

**KOREA WESTERN POWER CO., LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND  
2010  
AND INDEPENDENT AUDITOR'S REPORT**

# Independent Auditor's Report

English Translation of a Report Originally Issued in Korean

To the Shareholder and Board of Directors of  
Korea Western Power Co., Ltd.

We have audited the accompanying consolidated financial statements of Korea Western Power Co., Ltd. and subsidiaries (the "Company"). The financial statements consist of the consolidated statements of financial position as of December 31, 2011, December 31, 2010 and January 1, 2010, respectively, and the related consolidated statements of comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows, all expressed in Korean won, for the years ended December 31, 2011 and 2010, respectively. The Company's management is responsible for the preparation and fair presentation of the consolidated financial statements and our responsibility is to express an opinion on these consolidated 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011, December 31, 2010 and January 1, 2010, respectively, and the results of its operations and its cash flows for the years ended December 31, 2011 and 2010, respectively, in conformity with Korean International Financial Reporting Standards ("K-IFRS").

Our audits also comprehended the translation of Korean Won amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

March 30, 2012

## Notice to Readers

This report is effective as of March 30, 2012, the auditor's report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditor's report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditor's report.

**KOREA WESTERN POWER CO., LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011,  
DECEMBER 31, 2010 AND JANUARY 1, 2010  
AND INDEPENDENT AUDITOR'S REPORT**

The accompanying consolidated financial statements including all footnote disclosures were prepared by and are the responsibility of the Company

**Kim, Moon Duk**  
**KOREA WESTERN POWER CO., LTD. CEO**

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2011, DECEMBER 31, 2010 AND JANUARY 1, 2010

<u>ASSETS</u>	Notes	Korean Won			Translation into
		Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010	U.S. Dollars (Note 2)
		(Won in millions)			Dec. 31, 2011
					(In thousands)
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	6,7	₩ 285,023	₩ 153,306	₩ 139,753	\$ 246,028
Current financial assets	6,10,11	4,926	31,319	66,512	4,252
Accounts and other receivables	6,8	568,237	452,220	411,119	490,494
Inventories	12	274,362	150,783	177,102	236,825
Current tax assets		19,997	-	497	17,261
Current non-financial assets	13	29,288	32,711	23,332	25,280
Assets classified as held for sale	44	-	528,235	-	-
		<u>1,181,833</u>	<u>1,348,574</u>	<u>818,315</u>	<u>1,020,140</u>
<b>NON-CURRENT ASSETS:</b>					
Non-current financial assets	6,9,10	62,945	57,271	92,465	54,333
Non-current accounts and other receivables	6,8	7,714	11,363	16,730	6,659
Property, plant and equipment, net	16	3,970,017	3,913,856	4,416,710	3,426,860
Intangible assets	17	19,423	7,073	15,436	16,765
Investments in joint ventures	15	137	39	62	119
Investments in associates	15	24,520	26,078	16,945	21,166
Deferred tax assets	35	301	-	-	260
Non-current non-financial assets	13	20,269	24,130	16,666	17,495
		<u>4,105,326</u>	<u>4,039,810</u>	<u>4,575,014</u>	<u>3,543,657</u>
<b>Total Assets</b>		<u>₩ 5,287,159</u>	<u>₩ 5,388,384</u>	<u>₩ 5,393,329</u>	<u>\$ 4,563,797</u>
<b>LIABILITIES AND SHAREHOLER'S EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Accounts and other payables	6,18,21	533,465	392,003	465,928	460,479
Borrowings	6,19	182,017	17,742	92,908	157,114
Current financial liabilities	6,10,19,20	220,810	328,710	391,526	190,600
Income tax payable		-	13,812	-	-
Current non-financial liabilities	24	2,072	4,934	9,247	1,788
Liabilities directly associated with assets classified as held for sale	44	-	236,916	-	-
		<u>938,364</u>	<u>994,117</u>	<u>959,609</u>	<u>809,981</u>

(Continued)

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2011, DECEMBER 31, 2010 AND JANUARY 1, 2010

	Notes	Korean Won			Translation into
		Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010	U.S. Dollars (Note 2)
		(Won in millions)			Dec. 31, 2011
					(In thousands)
<b>NON-CURRENT LIABILITIES:</b>					
Non-current accounts and other payables	6,18,21	₩ 66,294	₩ 70,732	₩ 88,288	\$ 57,224
Non-current financial liabilities	6,10,19,20	1,073,744	779,227	987,307	926,840
Other non-current liabilities	24	300	1,252	-	259
Retirement benefit obligations	22	49,827	103,210	90,328	43,010
Deferred tax liabilities	35	206,579	183,495	189,361	178,316
Non-current provisions	23	199	203	203	172
		<u>1,396,943</u>	<u>1,138,119</u>	<u>1,355,487</u>	<u>1,205,821</u>
<b>Total Liabilities</b>		<u>₩ 2,335,307</u>	<u>₩ 2,132,236</u>	<u>₩ 2,315,096</u>	<u>\$ 2,015,802</u>
<b><u>SHAREHOLDER'S EQUITY:</u></b>					
Capital stock	25	1,192,365	1,442,638	1,442,638	1,029,232
Retained earnings	26	1,757,289	1,791,405	1,606,288	1,516,866
Other components of equity	28	(36,830)	4,834	11,749	(31,792)
Equity attributable to the owners of the parent company		2,912,824	3,238,877	3,060,675	2,514,306
Non-controlling interests		39,028	17,271	17,558	33,689
<b>Total Equity</b>		<u>₩ 2,951,852</u>	<u>₩ 3,256,148</u>	<u>₩ 3,078,233</u>	<u>\$ 2,547,995</u>
<b>Total Liabilities and Equity</b>		<u>₩ 5,287,159</u>	<u>₩ 5,388,384</u>	<u>₩ 5,393,329</u>	<u>\$ 4,563,797</u>

See accompanying notes to consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Notes	Korean Won		Translation into
		2011	2010	U.S. Dollars (Note 2)
		(Won in millions, except per share amounts)		2011 (In thousands)
SALES	5,29	₩ 5,208,094	₩ 4,571,971	\$ 4,495,550
COST OF SALES	37	<u>5,030,428</u>	<u>4,276,551</u>	<u>4,342,191</u>
GROSS PROFIT		177,666	295,420	153,359
OTHER OPERATING INCOME	31	5,022	4,377	4,335
SELLING AND ADMINISTRATIVE EXPENSES	30,37	54,774	38,548	47,280
OTHER OPERATING EXPENSE	31	10,310	888	8,899
OTHER INCOME	32	<u>1,679</u>	<u>15,428</u>	<u>1,448</u>
OPERATING NET INCOME		<u>119,283</u>	<u>275,789</u>	<u>102,963</u>
FINANCIAL INCOME	33	13,394	46,731	11,561
FINANCIAL EXPENSE	34	64,333	80,879	55,531
SHARE IN LOSS OF JOINT VENTURES AND ASSOCIATES		(1,464)	(2,535)	(1,264)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	35	66,880	239,106	57,729
INCOME TAX EXPENSE FROM CONTINUING OPERATIONS		<u>24,737</u>	<u>54,568</u>	<u>21,353</u>
NET INCOME FROM CONTINUING OPERATIONS		42,143	184,538	36,376
NET INCOME FROM DISCONTINUED OPERATIONS	44	<u>-</u>	<u>33,945</u>	<u>-</u>
NET INCOME		<u>42,143</u>	<u>218,483</u>	<u>36,376</u>

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KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Notes	Korean Won		Translation into
		2011	2010	U.S. Dollars (Note 2)
		(Won in millions, except per share amounts)		2011 (In thousands)
<b>OTHER COMPREHENSIVE INCOME(LOSS)</b>				
Net change in the fair value of available-for-sale financial assets		₩ 923	₩ (656)	\$ 797
Net change in the fair value of hedging instruments		796	(7,661)	687
Net change in other comprehensive income(loss) of joint ventures and associates		5	(384)	4
Foreign currency translation differences of foreign operations		(2,342)	1,786	(2,022)
Actuarial losses on retirement benefit obligations		(3,346)	(7,278)	(2,888)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<u>₩ 38,179</u>	<u>₩ 204,290</u>	<u>\$ 32,954</u>
<b>NET INCOME(LOSS) ATTRIBUTABLE TO;</b>				
Owners of the parent company		43,109	218,770	37,211
Non-controlling interests		(966)	(287)	(835)
<b>TOTAL COMPREHENSIVE INCOME(LOSS) ATTRIBUTABLE TO;</b>				
Owners of the parent company		39,145	204,577	33,789
Non-controlling interests		(966)	(287)	(835)
<b>EARNINGS PER SHARE</b>				
Basic earnings per share of continuing operations (won)	38	₩ 1,356	₩ 5,251	\$ 1.17
Basic earnings per share of discontinued operations (won)	38	₩ -	₩ 964	\$ -

See accompanying notes to consolidated financial statements.

KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Korean Won (In millions)					
	Capital stock	Retained earnings	Other components of equity	Total shareholder's equity	Non-controlling Interest	Total Equity
Balance at January 1, 2010	₩ 1,442,638	₩1,606,288	₩ 11,749	₩ 3,060,675	₩ 17,558	₩ 3,078,233
Total other comprehensive income:						
Profit for the period	-	218,770	-	218,770	(287)	218,483
Net change in the fair value of available-for-sale financial assets	-	-	(656)	(656)	-	(656)
Net change in the fair value of hedging instruments	-	-	(7,661)	(7,661)	-	(7,661)
Net change in other comprehensive income(loss) of joint ventures and associates	-	-	(384)	(384)	-	(384)
Foreign currency translation differences of foreign operations	-	-	1,786	1,786	-	1,786
Actuarial gains on retirement Benefit obligations	-	(7,278)	-	(7,278)	-	(7,278)
Dividends paid	-	(26,375)	-	(26,375)	-	(26,375)
Balance at December 31, 2010	<u>₩ 1,442,638</u>	<u>₩ 1,791,405</u>	<u>₩ 4,834</u>	<u>₩ 3,238,877</u>	<u>₩ 17,271</u>	<u>₩ 3,256,148</u>
Balance at January 1, 2011	₩1,442,638	₩1,791,405	₩ 4,834	₩3,238,877	₩ 17,271	₩ 3,256,148
Total other comprehensive income:						
Profit for the period	-	43,109	-	43,109	(966)	42,143
Net change in the fair value of available-for-sale financial assets	-	-	923	923	-	923
Net change in the fair value of hedging instruments	-	-	796	796	-	796
Net change in other comprehensive income(loss) of joint ventures and associates	-	-	5	5	-	5
Foreign currency translation differences of foreign operations	-	-	(2,342)	(2,342)	-	(2,342)
Actuarial gains on retirement Benefit obligations	-	(3,346)	-	(3,346)	-	(3,346)
Dividends paid	-	(73,879)	-	(73,879)	-	(73,879)
Increase in paid-capital	-	-	-	-	1,918	1,918
Changes in consolidated subsidiaries	-	-	-	-	20,805	20,805
Spin off	(250,273)	-	(41,046)	(291,319)	-	(291,319)
Balance at December 31, 2011	<u>₩ 1,192,365</u>	<u>₩ 1,757,289</u>	<u>₩ (36,830)</u>	<u>₩ 2,912,824</u>	<u>₩ 39,028</u>	<u>₩ 2,951,852</u>
Translation into U.S. Dollars (In thousands) (Note 2)	<u>\$ 1,029,232</u>	<u>\$ 1,516,866</u>	<u>\$ (31,792)</u>	<u>\$ 2,514,306</u>	<u>\$ 33,689</u>	<u>\$ 2,547,995</u>

See accompanying notes to consolidated financial statements.



KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>Korean Won</u>		Translation into
	<u>2011</u>	<u>2010</u>	<u>U.S. Dollars (Note 2)</u>
	(Won in millions)		2011 (In thousands)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit for the period	₩ 42,143	₩ 218,483	\$ 36,376
Adjustments for:			
Income tax expense	24,737	64,523	21,353
Depreciation	371,941	423,813	321,054
Amortization of intangible assets	6,001	9,604	5,180
Loss on disposal of property, plant and equipment	1,900	4,559	1,640
Impairment losses on intangible assets	-	8	-
Provisions of retirement benefit	13,716	15,328	11,839
Interest expense	48,673	49,266	42,014
Donations	4,606	-	3,976
Gain on disposal of property, plant and equipment	(24)	(72)	(21)
Interest income	(7,139)	(10,979)	(6,162)
Dividends income	(74)	(60)	(64)
Loss(gain) on change in fair value of derivative instruments, net	(2,260)	(5,473)	(1,951)
Loss(gain) on foreign exchange translation and transaction, net	14,250	(7,770)	12,301
Share in loss of joint venture and associates	1,464	2,535	1,264
Others	(255)	823	(220)
	<u>477,536</u>	<u>546,105</u>	<u>412,203</u>
<b>Changes in operating assets and liabilities:</b>			
Increase in accounts receivables	(95,809)	(76,823)	(82,700)
Decrease(increase) in other receivables	(16,953)	11,021	(14,633)
Decrease(increase) in inventories	(123,324)	83,012	(106,452)
Decrease(increase) in current non-financial assets	5,257	(7,845)	4,538
Increase in accounts payables	146,445	110,886	126,409
Decrease in other payables	(6,216)	(162,161)	(5,365)
Decrease in current non-financial liabilities	(2,848)	(4,694)	(2,458)
Payments of retirement benefit obligations	(65,859)	(4,919)	(56,849)
Reserve of retirement pension assets	(6,191)	-	(5,344)
Decrease in other non-current liabilities	(1,131)	-	(977)
	<u>(166,629)</u>	<u>(51,523)</u>	<u>(143,831)</u>
Cash generated from operating activities	<u>353,050</u>	<u>713,065</u>	<u>304,748</u>
Dividends received	74	60	64
Interest received	6,572	9,542	5,673
Interest paid	(47,860)	(48,298)	(41,312)
Income tax payment	(35,244)	(49,907)	(30,423)
	<u>276,592</u>	<u>624,462</u>	<u>238,750</u>

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KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Korean Won		Translation into
	2011	2010	U.S. Dollars (Note 2)
	(Won in millions)		2011 (In thousands)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisition of investments in associates and joint ventures	₩ -	₩ (11,672)	\$ -
Disposal of available-for-sale financial assets	180	-	155
Acquisition of available-for-sale financial assets	(516)	-	(446)
Disposal of property, plant and equipment	32	642	28
Acquisition of property, plant and equipment	(467,343)	(490,447)	(403,404)
Acquisition of intangible assets	(11)	(137)	(10)
Acquisition of other non-current assets	(3,238)	(4,685)	(2,795)
Acquisition of government subsidy	17,656	-	15,241
Other advance payments and loans	(2,418)	(2,937)	(2,087)
Collection of other advance payments and loans	1,953	2,764	1,686
Decrease(increase) in other investments	<u>12,783</u>	<u>(11,474)</u>	<u>11,035</u>
	<u>(440,922)</u>	<u>(517,946)</u>	<u>(380,597)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Repayment of finance lease liabilities	(6,321)	-	(5,456)
Proceeds from borrowings	184,607	668,075	159,350
Repayment of borrowings	(27,742)	(1,034,602)	(23,946)
Issue of debentures	498,378	219,283	430,192
Retirement of debentures	(313,890)	-	(270,945)
Increase in paid-in capital	22,950	-	19,810
Dividends paid	(73,879)	(26,375)	(63,771)
Settlement of derivative instruments	15,602	79,789	13,467
Increase(Decrease) in other financing activities	<u>(226)</u>	<u>750</u>	<u>(195)</u>
	<u>299,479</u>	<u>(93,080)</u>	<u>258,506</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGE	135,149	13,436	116,659
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(3,432)	117	(2,963)
NET INCREASE IN CASH AND CASH EQUIVALENTS	131,717	13,553	113,696
CASH AND CASH EQUIVALENTS, BEGINNG OF THE PERIOD	<u>153,306</u>	<u>139,753</u>	<u>132,332</u>
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<u>₩ 285,023</u>	<u>₩ 153,306</u>	<u>\$ 246,028</u>

See accompanying notes to consolidated financial statements

## KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

#### 1. GENERALS:

In accordance with the restructuring plan, dated January 21, 1999, for the electricity industry in the Republic of Korea announced by the Ministry of Commerce, Industry and Energy and the Law on Promotion of Restructuring of the Electricity Industry published on December 23, 2000, Korea Western Power Co., Ltd. (the "KOWEPO") was incorporated on April 2, 2001 through the spin-off of the power generation division of Korea Electric Power Corporation ("KEPCO"). KOWEPO and its subsidiaries (the "Company") engage in the generation of electricity and development of electric power resources. The Company sells all generated electricity to KEPCO through the Korea Power Exchange (KPX) in accordance with Article 31 of the Electricity Business Law. As of December 31, 2011, KEPCO holds all of the KOWEPO's outstanding shares and the KOWEPO owns and operates four power plants with a total capacity of 8,404MW.

On January 1, 2011, the Company transferred assets and liabilities related to its pump-storage hydroelectricity business to a newly established KOWEPO pump-storage hydroelectricity business division. Immediately thereafter, KOWEPO pump-storage hydroelectricity business division was restructured under Korea Hydro & Nuclear Power Co., Ltd., another subsidiary of KEPCO (related party), as part of KEPCO's restructuring of its pump-storage hydroelectricity business.

#### 2. SIGNIFICANT ACCOUNTING POLICIES:

The Company maintains its official accounting records in Republic of Korean won ("Won") and prepares consolidated financial statements in conformity with Korean statutory requirements and Korean International Reporting Standards ("K-IFRS"), in the Korean language (Hangul). Accordingly, these consolidated financial statements are intended for use by those who are informed about K-IFRS and Korean practices.

