee for KT-1 TEU, refund guarantees for deposits received, off-set performance guarantees, and Indonesia bid guarantees for T-50. Also, BNP Paribas and other banks have provided payment guarantees of US$65,150 thousand (maximum of US$ 1,600 thousand and EUR 49,055 thousand) for KHP EC S/B LC and others. In addition, Korea Exchange bank has provided payment guarantees of US$897 thousand in relation to the export of KT-1 to Indonesia.

(3) With respect to the export of KT-1 to Turkey, the Group has to perform the off-set contract such as purchasing equipment from Turkey, and technology transfer. Also, the Group is in process of discussing the off-set contract with Peru government in relation to KT-1 export.

(4) As of December 31, 2012, Seoul Guarantee Insurance and Korea Software Financial Cooperative have provided guarantees for repair and maintenance, and for advances received from customers for up to approximately ₩ 489 billion (2011: ₩ 1,277 billion), ₩11.3 billion (2011: ₩11 billion), respectively. Also, the Group was guaranteed by Export Guarantee Insurance Corporation up to US$65,462 thousand (2010: US$145,079 thousand).

(5) The Group has payment guarantees provided by Korea Defense Industry Association up to ₩1,358 billion (2011: ₩1,212 billion).

(7) As of December 31, 2012, the Group has issued four blank promissory notes as collaterals for its borrowings and contract fulfillments. Meanwhile, as of December 31, 2011, the Group has issued three blank checks, four blank promissory notes and one promissory note with face anount of ₩ 124 million as collaterals for its borrowings and contract fulfillments.

18. Capital Stock and Share premium

The number of authorized shares of the company is 200 million shares and capital stock as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won, except number of shares and par value)

	Authorized Shares	Issued and outstanding Shares	Par value	Capital Stock
Common stock	200,000,000	97,475,107	₩5,000	₩487,376

Changes in capital stock and share premium for the year ended December 31, 2011, are as follows:

(In millions of Korean won, except number of shares)

	Common stock		Preferred stock		Share premium
	Issued and outstanding Shares	Amounts	Issued and outstanding Shares	Amounts	Amounts
Balance as of January 1	79,433,929	397,170	6,538,071	32,690	-
Capital reduction[1]	-	-	(496,893)	(2,484)	-
Conversion to common stock[1]	6,041,178	30,206	(6,041,178)	(30,206)	-
Paid-in capital increase[2]	12,000,000	60,000	-	-	124,078
Balance as of December 31	97,475,107	487,376	-	-	124,078

[1]In accordance with shareholder resolution on January 25, 2011, the Company reduced 7.6% of its preferred stock and converted the remaining amount into common stock.

[2] New shares were issued to increase share premium on June 28, 2011, and shares of the Company began to be traded at the Korean Stock Exchange on June 30, 2011.

As of December 31, 2012, the shareholders of the Company are as follows:

(In number of shares)

	2012	
	Number of Shares	Ownership (%)
Korea Finance Corporation	25,745,964	26.4
Samsung Techwin Co., Ltd.	9,747,511	10.0
Hyundai Motors Co., Ltd.	9,747,511	10.0
DIP Holdings	4,873,754	5.0
Odin Holdings	4,873,757	5.0
Other shareholders	42,486,610	43.6
Total	97,475,107	100.0

19. Retained Earnings

Retained earnings as of December 31, 2012 and 2011, consist of the following:

(In millions of Korean won)	2012	2011
Legal reserve[1]	4,378	2,428
Unappropriated retained earnings	262,704	223,412
Total	267,082	225,840

[1] The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% cash dividend paid, until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock, or used to reduced accumulated deficit, if any, with the ratification of the Group's majority shareholders.