##### (1) Basis of Preparation

The Company has adopted K-IFRS for the annual period beginning on January 1, 2011. In accordance with K-IFRS 1101 *First-time adoption of International Financial Reporting Standards*, the Company's transition date to K-IFRS is January 1, 2010. The significant accounting policies under K-IFRS followed by the Company in the preparation of its consolidated financial statements are summarized in Note 4.

The accompanying consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Currently, enactments and amendments of the K-IFRSs are in progress, and the financial information presented in the financial statements may change accordingly in the future. The Company has not applied the following new and revised K-IFRSs that have been issued but are not yet effective:

*K-IFRS 1107 Financial Instruments: Disclosures – Transfers of Financial Assets*

The amendments to K-IFRS 1107 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. K-IFRS 1107 is effective for annual periods beginning on or after July 1, 2011.

*Amendments to K-IFRS 1012 Deferred Tax – Recovery of Underlying Assets*

The amendments to K-IFRS 1012 provide an exception to the general principles in K-IFRS 1012 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Investment property or a non-depreciable asset measured using the revaluation model in K-IFRS 1016 *Property, Plant and Equipment*, are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The amendments to K-IFRS 1012 are effective for annual periods beginning on or after January 1, 2012.

*K-IFRS 1019 (as revised in 2011) Employee Benefits*

The amendments to K-IFRS 1019 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of K-IFRS 1019 and accelerate the recognition of past service costs. The amendments to K-IFRS 1019 are effective for annual periods beginning on or after January 1, 2013 and require retrospective application with certain exceptions.

*K-IFRS 1113 Fair Value Measurement*

K-IFRS 1113 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. K-IFRS 1113 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The Company does not anticipate that these amendments referred above will have a material effect on the Company's consolidated financial statements and disclosures.

Major accounting policies used for the preparation of the consolidated financial statements are stated below. Unless stated otherwise, these accounting policies have been applied consistently to the financial statements for the current period and accompanying comparative period.

On March 30, 2012, the Company's consolidated financial statements were approved by the Board of Directors for its annual shareholders' meeting

(2) Basis of Translating Consolidated Financial Statements

The consolidated financial statements are expressed in Korean Won and, solely for the convenience of the reader, the consolidated financial statements as of and for the year ended December 31, 2011, have been translated into United States dollars at the rate of ₩1,158.50 to USD1, the noon buying rate in the City of New York for cable transfers in Won as certified for customs purposes by the Federal Reserve Bank of New York as of December 31, 2011. The translation should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate under K-IFRS.

(3) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used the Company.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company

When the Company loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

#### (4) Investments in associates (Equity-accounted investees)

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss

The requirements of K-IFRS 1039 *Financial Instruments: Recognition and Measurement* are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases

When the Company, including any subsidiary, transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Company's consolidated financial statements only to the extent of interests in the associate that are not related to the Company.

(5) Investments in joint ventures

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

(6) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

3) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition

(7) Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Company as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

## 2) The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## (8) Foreign currencies

The individual financial statements of each entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Korean won, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in income or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 2 (20) below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are expressed in Korean won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Company are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to income or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests in equity and are not recognized in income or loss. For all other partial disposals (i.e. of associates or jointly controlled entities not involving a change of accounting basis), the proportionate share of the accumulated exchange differences is reclassified to profit or loss. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(9) Borrowing costs

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.

(10) Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to the grants and that the receipt of the grants are probable.

Government grants are recognized in income or loss over the periods in which the Company recognizes the related costs, for which the grants are intended to compensate as expense. Specifically, government grants, which are conditional to the Company purchasing, constructing or otherwise acquiring non-current assets, are recognized as deferred revenue in the consolidated statement of financial position and transferred to income or loss over the estimated useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in income or loss in the period in which they become receivable.

In addition, a benefit from a government loan at a below-market interest rate is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

(11) Retirement benefit costs

Payments to defined contribution plans are expensed as incurred, which is as the related employee service is rendered.

For defined benefit pension plans and other post-employment benefits, the net periodic pension expense is actuarially determined on an annual basis by independent actuaries using the projected unit credit method.

The asset or liability recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past service costs. 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 liability.

All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in retained earnings and included in the statement of comprehensive income.

For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results will differ from results which are estimated based on assumptions. The vested portion of past service cost arising from plan amendments is recognized immediately in the income statement. The unvested portion is amortized on a straight-line basis over the average remaining period until the benefits become vested.



The retirement benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan

## (12) Income tax

Income tax consists of current tax and deferred tax.

### 1) Current tax

The tax currently payable is based on taxable income for the year. Taxable income differs from income as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period

### 2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income nor the accounting income.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable incomes against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

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

### 3) Current and deferred tax for the year

Current and deferred tax are recognized in income or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## (13) Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Company does not depreciate land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Method	Years
Buildings	Straight-line	8 - 30
Structures	Straight-line	8 - 30
Machinery	Straight-line	6 - 24
Ships	Straight-line	9
Vehicles	Straight-line	4
Others	Straight-line	4
Capital Lease Assets	Straight-line	6 - 30

If a part of a property, plant and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Company reviews the depreciation method, the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

In addition, when an acquisition of an asset occurs free-of-charge or at a value less than fair market value, due to government grants, the acquisition cost less government grant is recorded as the acquisition cost upon initial acquisition and depreciation expense is calculated based on such carrying amount.

#### (14) Intangible assets

##### 1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

##### 2) Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in income or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets are stated at cost, net of accumulated amortization computed using straight-line method (electric facility usage right: declining-balance and straight-line) over the estimated economic useful lives of the assets as described below.

	<u>Method</u>	<u>Years</u>
Computer Software	Straight-line	5
Development Cost	Straight-line	5
Other intangible assets	Straight-line	5 - 20

### 3) Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in income or loss when the asset is derecognized.

### (15) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in income or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in income or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### (16) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories, except for those in in-transit, are measured under the weighted average method and consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

The carrying amount of inventories sold in the period and the amount of any write-down of inventories to net realizable value and all losses of inventories in the period; less the amount of any reversal in the period of any write-down of the inventories, arising from an increase in net realizable value, is recognized as expense during the period.

#### (17) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

#### (18) Financial assets

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: 'financial assets at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale financial assets' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

##### 1) Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

##### 2) Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or
- investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the other gains and losses line item in the Statement of Comprehensive Income. Fair value is determined in the manner described.

### 3) Held-to-maturity investments

Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments.. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

### 4) Financial assets available-for-sale (AFS)

Non-derivatives financial assets that are not classified as at held-to-maturity; held-for-trading; designated as at fair value through profit or loss; or loans and receivables are classified as at financial assets AFS. Financial assets can be designated as ale on initial recognition. Financial assets AFS are initially recognized at fair value plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

### 5) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

### 6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period.

Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

#### 7) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

The Company has reclassified certain non-derivative financial assets out of held for trading (part of the FVTPL category) to AFS financial assets. Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short-term. In all cases, reclassifications of financial assets are limited to debt instruments. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

(19) Financial liabilities and equity instruments issued by the Company

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

3) Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

4) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the [statement of comprehensive income/income statement]. Fair value is determined in the manner described in Note [x].

5) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

6) Financial guarantee contract liabilities

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognized less, cumulative amortization recognized in accordance with the K-IFRS 1018 *Revenue*

7) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

(20) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in such case the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either as hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

1) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realized or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

2) Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.



### 3) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the [statement of comprehensive income/income statement] relating to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

### 4) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the [statement of comprehensive income/income statement] as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

## 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:

In the application of the Company accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### (1) Measurement of property, plant and equipment, and intangible assets

The Company reviews the estimated useful lives and residual values of these assets at the end of each annual reporting period, which involves significant amount of management judgment.

### (2) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

### (3) Deferred tax

Recognizing and measuring of the deferred tax assets and liabilities requires the management's judgments and specially, whether and how deferred tax assets is recognized shall be affected from managements' assumptions and judgment of the Company's future.

(4) Fair value measurement of financial instruments

As described at Note 39, the Company's financial instruments are fair valued based on certain types of observable market data to estimate the input parameters that are not based on valuation techniques were used to contain. The management used to determine the fair value of financial instruments valuation techniques and assumptions are believed to be appropriate.

(5) Retirement benefit plans

The Company has defined retirement benefit plans. The cost of providing benefits under the plan are determined using an actuarial valuation method that requires management assumptions on discount rates, expected rate of salary increase and expected rate of return on plan assets. These assumptions involve critical uncertainties due to the long-term nature of the retirement benefit plans

4. TRANSITION TO K-IFRS:

These are the Company's first consolidated financial statements prepared in accordance with K-IFRS. The accounting policies set out in Note 2 have been applied in preparing these financial statements

The Company adopted K-IFRS for the year ended December 31, 2011, with a date of transition of January 1, 2010. Transition adjustments from previous GAAP (Korean GAAP) to K-IFRSs that affected the Company's financial position, financial performance and cash flows are as follows.

(1) K-IFRS 1101 *First-time of adoption of IFRS* – Optional exemptions

K-IFRS 1101 provides for a number of optional exemptions from the general principle of full retrospective applications. The optional exemptions for first-time adoption of IFRSs of the Company are as follows.

1) Fair value or revaluation as deemed cost

Certain land, property, plant and equipment were revalued at the date of transition to K-IFRS and that revaluation is used as the asset's deemed cost.

2) Cumulative translation differences

Cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to K-IFRS.

3) Lease

The Company determined whether an arrangement existing at the date of transition to K-IFRS contains a lease on the basis of the facts and circumstances existing at the date.

4) Asset and liability of subsidiary, investments in associates and joint ventures

For overseas subsidiaries whose financial statements are already prepared in conformity with IFRS, the Company elected the optional exemption to incorporate such subsidiaries financial statements as of the Company date of transition, as is, for the preparation of these consolidated financial statements.

(3) Required exception application for retroactive application of other financial accounting standards

The Company has applied following exceptions

1) Elimination of financial assets

The Company applies the elimination criteria listed in "K-IFRS 1039 *Financial Instruments: Recognition and Measurement*" related to the transfer of financial assets after the date of transition. As such, for the financial assets eliminated in accordance with Korean GAAP, before the date of transition, were not retrospectively adjusted for under K-IFRS, even if such elimination does not satisfy K-IFRS elimination criteria.

2) Exception for estimation

Unless there was objective evidence that the estimations made under Korean GAAP were erroneous, the estimations made under Korean GAAP were carried over, as is, as of date of transition to K-IFRS.

3) Effects of the Company's statement of cash flows for the year ended December 31, 2010

Under K-IFRS, dividends received, interest received, interest paid, and income tax paid which were not presented separately under Korean GAAP, are now separately presented and the related income (expense) and assets (liabilities) have been adjusted for accordingly. Also, under K-IFRS, foreign currency translation amounts are presented gross as part of the related transactions and deducted against the effects of foreign exchange rate changes on the balance of cash held in foreign currencies. No others significant differences between the consolidated statements of cash flows prepared under Korean GAAP compared to K-IFRS have been noted.

5. SEGMENT INFORMATION:

(1) In accordance with the K-IFRS operating segment criteria, the Company's income and loss can be assessed as one segment, for the years ended December 31, 2011, December 31, 2010 and January 1, 2010, respectively. (Won in millions):

1) Sales, operating income and loss for the period

Segment	Type	2011		2010	
The Company	Total Sales	₩	5,208,094	₩	4,571,971
	Operating profit		119,283		275,789
	Net Income		42,143		218,483

2) Assets & Liabilities

Segment	Type	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010
The Company	Total Assets	₩	5,287,159	₩	5,388,384	₩ 5,393,329
	Total Liabilities		2,335,307		2,132,236	2,315,096

(2) The Company's sales from goods and services, construction contract for the years ended December 31, 2011 and 2010 are as follows (Won in millions)

Segment	Type	2011		2010	
The Company	Sales of goods	₩	5,208,094	₩	4,571,971
	Sales of services		-		-

(3) Information on region

The Company operates its major business, the sales of electricity, in the Republic of Korea.

(4) Information on Major Customers

For the years ended December 31, 2011 and 2010, the Company recorded 99.62% and 99.53% of sales, respectively, with the Company's largest customer – KEPCO.

6. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS:

(1) Financial assets as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Won in millions):

	Dec. 31, 2011					
	Financial assets at FVTPL	Loans and receivables	Available- for-sale financial assets	Held-to- maturity investments	Derivatives using hedge accounting	Total
Current Financial Assets:						
Cash and cash equivalents	₩ -	₩ 285,023	₩ -	₩ -	₩ -	₩ 285,023
Current financial assets	-	-	-	-	-	-
Derivative assets	-	-	-	-	-	-
Other financial assets	-	4,926	-	-	-	4,926
Accounts and other receivables	-	568,237	-	-	-	568,237
	-	858,186	-	-	-	858,186
Non-current Financial Assets:						
Non-current financial assets						
Available-for-sale financial assets	₩ -	₩ -	₩ 11,298	₩ -	₩ -	₩ 11,298
Derivative assets	-	-	-	-	38,796	38,796
Other financial assets	-	12,851	-	-	-	12,851
Accounts and other receivables	-	7,714	-	-	-	7,714
	-	20,565	11,298	-	38,796	70,659
	₩ -	₩ 878,751	₩ 11,298	₩ -	₩ 38,796	₩ 928,845
Dec. 31, 2010						
	Financial assets at FVTPL	Loans and receivables	Available- for-sale financial assets	Held-to- maturity investments	Derivatives using hedge accounting	Total
Current Financial Assets:						
Cash and cash equivalents	₩ -	₩ 153,306	₩ -	₩ -	₩ -	₩ 153,306
Current financial assets	-	-	-	-	-	-
Derivative assets	91	-	-	-	16,253	16,344
Other financial assets	-	14,975	-	-	-	14,975
Accounts and other receivables	-	452,220	-	-	-	452,220
	91	620,501	-	-	16,253	636,845
Non-current Financial Assets:						
Non-current financial assets						
Available-for-sale financial assets	₩ -	₩ -	₩ 9,746	₩ -	₩ -	₩ 9,746
Derivative assets	-	-	-	-	35,412	35,412
Other financial assets	-	12,113	-	-	-	12,113
Accounts and other receivables	-	11,363	-	-	-	11,363
	-	23,476	9,746	-	35,412	68,634
	₩ 91	₩ 643,977	₩ 9,746	₩ -	₩ 51,665	705,479

	Jan. 1, 2010					
	Financial assets at FVTPL	Loans and receivables	Available- for-sale financial assets	Held-to- maturity investments	Derivatives using hedge accounting	Total
<b>Current Financial Assets:</b>						
Cash and cash equivalents	₩ -	₩ 139,753	₩ -	₩ -	₩ -	₩ 139,753
Current financial assets	-	-	-	-	-	-
Derivative assets	18	-	-	-	65,192	65,210
Other financial assets	-	1,302	-	-	-	1,302
Accounts and other receivables	-	411,119	-	-	-	411,119
	<u>18</u>	<u>552,174</u>	<u>-</u>	<u>-</u>	<u>65,192</u>	<u>617,384</u>
<b>Non-current Financial Assets:</b>						
Non-current financial assets						
Available-for-sale financial assets	₩ -	₩ -	₩ 10,535	₩ -	₩ -	₩ 10,535
Derivative assets	367	-	-	-	68,658	69,025
Other financial assets	-	12,905	-	-	-	12,905
Accounts and other receivables	-	16,730	-	-	-	16,730
	<u>367</u>	<u>29,635</u>	<u>10,535</u>	<u>-</u>	<u>68,658</u>	<u>109,195</u>
	<u>₩ 385</u>	<u>₩ 581,809</u>	<u>₩ 10,535</u>	<u>₩ -</u>	<u>₩ 133,850</u>	<u>₩ 726,579</u>

(2) Financial liabilities as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Won in millions):

	Dec. 31, 2011				
	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Derivatives using hedge accounting	Others	Total
<b>Current Financial Liabilities:</b>					
Borrowings	₩ -	₩ 282,017	₩ -	₩ -	₩ 282,017
Debentures	-	119,998	-	-	119,998
Derivative liabilities	812	-	-	-	812
Accounts and other payables	-	533,465	-	-	533,465
	<u>812</u>	<u>935,479</u>	<u>-</u>	<u>-</u>	<u>936,291</u>
<b>Non-current Financial Liabilities:</b>					
Borrowings	₩ -	₩ 103,754	₩ -	₩ -	₩ 103,754
Debentures	-	969,990	-	-	969,990
Derivative liabilities	-	-	-	-	-
Accounts and other payables	-	66,294	-	-	66,294
	<u>-</u>	<u>1,140,038</u>	<u>-</u>	<u>-</u>	<u>1,140,038</u>
	<u>₩ 812</u>	<u>₩ 2,075,517</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 2,076,329</u>