The Company declared cash dividends to shareholders of common stock and preferred stock for the years ended December 31, 2012 and 2011. Details of year-end dividends are as follows:

(In millions of Korean won, except number of shares)	2012	2011
	Common stock	Common stock
Number of shares(total stock)	97,475,107	97,475,107
Number of shares(treasury stock)	-	-
Number of shares(eligible for dividends)	97,475,107	97,475,107
Dividend amount per share(In Korean won)	₩ 200	₩ 200
Dividend amount	19,495	19,495

20. Other components of equity

Other components of equity as of December 31, 2012 and 2011, consist of the following:

(In millions of Korean Won)	2012	2011
Gain on valuation of available-for-sale financial assets	4,759	4,173
Gain on disposal of treasury stock	184	184
Stock compensation	85	25
Gain on capital reduction	4,053	4,053
Loss on overseas operation translation	(54)	(10)
Total	9,027	8,425

21. Share-based Payment

Information regarding stock options granted by the Company is as follows

Date of grant	2011-08-17
Total number of granted shares	10,000
Grant method	Share-based payment
Exercise price per share	₩27,279
Vesting period	2 years
Exercise period	8 years since the termination of vesting period

The Company calculated compensation expenses using fair value approach. The Company recognizes compensation expenses over the period in its expenses and other comprehensive income.

(In millions of Korean won)

Total compensation calculated	121
Recognized remuneration expenses	
In previous years	25
2012	60
total	85
Unrecognized remuneration expenses	35

The key assumptions used for compensation expenses calculation is as follows:

Weighted average share price on the date of the grant	₩26,597
Risk-free interest rate	3.68%
Expected vesting period	3.5 years
Expected volatility of the share price	0.5971
Expected dividend yield	2.00%

22. Earnings per Share

Weighted-average number of common stock for the years ended December 31, 2012, is as follows:

	Shares	Number of shares outstanding	Weight	Cumulative number of shares
January 1, 2012	97,475,107	97,475,107	366	35,675,889,162

Number of shares outstanding for the year ended December 31, 2012 : 35,675,889,162 ÷ 366 = 97,475,107

Common equivalent shares for the year ended December 31, 2011, are as follows:

	Shares	Number of shares outstanding	Weight	Cumulative number of shares
January 1, 2011[1]	85,457,557	85,457,557	59	5,041,995,863
Acquisition of treasury stock	(6)	85,457,551	119	10,169,448,569
Disposal of treasury stock and paid in capital increase	12,017,556	97,475,107	187	18,227,845,009
total			365	33,439,289,441

[1] 6,041,178 shares of the preferred stock converted into common stock are included.

Number of shares outstanding for the year ended December 31, 2012 : 33,439,289,441 ÷ 365 = 91,614,492

Basic earnings per share for the years ended December 31, 2012 and 2011, is as follows:

(In millions of Korean won)	2012	2011
Net income	74,105	73,421
Weighted-average number of common stock	97,475,107	91,614,492
Basic earnings per share (in Korean won)	760	801

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: Stock options (Note 21). A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. As of December 31, 2012, stock option rights do not have dilutive effect, as a result, basic earnings per share equals the diluted earnings per share.

23. Sales

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

(In millions of Korean won)	**2012**	**2011**
Sales	1,534,606	1,286,128
Sales of goods	544,979	377,253
Construction contract revenue	989,627	908,875
Interest income	3,279	6,545
Total	1,537,885	1,292,673

Backlog balance as of December 31, 2012 and 2011, is as follows:

(In millions of Korean won)

	Total contract balance as of January 1	**Increase and decrease**	**Recognition of construction**	**Backlog balance as of December 31**
2012	1,422,557	996,897	989,627	1,429,827
2011	1,577,018	754,414	908,875	1,422,557

The Group provides contract performance guarantees, and guarantees for repair and maintenance, and advances received from customers in connection with the aforementioned revenue. Various related guarantees have been provided to the Group by Seoul Guarantee Insurance and others (Note 17).