Dec. 31, 2010					
	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Derivatives using hedge accounting	Others	Total
<b>Current Financial Liabilities:</b>					
Borrowings	₩ -	₩ 32,642	₩ -	₩ -	₩ 32,642
Debentures	-	313,693	-	-	313,693
Derivative liabilities	116	-	-	-	116
Accounts and other payables	-	392,003	-	-	392,003
	<u>116</u>	<u>738,338</u>	<u>-</u>	<u>-</u>	<u>738,454</u>
<b>Non-current Financial Liabilities:</b>					
Borrowings	₩ -	₩ 188,854	₩ -	₩ -	₩ 188,854
Debentures	-	588,834	-	-	588,834
Derivative liabilities	1,539	-	-	-	1,539
Accounts and other payables	-	70,732	-	-	70,732
	<u>1,539</u>	<u>848,420</u>	<u>-</u>	<u>-</u>	<u>849,959</u>
	<u>₩ 1,655</u>	<u>₩ 1,586,758</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 1,588,413</u>
Jan. 1, 2010					
	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Derivatives using hedge accounting	Others	Total
<b>Current Financial Liabilities:</b>					
Borrowings	₩ -	₩ 107,808	₩ -	₩ -	₩ 107,808
Debentures	-	376,626	-	-	376,626
Derivative liabilities	-	-	-	-	-
Accounts and other payables	-	465,928	-	-	465,928
	<u>-</u>	<u>950,362</u>	<u>-</u>	<u>-</u>	<u>950,362</u>
<b>Non-current Financial Liabilities:</b>					
Borrowings	₩ -	₩ 178,060	₩ -	₩ -	₩ 178,060
Debentures	-	809,247	-	-	809,247
Derivative liabilities	-	-	-	-	-
Accounts and other payables	-	88,288	-	-	88,288
	<u>-</u>	<u>1,075,595</u>	<u>-</u>	<u>-</u>	<u>1,075,595</u>
	<u>₩ -</u>	<u>₩ 2,025,957</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 2,025,957</u>

(3) Net comprehensive income(loss) for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

Type	Description	2011	2010
Cash and cash equivalents	Interest income	₩ 6,261	₩ 9,797
	Gain(loss) on foreign currency transaction and translation, net	(3,429)	-
Available-for-sale financial assets	Dividend income	74	60
	Net change in fair value of available-for-sale financial assets, before tax-other comprehensive income	1,171	(841)
Loans and other receivables	Interest income	217	119
	Amortization of present value discount	661	772
Financial liability at amortized cost	Gain(loss) on foreign currency transaction and translation, net	(12,784)	3,058
	Interest expense of borrowings and debentures	44,255	43,197
	Other interest expense	4,418	5,343
Derivatives for trading purpose	Gain(loss) on valuation of derivative instruments, net	727	(1,931)
	Gain(loss) on transactions of derivative instruments, net	(833)	(1,584)
Derivatives using hedge accounting	Gain(loss) on valuation of derivative instruments, (net income effect)	2,160	(7,059)
	Net change in the fair value of hedging instruments, before tax	1,049	(10,107)
	Gain(loss) on transactions of derivative instruments, net	206	16,047

#### 7. CASH AND CASH EQUIVALENTS

(1) Cash and cash equivalents in the consolidated statements of cash flows represent cash and cash equivalents in the consolidated statements of financial position. Cash and cash equivalents as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Cash	₩ 6	₩ 1	₩ 1
Cash equivalents	286,604	156,549	144,824
Bank Overdrafts	-	-	-
Government grants	(1,587)	(3,244)	(5,072)
	<u>₩ 285,023</u>	<u>₩ 153,306</u>	<u>₩ 139,753</u>

(\*) There is no restricted financial asset as of December 31, 2011.

#### 8. ACCOUNTS AND OTHER RECEIVABLES:

(1) Accounts and other receivables as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011			
	Acquisition cost	Allowance for doubtful accounts	Amortization of present value discount	Book value
Current assets:				
Account receivables	₩ 530,594	₩ -	₩ -	₩ 530,594
Other receivables	<u>37,896</u>	<u>-</u>	<u>(253)</u>	<u>37,643</u>
	<u>568,490</u>	<u>-</u>	<u>(253)</u>	<u>568,237</u>
Non-current assets:				
Other receivables	<u>7,803</u>	<u>-</u>	<u>(89)</u>	<u>7,714</u>
	<u>7,803</u>	<u>-</u>	<u>(89)</u>	<u>7,714</u>
	<u>₩ 576,293</u>	<u>₩ -</u>	<u>₩ (342)</u>	<u>₩ 575,951</u>

Dec. 31, 2010				
	Acquisition cost	Allowance for doubtful accounts	Amortization of present value discount	Book value
<b>Current assets:</b>				
Account receivables	₩ 434,796	₩ -	₩ -	₩ 434,796
Other receivables	<u>17,541</u>	<u>-</u>	<u>(117)</u>	<u>17,424</u>
	<u>452,337</u>	<u>-</u>	<u>(117)</u>	<u>452,220</u>
<b>Non-current assets:</b>				
Other receivables	<u>11,625</u>	<u>-</u>	<u>(262)</u>	<u>11,363</u>
	<u>11,625</u>	<u>-</u>	<u>(262)</u>	<u>11,363</u>
	<u>₩ 463,962</u>	<u>₩ -</u>	<u>₩ (379)</u>	<u>₩ 463,583</u>

Jan. 1, 2010				
	Acquisition cost	Allowance for doubtful accounts	Amortization of present value discount	Book value
<b>Current assets:</b>				
Account receivables	₩ 376,638	₩ -	₩ -	₩ 376,638
Other receivables	<u>34,481</u>	<u>-</u>	<u>-</u>	<u>34,481</u>
	<u>411,119</u>	<u>-</u>	<u>-</u>	<u>411,119</u>
<b>Non-current assets:</b>				
Other receivables	<u>16,730</u>	<u>-</u>	<u>-</u>	<u>16,730</u>
	<u>16,730</u>	<u>-</u>	<u>-</u>	<u>16,730</u>
	<u>₩ 427,849</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 427,849</u>

(2) Details of other receivables as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows.  
(Won in millions):

Dec. 31, 2011				
	Acquisition cost	Allowance for doubtful accounts	Amortization of present value discount	Book value
<b>Current assets:</b>				
Non-trade receivables	₩ 24,742	₩ -	₩ -	₩ 24,742
Accrued revenues	257	-	-	257
Guarantee	<u>12,897</u>	<u>-</u>	<u>(253)</u>	<u>12,644</u>
	<u>37,896</u>	<u>-</u>	<u>(253)</u>	<u>37,643</u>
<b>Non-current assets:</b>				
Guarantee	6,664	-	(89)	6,575
Others	<u>1,139</u>	<u>-</u>	<u>-</u>	<u>1,139</u>
	<u>7,803</u>	<u>-</u>	<u>(89)</u>	<u>7,714</u>
	<u>₩ 45,699</u>	<u>₩ -</u>	<u>₩ (342)</u>	<u>₩ 45,357</u>



		Dec. 31, 2010			
		Acquisition cost	Allowance for doubtful accounts	Amortization of present value discount	Book value
<b>Current asset</b>					
Non-trade receivables	₩	5,475	₩ -	₩ -	₩ 5,475
Accrued revenues		281	-	-	281
Guarantee		11,785	-	(117)	11,668
		<u>17,541</u>	<u>-</u>	<u>(117)</u>	<u>17,424</u>
<b>Non-current asset</b>					
Guarantee		10,269	-	(262)	10,007
Others		1,356	-	-	1,356
		<u>11,625</u>	<u>-</u>	<u>(262)</u>	<u>11,363</u>
	₩	<u>29,166</u>	₩ -	₩ (379)	₩ 28,787

		Jan. 1, 2010			
		Acquisition cost	Allowance for doubtful accounts	Amortization of present value discount	Book value
<b>Current asset</b>					
Non-trade receivables	₩	19,039	₩ -	₩ -	₩ 19,039
Accrued revenues		191	-	-	191
Guarantee		15,251	-	-	15,251
		<u>34,481</u>	<u>-</u>	<u>-</u>	<u>34,481</u>
<b>Non-current asset</b>					
Guarantee		10,272	-	-	10,272
Others		6,458	-	-	6,458
		<u>16,730</u>	<u>-</u>	<u>-</u>	<u>16,730</u>
	₩	<u>51,211</u>	₩ -	₩ -	₩ 51,211

(\*) The Company has no account and other receivables which is impaired as of December 31, 2011

#### 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS:

(1) Available-for-sale financial assets as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

Name	Ownership	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
		Current	Non-current	Current	Non-current	Current	Non-current
<b>Unlisted equity investments</b>							
Korea Power Exchange	7.14%	₩ -	₩ 8,682	₩ -	₩ 7,511	₩ -	₩ 8,352
Postech power venture fund	1.05%	-	240	-	300	-	300
Hanhwa power venture fund	1.20%	-	180	-	300	-	300
Kepeco UHDE	3.00%	-	516	-	-	-	-
3i Power	15.00%	-	1,646	-	1,627	-	1,583
Kanan Hydroelectric(*1)	20.00%	-	19	-	4	-	-
Green & Sustainable Energy(*1)	20.00%	-	15	-	4	-	-
		<u>₩ -</u>	<u>₩ 11,298</u>	<u>₩ -</u>	<u>₩ 9,746</u>	<u>₩ -</u>	<u>₩ 10,535</u>

(\*1) Despite holding 20% of the total number of voting stock of Kanan Hydroelectric and Green & Sustainable Energy, the Company classified those investments as available-for-sale-securities, as the Company does not have the ability to significantly influence the entity's operating and financial policies.