Construction contract revenue, cost of construction and construction profit on the ongoing projects as of December 31, 2012 and 2011, consist of the following:

(In millions of Korean won)	**2012**	**2011**
Accumulated revenue recognized	2,911,890	3,959,043
Cost of construction	2,488,863	3,582,426
Construction profit	423,027	376,617

The gross amounts due from and due to customers for contract work as of December 31, 2012 and 2011, are as of the follows:

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(In millions of Korean won)	**2012**	**2011**
The gross amount due from customers for contract work	142,128	523,810
The gross amount due to customers for contract work[1]	(265,847)	(16,872)

[1] As of December 31, 2012 and 2011, advances received from customers amount to ₩ 265,847 million and ₩ 16,872 million, respectively.

24. Expenses by Nature

Expenses by nature for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	**2012**	**2011**
Changes in inventories	(63,427)	(31,050)
Purchase of raw and other materials	708,440	545,623
Wages and salaries	235,094	227,408
Depreciation and amortization	53,807	40,242
Commission expenses	27,395	29,793
Royalty and development expenses	125,107	119,401
Outside processing expenses	172,987	116,418
Welfare expenses	48,370	45,040
Travel expenses	15,311	14,840
Others	85,737	73,934
Total	1,408,821	1,181,649

25. Selling, general and administrative expenses

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

(In millions of Korean won)	**2012**	**2011**
Wages and salaries	25,356	25,109
Severance and retirement benefits	2,814	2,606
Welfare expense	5,984	5,716
Travel expenses	3,447	3,769
Taxes and dues	970	1,022
Entertainment	528	529
Vehicles maintenance	517	490
Depreciation	787	791
Commission	4,281	5,224
Amortization	4,650	4,280
Rental expense	1,691	1,393
Advertising expense	11,899	4,706
Sales commission	10,205	6,512
Transportation expense	4,586	3,925
Development expense	8,719	7,242
Reversal of allowance for bad debts	(66)	(70)
Others	11,839	8,556
Total	98,207	81,800

26. Other income and expense

Other income and expense for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	**2012**	**2011**
Other income		
Commission income	16	23
Rental income	948	57
Gain on disposal of property, plant and equipment	192	39
Others	7,828	5,775
Total	8,984	5,894

(In millions of Korean won)	**2012**	**2011**
Other expense		
Donations	1,423	762
Loss from disposal of property, plant and equipment	1	34
Loss from disposal of intangible assets	2	4
Impairment losses on intangible assets	11,004	-
Others	4,319	4,031
Total	16,749	4,831

27. Finance income and expense

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

(In millions of Korean won)	**2012**	**2011**
Finance income		
Interest income	3,279	6,545
Gain on foreign currency transactions	24,308	17,723
Gain on foreign exchange translation	1,752	2,225
Total	29,339	26,493

(In millions of Korean won)	**2012**	**2011**
Other operating expense		
Interest expense	19,306	18,619
Loss on foreign currency transactions	30,640	11,824
Loss on foreign exchange translation	4,707	7,765
Total	54,653	38,208

28. Income Tax

Income tax expense for the years ended December 31, 2012 and 2011, consists of the following:

(In millions of Korean won)	2012	2011
Current taxes	7,748	31,250
Deferred income tax due to temporary difference	5,684	(14,064)
Tax charged directly to equity	4,023	2,856
Income tax expense	17,455	20,042

Deferred tax assets and liabilities charged or credited directly to equity for the years ended December 31, 2012 and 2011, consist of the following:

(In millions of Korean won)		2012	
	Beginning Balance	Increase (Decrease)	Ending Balance
Gains on valuation of available-for-sale financial assets	(1,303)	(186)	(1,489)
Actuarial gains(losses)	4,234	4,209	8,443
Total	2,931	4,023	6,954

(In millions of Korean won)		2011	
	Beginning Balance	Increase (Decrease)	Ending Balance
Gains on valuation of available-for-sale financial assets	(1,067)	(236)	(1,303)
Actuarial gains(losses)	1,142	3,092	4,234
Total	75	2,856	2,931

The tax on the Group’s profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

(In millions of Korean won)	2012	2011
Profit before income tax	91,484	93,272
Income tax based on statutory rate	21,674	23,199
Adjustment		
Non-taxable income/Non-deductible expense	192	459
Tax credit	(3,184)	(2,058)
Other	(1,227)	(1,558)
Income tax expense	17,455	20,042
Effective tax rate	19.1%	21.50%

Deferred income tax assets and liabilities from the tax effects of temporary differences as of December 31, 2012 and 2011, are as follows:

	2012					
	Temporary Differences			Deferred Income Tax Asset (Liabilities)		
(In millions of Korea won)	Beginning Balance	Increase (Decrease)	Ending Balance	Beginning Balance	Increase (Decrease)	Ending Balance
Deferred tax arising from temporary differences (1)						
Accrued income	(40)	(35)	(75)	(10)	(8)	(18)
Deposits for severance benefits	(6,829)	(2,712)	(9,541)	(1,625)	(649)	(2,274)
Gain on foreign currency translation	(2,695)	1,344	(1,351)	(641)	319	(322)
Gain on equity-method valuation	(52)	-	(52)	(12)	-	(12)
Accrued severance benefits	90,735	14,580	105,315	21,597	3,503	25,100
Impairment loss on intangible assets	24,052	14,869	38,921	5,725	3,551	9,276
Dividend income	5,476	771	6,247	1,303	186	1,489
Government grants	16,383	7,943	24,326	3,900	1,898	5,798
Accrued liability	16,444	884	17,328	3,914	216	4,130
Low rate borrowings from government	1,561	(101)	1,460	372	(24)	348
Provision for bad debts	7,815	(2,870)	4,945	1,860	(682)	1,178
Depreciation	4	514	518	1	123	124
Loss on foreign currency translation	3,086	(383)	2,703	735	(91)	644
Provision for construction warranty	89,032	(77,712)	11,320	21,192	(18,494)	2,698
Impairment loss on investment in associate	-	1,863	1,863	-	444	444
Changes in equity method investment	(1,843)	-	(1,843)	(439)	-	(439)
	243,129	(41,045)	202,084	57,872	(9,708)	48,164
Items charged directly to equity (2)						
Gain on valuation of long-term available-for-sale financial assets	(5,476)	(771)	(6,247)	(1,303)	(186)	(1,489)
Actuarial losses	17,789	17,635	35,424	4,234	4,209	8,443
	12,313	16,864	29,177	2,931	4,023	6,954
Unrealizable temporary differences (3)						
Gain from equity method valuation	598	-	598	142	-	142
Share of equity-method investees` accumulated other comprehensive income	(1,890)	-	(1,890)	(450)	-	(450)
	(1,292)	-	(1,292)	(308)	-	(308)
Total (1+2-3)	256,734	(24,181)	232,553	61,111	(5,685)	55,426

	2011					
	Temporary Differences			Deferred Income Tax Asset (Liabilities)		
(In millions of Korea won)	Beginning Balance	Increase (Decrease)	Ending Balance	Beginning Balance	Increase (Decrease)	Ending Balance
Deferred tax arising from temporary differences (1)						
Accrued income	(58)	18	(40)	(14)	4	(10)
Deposits for severance benefits	(3,577)	(3,252)	(6,829)	(787)	(838)	(1,625)
Gain on foreign currency translation	(3,504)	809	(2,695)	(848)	207	(641)
Gain on equity-method valuation	(52)	-	(52)	(11)	(1)	(12)
Accrued severance benefits	79,133	11,602	90,735	17,409	4,188	21,597
Impairment loss on intangible assets	26,171	(2,119)	24,052	5,758	(33)	5,725
Dividend income	4,851	625	5,476	1,067	236	1,303
Government grants	18,368	(1,985)	16,383	4,445	(545)	3,900
Accrued liability	15,846	598	16,444	3,835	79	3,914
Low rate borrowings from government	1,132	429	1,561	249	123	372
Provision for bad debts	11,785	(3,970)	7,815	2,680	(820)	1,860
Depreciation	138	(134)	4	30	(29)	1
Loss on foreign currency translation	3,239	(153)	3,086	784	(49)	735
Provision for construction warranty	56,804	32,228	89,032	12,497	8,695	21,192
Changes in equity method investment	(1,843)	-	(1,843)	(406)	(33)	(439)
	208,433	34,696	243,129	46,688	11,184	57,872
Items charged directly to equity (2)						
Gain on valuation of long-term available-for-sale financial assets	(4,851)	(625)	(5,476)	(1,067)	(236)	(1,303)
Actuarial losses	5,190	12,599	17,789	1,142	3,092	4,234
	339	11,974	12,313	75	2,856	2,931
Unrealizable temporary differences (3)						
Gain from equity method	598	-	598	132	10	142
Share of equity-method investees` accumulated other comprehensive income	(1,890)	-	(1,890)	(416)	(34)	(450)
	(1,292)	-	(1,292)	(284)	(24)	(308)
Total (1+2-3)	210,064	46,670	256,734	47,047	14,064	61,111