10. DERIVATIVES:

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

(1) Derivatives as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Derivative assets:						
Currency forward	₩ -	₩ -	₩ 91	₩ -	₩ 18	₩ -
Currency swap	-	38,796	16,253	35,412	65,192	68,658
Interest rate swap	-	-	-	-	-	367
	<u>₩ -</u>	<u>₩ 38,796</u>	<u>₩ 16,344</u>	<u>₩ 35,412</u>	<u>₩ 65,210</u>	<u>₩ 69,025</u>
Derivative liabilities:						
Currency forward	₩ 4	₩ -	₩ 116	₩ -	₩ -	₩ -
Interest rate swap	808	-	-	1,539	-	-
	<u>₩ 812</u>	<u>₩ -</u>	<u>₩ 116</u>	<u>₩ 1,539</u>	<u>₩ -</u>	<u>₩ -</u>

(2) Currency swap contracts as of December 31, 2011 are as follows (Won in millions and USD in thousands):

Type	Counterparty	Period	Contract amounts		Contract interest rate		Contract currency
			Pay	Receive	Pay	Receive	
CF Hedge	Barclays	2006~2016	Won 71,888	USD 75,000	4.81%	5.50%	958.51
CF Hedge	Deutsche Bank	2006~2016	Won 71,888	USD 75,000	4.81%	5.50%	958.51

(3) Interest rate swap contracts as of December 31, 2011 are as follows (Won in millions):

Type	Counterparty	Period	Interest amount	Contract Interest	
				Pay	Receive
Trading purpose	RBS	2009~2012	100,000	4.79%	CD(3 months)+0.55%

(4) Currency forward contracts as of December 31, 2011 are as follows (Won in millions and USD in thousands):

Type	Counterparty	Contract date	Maturity date	Contract amounts		Contract currency
				Pay	Receive	
Trading purpose	RBS	2011.11.28	2012.01.31	Won 1,516	USD 1,308	1158.90

(5) The gain(loss) on valuation of derivatives for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	Net income effect of valuation gain(loss)		Net income effect of transaction gain(loss)		Other comprehensive income(*)	
	2011	2010	2011	2010	2011	2010
	Currency forward	₩ (4)	₩ (25)	₩ 25	₩ (18)	₩ -
Currency swap	2,160	(7,059)	207	16,047	1,049	(10,107)
Interest rate swap	731	(1,906)	(859)	(1,566)	-	-
	<u>₩ 2,887</u>	<u>₩ (8,990)</u>	<u>₩ (627)</u>	<u>₩ 14,463</u>	<u>₩ 1,049</u>	<u>₩ (10,107)</u>

(\*) Gain (loss) of derivatives valuation 5,491 million won is the amount net of tax as of December 31, 2011

11. OTHER FINANCIAL ASSETS:

Other financial assets as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Loans and receivables	₩ 926	₩ 12,851	₩ 975	₩ 12,113	₩ 1,302	₩ 12,905
Short-term and long-term financial assets	4,000	-	14,000	-	-	-
Available-for-sale financial assets	-	11,298	-	9,746	-	10,535
Derivatives	-	38,796	16,344	35,412	65,210	69,025
	<u>₩ 4,926</u>	<u>₩ 62,945</u>	<u>₩ 31,319</u>	<u>₩ 57,271</u>	<u>₩ 66,512</u>	<u>₩ 92,465</u>

12. INVENTORIES:

Inventories as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011			Dec. 31, 2010			Jan. 1, 2010		
	Acquisition cost	Allowance for valuation	Book value	Acquisition cost	Allowance for valuation	Book value	Acquisition cost	Allowance for valuation	Book value
Raw materials	₩ 169,332	₩ -	₩ 169,332	₩ 76,321	₩ -	₩ 76,321	₩ 78,883	₩ -	₩ 78,883
Supplies	40,470	-	40,470	39,683	-	39,683	34,170	-	34,170
Others	64,560	-	64,560	34,779	-	34,779	64,049	-	64,049
	<u>₩ 274,362</u>	<u>₩ -</u>	<u>₩ 274,362</u>	<u>₩ 150,783</u>	<u>₩ -</u>	<u>₩ 150,783</u>	<u>₩ 177,102</u>	<u>₩ -</u>	<u>₩ 177,102</u>

13. NON-FINANCIAL ASSETS:

Non-financial assets as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Prepayments	₩ 21,133	₩ -	₩ 2,828	₩ -	₩ 4,679	₩ -
Prepaid expenses	6,771	2,157	7,371	2,215	4,630	2,360
Others	1,384	18,112	22,512	21,915	14,023	14,306
	<u>₩ 29,288</u>	<u>₩ 20,269</u>	<u>₩ 32,711</u>	<u>₩ 24,130</u>	<u>₩ 23,332</u>	<u>₩ 16,666</u>

14. SUBSIDIARIES

Name	Key operating activities	Location	Ownership % or voting right		
			Dec.31, 2011	Dec.31, 2010	Jan.1, 2010
Garolim Tidal power Co.,Ltd.(*1)	Power generation	Republic of Korea	49.00%	49.00%	49.00%
Dongducheon Dream Power Co., Ltd.(*1)	Power generation	Republic of Korea	49.00%	-	-
KOWEPO Australia Pty., Ltd.	Overseas resources development	Australia	100.00%	100.00%	100.00%
KOWEPO international Corporation	Managing power plant	Philippines	99.99%	99.99%	99.99%

(\*1) Despite holding less than a majority ownership, the Company has the ability to appoint or dismiss the majority of the Board of Directors by the shareholders' agreements and has the ability to control the entity's operating and financial policies

15. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES:

(1) Investments in associates and joint ventures as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

Investee	Key operating activities	Location	Rate of ownership or voting right(%)		
			Dec.31,2011	Dec.31,2010	Jan.1, 2011
Investments in associates:					
Cheongna Energy Co.,Ltd	Energy supply	Republic of Korea	30.00%	30.00%	30.00%
Investments in joint ventures:					
Rabigh O&M Co.,Ltd. (*)	O&M	Saudi	40.00%	40.00%	40.00%

(\*) The Company classified the investments of Rabigh O&M Co.,Ltd., as investments in joint venture, as the strategic financial and operating policy decisions relating to the activities of the joint venture require unanimous consent of the parties sharing control.

(2) Changes in investments in joint ventures and associates for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

Investee	2011							
	Jan.1,2011	Acquisition	Disposal	Dividend	Equity gain(loss)	Changes in equity	Others	Dec.31,2011
Investments in associates:								
Cheongna Energy Co.,Ltd	₩ 26,078	₩ -	₩ -	₩ -	₩ (1,558)	₩ -	₩ -	₩ 24,520
Investments in joint ventures:								
Rabigh O&M Co.,Ltd.	39	-	-	-	94	4	-	137
	<u>₩ 26,117</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ (1,464)</u>	<u>₩ 4</u>	<u>₩ -</u>	<u>₩ 24,657</u>

  

Investee	2010							
	Jan.1,2010	Acquisition	Disposal	Dividend	Equity gain(loss)	Changes in equity	Others	Dec.31,2010
Investments in associates:								
Cheongna Energy Co.,Ltd	₩ 16,945	₩ 11,672	₩ -	₩ -	₩ (2,513)	₩ (383)	₩ 357	₩ 26,078
Investments in joint ventures:								
Rabigh O&M Co.,Ltd.	62	-	-	-	(22)	(1)	-	39
	<u>₩ 17,007</u>	<u>₩ 11,672</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ (2,535)</u>	<u>₩ (384)</u>	<u>₩ 357</u>	<u>₩ 26,117</u>

(3) The key financials of investments accounted for using the equity method as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

Investee	Dec. 31, 2011			
	Total assets	Total liabilities	Sales	Net Income(loss)
Investments in associates:				
Cheongna Energy Co.,Ltd	₩ 388,189	₩ 306,594	₩ 14,643	₩ (5,131)
Investments in joint ventures:				
Rabigh O&M Co.,Ltd.	863	520	650	235
	<u>₩ 389,052</u>	<u>₩ 307,114</u>	<u>₩ 15,293</u>	<u>₩ (4,896)</u>

  

Investee	Dec. 31, 2010			
	Total assets	Total liabilities	Sales	Net Income(loss)
Investments in associates:				
Cheongna Energy Co.,Ltd	₩ 333,091	₩ 246,360	₩ 6,963	₩ (7,462)
Investments in joint ventures:				
Rabigh O&M Co.,Ltd.	180	84	-	(56)
	<u>₩ 333,271</u>	<u>₩ 246,444</u>	<u>₩ 6,963</u>	<u>₩ (7,518)</u>

Investee	Jan. 1, 2010			
	Total assets	Total liabilities	Sales	Net Income(loss)
Investments in associates:				
Cheongna Energy Co.,Ltd	₩ 223,220	₩ 166,985	₩ 3,024	₩ (1,011)
Investments in joint ventures:				
Rabigh O&M Co.,Ltd.	155	-	-	-
	<u>₩ 223,375</u>	<u>₩ 166,985</u>	<u>₩ 3,024</u>	<u>₩ (1,011)</u>