The Group periodically assesses its ability to realize deferred income tax assets. In the event of significant uncertainty regarding the Group`s ultimate ability to realize such assets, a valuation allowance is recorded to reduce the assets to their estimated realize value.

The analysis of deferred tax assets and deferred tax liabilities is as follows：

(In millions of Korean won)	**2012**	**2011**
Deferred tax assets		
Within 12 months	47,779	39,752
More than 12 months	11,751	24,939
	59,530	64,691
Deferred tax liabilities		
Within 12 months	(3,764)	(3,364)
More than 12 months	(340)	(216)
	(4,104)	(3,580)
Deferred tax assets(liabilities), net	55,426	61,111

29. Cash Generated from Operations

Cash generated from operations for the years ended December 31, 2012 and 2011, is as follows:

(In millions of Korean won)	2012	2011
Adjustments for:		
Interest expenses	19,306	18,619
Loss on foreign exchange translation	4,707	7,765
Loss on disposal of property, plant and equipment	1	34
Loss on intangible assets	2	4
Depreciation expense	40,846	34,029
Amortization expense	12,962	6,213
Impairment losses on intangible assets	11,004	-
Severance and retirement benefits	24,610	22,054
Share-based compensation	60	25
Loss on valuation of equity method investment	1,222	624
Interest income	(3,279)	(6,545)
Gain on foreign exchange translation	(1,752)	(2,225)
Gain on disposal of property, plant and equipment	(192)	(38)
Transfer(Reversal) of provision for construction delay	7,816	-
Transfer(Reversal) of provision for construction loss	1,795	(1,069)
Transfer(Reversal) of provision for construction Warranty claims	792	(204)
Reversal of provision	(66)	(70)
Tax expense	17,455	20,042
Total	137,289	99,258
Changes in assets and liabilities:		
Increase in trade receivables	(151,798)	(6,782)
Decrease(Increase) in the gross amount due from customers for construction work	371,544	(176,768)
Increase in other financial assets	(11,395)	(4,177)
Increase in other assets	(103,905)	(11,711)
Increase in inventories	(63,427)	(31,050)
Increase in trade payables	5,800	87,231
Increase(Decrease) in the gross amount due to customers for contract work	247,180	(76,573)
Increase(Decrease) in other financial liabilities	16,337	(12,454)
Decrease in other liabilities	(8,533)	(7,448)
Employee benefits paid	(11,370)	(9,368)
Increase in retirement pension assets	(2,432)	(3,184)
Total	288,001	(252,284)

Significant transactions not affecting cash flows for the years ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	**2012**	**2011**
Increase of long-term available-for-sale financial assets	771	625
Reclassification of other comprehensive income to deferred income tax assets	185	236
Increase in actuarial losses	17,635	12,599
Increase int the deferred tax assets due to actuarial losses	4,209	3,092
Current portion of long-term borrowings	59,476	80,296
Gain on capital reduction	-	2,484
Reclassification of government grants to intangible assets	6,864	25,458
Reclassification of construction in progress to property, plant and equipment	9,656	18,154
Reclassification of machinery in transit	2,357	14,811
Increase of other account payables due to acquisition of property, plant and equipment	3,597	-

30. Related party transactions

Related parties of the Group as of December 31, 2012 and 2011, are as follows:

Description	**Name**	**Relation**
The entity which has significant influence	Korea Finance Corporation	Largest shareholder
Jointly controlled entity	KAI-EC	Investee
Associate	S&K Aerospace Co., Ltd.	Investee
Other	Korea Development Bank	Subsidiary of Korea Finance Corporation

Transactions with the party which has significant influence over the Group for the years ended December 31, 2012 and 2011, and the related receivables and payables as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	**2012**	**2011**
Transactions		
Sales and other	-	80
Purchases and other	210	21,569
Receivables and Payables		
Receivables	-	-
Payables	30,000	-

Transactions in 2011 with Samsung Techwin and Hyundai Mortors include those only for the period when related party relationship was maintained.

Transactions with associate for the years ended December 31, 2012 and 2011, and the related receivables and payables as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	**2012**	**2011**
Transactions		
Sales and other	182	236
Purchases and other	12,055	11,476
Receivables and Payables		
Receivables	57	84
Payables	962	1,684

In 2011, initial capital investment for establishment of joint venture amounts to ₩ 2,805 million. And there are no other transactions or receivables and payables balances relating to the joint venture (Note 9).

Transactions with other related parties for the years ended December 31, 2012 and 2011, and the related receivables and payables as of December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	**2012**	**2011**
Transactions		
Interest income and other	21	25
Interest expense and other	10,175	7,401
Receivables and Payables		
Short-term financial instruments and other	55,133	4,274
Borrowings and other	190,786	279,081

Key management includes directors, members of the Executive Committee. The compensation paid or payable to key management for employee services is as follows:

(In millions of Korean won)	**2012**	**2011**
Salaries	912	774
Severance and retirement benefits	275	270
Share-based compensation	60	25
Total	1,247	1,069

31. Pending litigation

(1) The Company and its co-defendant, Doosan Infracore Co., Ltd., are facing a lawsuit (US$49,747 thousand) filed by the Russian group, Penzenskoe Konstruktorskoye Byuro Modelirovaniya(PKBM), for alleged copyright infringement in 2004. The thirteenth court hearing will be held at Permanent Court of Arbitration in Moscow on June 3, 2013. The outcome of the lawsuit is uncertain and the ultimate effects of this matter on the Company's financial statements cannot be reasonably determined.

(2) The Company has filed a suit against the Korean Government for the amount of ₩64,300 million. The Company received a notice to pay ₩64,500 million for its unjust enrichment. The Korean Government argues that the Company should have applied the foreign exchange rate on the date when it entered into an agreement to purchase goods with Defense Acquisition Program Administration, in relation to the second contract for the maritime patrol aircraft(P-3C) upgrade project, instead of Arbitrated rate in the middle of the year given by DAPA, which was applied by the Company to calculate its contract price. The Company won the initial trial on April 29, 2011, and the case was closed after winning the second trial on October 12, 2011.

(3) In relation to contract for the maritime patrol aircraft(P-3) upgrade project, the Company has received a penalty for the delay in the delivery of the aircraft. The Company filed a suit against the Korean Government for the amount of ₩ 89,200 million. The Company partially won the first trial on June 8, 2012, and received ₩ 56,400 million for damages and interest payment. The case was closed after the dismissal of an appeal made on the second trial on November 22, 2012.

(4) The Company is a defendant in a lawsuit amounting to ₩10 billion filed by Satrec Initiative Co., Ltd. on December 22, 2011, in relation to the KOMPSAT-3A BUS development bidding. As of report date, the case is still pending and the final resolution cannot yet be determined.