16. PROPERTY, PLANT AND EQUIPMENT:

(1) Property, plant and equipment as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011					
	Acquisition cost	Government grant	Accumulated depreciation	Accumulated impairment Loss	Transfer to assets classified held-for-sale	Book value
Land	₩ 535,636	₩ -	₩ -	₩ -	₩ -	₩ 535,636
Buildings	625,467	-	(140,341)	-	-	485,126
Structures	827,379	-	(229,923)	-	-	597,456
Machinery	2,619,430	(227)	(614,101)	-	-	2,005,102
Ship	-	-	-	-	-	-
Vehicles	4,451	-	(3,690)	-	-	761
Office Equipment	31,721	-	(16,892)	-	-	14,829
Tools and equipment	16,553	-	(11,962)	-	-	4,591
Construction in-progress	256,189	(25,935)	-	-	-	230,254
Finance lease assets	132,547	-	(36,285)	-	-	96,262
	<u>₩ 5,049,374</u>	<u>₩ (26,162)</u>	<u>₩ (1,053,194)</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 3,970,017</u>

	Dec. 31, 2010					
	Acquisition cost	Government grant	Accumulated depreciation	Accumulated impairment Loss	Transfer to assets classified held-for-sale	Book value
Land	₩ 564,181	₩ -	₩ -	₩ -	₩ (24,682)	₩ 539,499
Buildings	663,355	-	(114,704)	-	(30,353)	518,298
Structures	1,060,984	-	(275,973)	-	(301,796)	483,215
Machinery	2,470,929	(256)	(333,978)	-	(106,353)	2,030,342
Ship	3	-	(2)	-	(1)	-
Vehicles	4,111	-	(3,554)	-	(46)	511
Office Equipment	25,416	-	(14,799)	-	(589)	10,028
Tools and equipment	16,038	-	(10,946)	-	(129)	4,963
Construction in-progress	234,238	(8,278)	-	-	-	225,960
Finance lease assets	181,766	-	(40,447)	-	(40,279)	101,040
	<u>₩ 5,221,021</u>	<u>₩ (8,534)</u>	<u>₩ (794,403)</u>	<u>₩ -</u>	<u>₩ (504,228)</u>	<u>₩ 3,913,856</u>

Jan. 1, 2010

	Acquisition cost	Government grant	Accumulated depreciation	Accumulated impairment loss	Transfer to assets classified held-for-sale	Book value
Land	W 561,724	W -	W -	W -	W -	W 561,724
Buildings	571,701	-	(76,196)	-	-	495,505
Structures	953,604	-	(235,803)	-	-	717,801
Machinery	1,724,470	(344)	(2,775)	-	-	1,721,351
Ship	3	-	(2)	-	-	1
Vehicles	3,915	-	(3,216)	-	-	699
Office Equipment	20,283	-	(11,578)	-	-	8,705
Tools and equipment	12,138	-	(9,458)	-	-	2,680
Construction in-progress	770,198	(8,067)	-	-	-	762,131
Finance lease assets	178,264	-	(2,151)	-	-	146,113
	<u>W 4,796,300</u>	<u>W (8,411)</u>	<u>W (371,179)</u>	<u>W -</u>	<u>W -</u>	<u>W 4,416,710</u>

(2) Changes in property, plant and equipment for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	2011						
	Jan. 1, 2011	Acquisition	Disposal	Depreciation	Impairment loss	Others	Dec. 31, 2011
Land	W 539,499	W 534	W (8)	W -	W -	W (4,389)	W 535,636
Buildings	518,298	195	(134)	(39,769)	-	6,536	485,126
Structures	483,215	-	-	(28,586)	-	142,827	597,456
Machinery	2,030,342	130,953	(1,780)	(291,298)	-	136,885	2,005,102
Ship	-	-	-	-	-	-	-
Vehicles	511	17	-	(347)	-	580	761
Office Equipment	10,028	1,686	(4)	(3,971)	-	7,090	14,829
Tools and equipment	4,963	-	-	(2,142)	-	1,770	4,591
Construction in-progress	225,960	333,959	-	-	-	(329,665)	230,254
Finance lease assets	101,040	-	-	(5,828)	-	1,050	96,262
	<u>W 3,913,856</u>	<u>W 467,344</u>	<u>W (1,926)</u>	<u>W (371,941)</u>	<u>W -</u>	<u>W (37,315)</u>	<u>W 3,970,017</u>

	2010							
	Jan. 1, 2010	Acquisition	Disposal	Depreciation	Impairment loss	Others	Transfer to assets held-for-sale	Dec.31,2010
Land	W 561,724	W -	W (279)	W -	W -	W 2,736	W (24,682)	W 539,499
Buildings	495,505	-	(837)	(38,671)	-	92,654	(30,353)	518,298
Structures	717,801	-	-	(40,170)	-	107,380	(301,796)	483,215
Machinery	1,721,351	103,274	(3,435)	(331,546)	-	647,051	(106,353)	2,030,342
Ship	1	-	-	-	-	-	(1)	-
Vehicles	699	107	-	(346)	-	97	(46)	511
Office Equipment	8,705	927	-	(3,266)	-	4,251	(589)	10,028
Tools and equipment	2,680	97	(55)	(1,552)	-	3,922	(129)	4,963
Construction in-progress	762,131	386,042	-	-	-	(922,213)	-	225,960
Finance lease assets	146,113	-	-	(8,022)	-	3,468	(40,279)	101,040
	<u>W4,416,710</u>	<u>W 490,447</u>	<u>W (4,606)</u>	<u>W(423,813)</u>	<u>W -</u>	<u>W (60,654)</u>	<u>W(504,228)</u>	<u>W 3,913,856</u>

17. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011				
	Acquisition cost	Government grant	Accumulated amortization	Accumulated impairment loss	Book value
Software	₩ 23,200	₩ -	₩ (6,854)	₩ -	₩ 16,346
Development costs	433	-	(277)	-	156
Others	83,674	-	(80,522)	(231)	2,921
	<u>₩ 107,307</u>	<u>₩ -</u>	<u>₩ (87,653)</u>	<u>₩ (231)</u>	<u>₩ 19,423</u>

	Dec. 31, 2010					
	Acquisition cost	Government grant	Accumulated amortization	Accumulated impairment loss	Transfer to asset held-for-sale	Book value
Software	₩ 5,921	₩ -	₩ (3,519)	₩ -	₩ (22)	₩ 2,380
Development costs	285	-	(244)	-	-	41
Others	83,075	-	(78,192)	(231)	-	4,652
	<u>₩ 89,281</u>	<u>₩ -</u>	<u>₩ (81,955)</u>	<u>₩ (231)</u>	<u>₩ (22)</u>	<u>₩ 7,073</u>

	Jan. 1, 2010				
	Acquisition cost	Government grant	Accumulated amortization	Accumulated impairment loss	Book value
Software	₩ 4,623	₩ -	₩ (2,712)	₩ -	₩ 1,911
Development costs	263	-	(228)	-	35
Others	83,062	-	(69,348)	(224)	13,490
	<u>₩ 87,948</u>	<u>₩ -</u>	<u>₩ (72,288)</u>	<u>₩ (224)</u>	<u>₩ 15,436</u>

(2) Changes in intangible assets for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	2011						
	Jan. 1, 2011	Acquisition	Disposal	Amortization	Impairment loss	Others	Dec.31, 2011
Software	₩ 2,380	₩ 11	₩ -	₩ (3,652)	₩ -	₩ 17,607	₩ 16,346
Development costs	41	-	-	(33)	-	148	156
Others	4,652	-	(5)	(2,316)	-	590	2,921
	<u>₩ 7,073</u>	<u>₩ 11</u>	<u>₩ (5)</u>	<u>₩ (6,001)</u>	<u>₩ -</u>	<u>₩ 18,345</u>	<u>₩ 19,423</u>

	2010							
	Jan. 1, 2010	Acquisition	Disposal	Amortization	Impairment loss	Others	Transferto assets held-for-sale	Dec.31, 2010
Software	₩ 1,911	₩ -	₩ -	₩ (2)	₩ -	₩ 493	₩ (22)	₩ 2,380
Development costs	35	-	-	(16)	-	22	-	41
Others	13,490	137	-	(9,586)	(8)	619	-	4,652
	<u>₩ 15,436</u>	<u>₩ 137</u>	<u>₩ -</u>	<u>₩ (9,604)</u>	<u>₩ (8)</u>	<u>₩ 1,134</u>	<u>₩ (22)</u>	<u>₩ 7,073</u>

(3) The key intangible asset for the year ended December 31, 2011 is as follows (Won in millions):

Type	Contents	Amount	Residual Amortisation Period
Software	ERP system	₩ 12,576	4years