(5) Other than the litigation mentioned above, as of December 31, 2012, the Company is a plaintiff in two lawsuits amounting to approximately ₩300 million, and the Company is a defendant in a six lawsuits amounting to approximately ₩600 million. The Company's management estimated that the results of this litigation will have no material effect on the Group's financial position.

32. Financial risk management

The Group's activities are exposed to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by a treasury department, which settles risk management policies, identifies, evaluates and hedges financial risks.

The Group's risk management activity covers financial assets such as cash and cash equivalents, short-term financial instruments, available-for-sale financial assets, trade receivables and other receivables. The Group's risk management activity also covers financial liabilities such as trade payables, other payable and borrowings.

(1) Market risk

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. To minimize foreign exchange risk arising from operating activities, the Group's foreign exchange management policy requires all normal business transactions to be in local currency, or cash- in currency be matched up with cash-out currency. The Group's foreign risk management policy also defines foreign exchange risk, measurement period, controlling responsibilities, and management procedures.

The Group limits all speculative foreign exchange transactions and operates a system to manage receivables and payables denominated in foreign currency. The Group's foreign currency management system evaluates, manages and reports foreign exchange risk every month.

A summary of assets and liabilities denominated in foreign currencies of the Group as of December 31, 2012 and 2011, is as follows:

(In thousands of Foreign currencies)	**December 31, 2012**				**December 31, 2011**			
	USD	**EUR**	**GBP**	**JPY**	**USD**	**EUR**	**GBP**	**JPY**
Cash and cash equivalents	94,045	-	-	-	5,986	-	-	-
Short-term financial instruments	-	-	-	-	5,746	-	-	-
Trade receivables	68,257	-	-	-	63,614	-	-	-
Due from customers for contract work	53,919	-	-	-	112,447	-	-	-
Other short-term financial assets	2,875	-	-	-	1,250	-	-	-
Other long-term financial assets	8,520	-	-	-	11,220	-	-	-
Trade payables	36,897	2,481	333	-	34,292	2,501	371	32,854
Borrowings	-	-	-	-	91,818	-	-	-

As of December 31, 2012 and 2011, if the foreign exchange rate of the Korean won fluctuated by 5% while other variables were fixed, the effects on profit before income tax would be as follows:

(In millions of Korean won)	**2012**		**2011**	
	5% Increase	**5% Decrease**	**5% Increase**	**5% Decrease**
Financial assets	12,190	(12,190)	11,548	(11,548)
Financial liabilities	(2,180)	2,180	(7,516)	7,516
Net effect	10,010	(10,010)	4,032	(4,032)

(b) Interest rate risk

The Group is exposed to interest rate risk mainly arising through interest-bearing liabilities and assets. The Group's position with regard to interest rate risk exposure is mainly driven by its debt obligations such as borrowings and interest-bearing deposits. The Group's policy includes interest risk management to optimize the balance between minimizing uncertainty caused by fluctuations in interest rates and net interest expenses.

In order to manage its exposure to interest rate risk, the Group maintains minimum external borrowings by facilitating its internal cash pooling system, and a reasonable balance between borrowings with fixed and variable interest rates. Also the Group also manages its exposure to interest rate risk by improving the structure of short-term and long-term borrowings, and by reducing high interest loans. The Group monitors domestic and global trends of weekly and monthly interest rates.

As of December 31, 2012, if interest rates fluctuate by 100bp without changing other variables, interest expenses related to borrowings with variable interest rates for the year ended December 31, 2012 and 2011, are as follows:

(In millions of Korean won)	**2012**		**2011**	
	0.1% Increase	**0.1% Decrease**	**0.1% Increase**	**0.1% Decrease**
Interest expense	196	(196)	285	(285)

(c) Price risk

The Group is exposed to price risk because of investments held by the Group and classified on the statement of financial position as available-for-sale financial assets.

(2) Credit risk

Credit risk arises during the normal course of transactions and investing activities, where counterparty fails to discharge an obligation. The Group monitors and sets the counterparty's credit limit on a periodic basis based on the counterparty's financial conditions, default history and other important factors.

Credit risk arises from cash and cash equivalents, savings and derivative instruments transactions with financial institutions. To minimize such risk, the Group transacts with banks which have strong international credit rating.

The maximum exposure credit risk in regard to financial assets is as follows:

(In millions of Korean won)

Financial assets	**December 31, 2012**	**December 31, 2011**
Cash and cash equivalents[1]	223,371	65,918
Short -term financial instruments	14,467	13,158
Available-for-sale financial assets	416	447
Trade receivables	226,911	77,958
Due from customs for construction work	142,128	523,810
Other financial assets	31,182	24,525
Total	638,475	705,816

(3) Liquidity risk

The Group manages its liquidity risk to maintain adequate net working capital. The Group forecasts its cash flow and liquidity status, and sets plans on a regular base to manage liquidity risk proactively. Beyond effective working capital and cash management, the Group mitigates liquidity risk by contracting with financial institutions with respect to bank overdrafts or banking facility agreement.

The following table shows details of non-derivative financial liabilities classified in accordance with remaining maturities as of December 31, 2012 and 2011, the presented cash flows are the amount of principles and interests that are not discounted into present value.

	December 31, 2012			
(In millions of Korean won)	Within 1 year	1-5 Years	Over 5 years	Total
Trade payables	137,915	-	-	137,915
Other financial liabilities	76,751	4,596	19,573	100,920
Borrowings	64,927	158,649	14,201	237,777
Debentures payable	4,350	104,350	-	108,700
Total	283,943	267,595	33,774	585,312

(In millions of Korean won)	December 31, 2011			
	Within 1 year	1-5 Years	Over 5 years	Total
Trade payables	133,953	-	-	133,953
Other financial liabilities	60,590	2,798	20,456	83,844
Borrowings	228,340	170,050	17,459	415,849
Debentures payable	4,350	108,700	-	113,050
Total	427,233	281,548	37,915	746,696

(4) Capital risk management

The object of capital management is maintaining optimal capital structure to safeguard the Group's ability to provide continuing returns for shareholders as a going concern and to reduce the cost of capital.

The debt-to-equity ratios at December 31, 2012 and 2011, are as follows:

(In millions of Korean won)

	2012	2011
Total debts (A)	1,005,186	909,907
Total equity (B)	887,336	845,569
Debt-to-equity ratio (A/B)	113.28%	107.61%

33. Segment Information

(a) The Group's reporting segments are classified as follows:

Operating segments are determined by management who makes strategic decisions. The management assesses the performance of the operating segments and resources distributed to each segment based on gross profit. The Group is divided into two operating segments of military and private operating segments.

(b) The Group's management accesses each segment's performance based on its sales and gross profits. The following table shows segment information for the years ended December 31, 2012 and 2011:

(In millions of Korean won)	2012				
	Military operating segment	Private operating segment	Other segment	Intercompany transactions	Total
Sales	732,601	801,943	2,002	(1,940)	1,534,606
Gross profit	80,863	141,127	2,002	-	223,992

(In millions of Korean won)	2011				
	Military operating segment	Private operating segment	Other segment	Intercompany transactions	Total
Sales	756,092	529,565	3,537	(3,066)	1,286,128
Gross profit	86,698	96,649	3,002	-	186,349

(c) Information about geographic areas

Sales by geographic areas for the years ended December 31, 2012 and 2011, are as follows

(In millions of Korean won)	2012	2011
Domestic	762,894	777,462
Asia	374,892	187,268
Europe	110,991	89,360
North America	285,829	232,038
Total	1,534,606	1,286,128

The sales amount to major customers whose amount exceed 10% for the years ended December 31, 2012 and 2011, are as follows :

(In millions of Korean won)	2012	2011
Defence Acquisition Program Administration and other government authorities	732,601	759,638
The Boeing Company	242,303	150,537
Total	974,904	910,175