18. ACCOUNTS PAYABLES AND OTHER PAYABLES:

Accounts and other payables as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Accounts payables	₩ 474,755	₩ -	₩ 326,548	₩ -	₩ 228,924	₩ -
Other payables	36,144	-	42,887	-	202,819	-
Accrued expenses	18,593	77	16,623	173	26,227	656
Leasehold deposits	3	-	4	-	115	-
Other deposits	17	-	9	-	59	-
Finance lease liabilities	3,953	66,217	5,932	70,559	7,784	87,632
	<u>₩ 533,465</u>	<u>₩ 66,294</u>	<u>₩ 392,003</u>	<u>₩ 70,732</u>	<u>₩ 465,928</u>	<u>₩ 88,288</u>

19. BORROWINGS AND DEBENTURES:

(1) Borrowings and debentures as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Current borrowings:			
Short-term borrowings	₩ 182,017	₩ 17,742	₩ 92,908
Current portion of long-term borrowings	100,000	14,900	14,900
Current portion of long-term debentures	120,000	313,890	376,795
Less: Discount on debentures	(2)	(197)	(169)
	<u>402,015</u>	<u>346,335</u>	<u>484,434</u>
Non-current borrowings:			
Long-term borrowings	103,754	263,254	178,060
Debentures	972,995	710,835	811,900
Less: Discount on debentures	(3,005)	(2,366)	(2,653)
Less: Transfer to Liabilities-held for sale	-	(194,035)	-
	<u>1,073,744</u>	<u>777,688</u>	<u>987,307</u>
	<u>₩ 1,475,759</u>	<u>₩ 1,124,023</u>	<u>₩ 1,471,741</u>



(2) Short-term borrowings as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

Type	Financial institution	Annual interest rate	Dec. 31, 2011	
Other short-term borrowings	BNP PARIBAS	1.91%	₩	5,366
	BNP PARIBAS	1.91%		1,611
	BNP PARIBAS	1.91%		14,386
	BNP PARIBAS	1.92%		5,206
	BNP PARIBAS	1.94%		7,489
	BNP PARIBAS	1.94%		3,811
	HSBC	1.62%		18,301
	HSBC	1.63%		7,326
	HSBC	1.74%		13,480
	HSBC	1.74%		5,078
	RBS	1.37%		6,156
	RBS	1.37%		1,784
	RBS	1.37%		2,769
	RBS	1.43%		11,823
	RBS	1.43%		6,230
	RBS	1.43%		9,638
	RBS	1.43%		13,973
	RBS	1.44%		7,733
	RBS	1.44%		4,645
	RBS	1.40%		9,181
	RBS	1.47%		2,688
	Mizuhoc	1.70%		7,914
	Mizuhoc	1.70%		15,429
			₩	<u>182,017</u>

Type	Financial institution	Annual interest rate	Dec. 31, 2010	
Other short-term borrowings	RBS	1.04%	₩	9,665
	Shinhan Bank	1.80%		8,077
			₩	<u>17,742</u>

Type	Financial institution	Annual interest rate	Jan. 1, 2010	
Other short-term borrowings	ABN Amro	1.35 %	₩	11,231
	ABN Amro	1.35 %		27,110
	BNP PARIBAS	1.25 %		24,855
	BNP PARIBAS	1.25 %		10,212
	BNP PARIBAS	1.25 %		15,133
	Korea Exchange bank	1.33 %		4,367
			₩	<u>92,908</u>

(3) Long-term borrowings as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

Dec. 31, 2011						
Type	Financial Institution	Description	Annual interest rate(%)		Maturity	Amount
Long-term borrowings	Korea Exchange bank	Medium & Long term-CP	Fixed rate	4.79	2013.06.24	₩ 100,000
	"	"	Floating rate	CD+0.5	2012.10.24	100,000
	Others(Domestic)	Other long term borrowings	Floating rate		2023.06.15	112
	"	"	Floating rate		2023.12.15	272
	"	"	Floating rate	KTB	2024.06.15	74
	"	"	Floating rate	(3years)	2024.09.15	208
	"	"	Floating rate	- 2.25	2025.07.15	11
	"	"	Floating rate		2025.12.15	83
	"	"	Floating rate		2023.03.15	2,994
						<u>203,754</u>
Less: Current portion					<u>(100,000)</u>	
					<u>₩ 103,754</u>	

Dec. 31, 2010						
Type	Financial Institution	Description	Annual interest rate(%)		Maturity	Amount
Long-term borrowings	Industrial Bank of Korea	Other long term borrowings	Floating rate	CD+1.20	2012.10.08	₩ 5,200
	"	"	Floating rate	CD+1.20	2016.05.29	20,000
	Korea Exchange bank	Medium & Long term-CP	Floating rate	CD+0.5	2013.06.24	100,000
	"	"	Fixed rate	4.79	2012.10.22	100,000
	Hana Bank	Other long term borrowings	Floating rate	CD+1.20	2014.04.10	49,200
	Others(Domestic)	Other long term borrowings	Floating rate		2023.03.15	2,994
	"	"	Floating rate		2023.06.15	112
	"	"	Floating rate	KTB	2023.12.15	272
	"	"	Floating rate	(3years)	2024.06.15	74
	"	"	Floating rate	- 2.25	2024.09.15	208
"	"	Floating rate		2025.07.15	11	
"	"	Floating rate		2025.12.15	83	
					<u>278,154</u>	
Less: Current portion					<u>(14,900)</u>	
Less: Liabilities directly associated with assets classified as held for sale					<u>(74,400)</u>	
					<u>₩ 188,854</u>	

Jan. 1, 2010						
Type	Financial Institution	Description	Annual interest rate(%)		Maturity	Amount
Long-term borrowings	Industrial	Other long term borrowings	Floating rate	CD+1.20	2012.10.08	₩ 7,800
	Bank of Korea	"	Floating rate	CD+1.20	2016.05.29	20,000
	Korea Exchange bank	Medium & Long term-CP	Fixed rate	4.79	2012.10.22	100,000
	Hana Bank	Other long term borrowings	Floating rate	CD+1.20	2014.04.10	61,500
	Others(Domestic)	Other long term borrowings	Floating rate		2023.03.15	2,994
	"	"	Floating rate	KTB	2023.06.15	112
	"	"	Floating rate	(3years)	2023.12.15	272
	"	"	Floating rate	- 2.25	2024.06.15	74
	"	"	Floating rate		2024.09.15	208
						192,960
Less: Current portion					(14,900)	
					<u>₩ 178,060</u>	

(4) Domestic debentures as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

Financial Institution	Issue date	Maturity date	Annual interest rate(%)	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Corporate bond #4	2005.05.30	2010.03.30	Fixed rate 4.35	₩ -	₩ -	₩ 100,000
Corporate bond #5	2005.08.08	2010.08.10	Fixed rate 4.94	-	-	100,000
Corporate bond #6	2006.06.15	2011.06.15	Fixed rate 5.09	-	100,000	100,000
Corporate bond #9	2008.11.26	2011.11.26	Fixed rate 7.58	-	100,000	100,000
Corporate bond #10	2009.01.23	2012.01.23	Fixed rate 4.38	120,000	120,000	120,000
Corporate bond #11	2009.05.29	2014.05.29	Fixed rate 5.15	80,000	80,000	80,000
Corporate bond #12	2009.11.24	2013.11.24	Fixed rate 5.12	120,000	120,000	120,000
Corporate bond #13	2010.02.18	2015.02.18	Fixed rate 5.08	-	120,000	-
Corporate bond #14	2010.03.19	2015.03.19	Fixed rate 4.57	100,000	100,000	-
Corporate bond #15-1	2011.05.27	2016.05.27	Fixed rate 4.09	100,000	-	-
Corporate bond #15-2	2011.05.27	2016.05.27	Fixed rate 4.19	100,000	-	-
Corporate bond #16-1	2011.11.18	2016.11.18	Fixed rate 3.97	160,000	-	-
Corporate bond #16-2	2011.11.18	2018.11.18	Fixed rate 4.04	60,000	-	-
Corporate bond #16-3	2011.11.18	2021.11.18	Fixed rate 4.15	80,000	-	-
				<u>920,000</u>	<u>740,000</u>	<u>720,000</u>
Less: Discount on debentures				(2,112)	(1,286)	(1,245)
Less: Current Portion				(120,000)	(200,000)	(200,000)
Less: Liabilities directly associated with assets classified as held for sale				-	(119,635)	-
				<u>₩ 797,888</u>	<u>₩ 419,079</u>	<u>₩ 518,755</u>

(5) Foreign debentures as of December 31, 2011, December 31, 2010 and January 31, 2010 are as follows (Won in millions):

Financial Institution	Issue date	Maturity date	Annual interest rate(%)	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Foreign corporate bond #7	2007.10.25	2010.10.25	Fixed rate 1.02	₩ -	₩ -	₩ 176,795
Foreign corporate bond #8	2008.03.18	2011.03.18	Floating rate LIBOR+1.3	-	113,890	116,760
Euro bond #2	2006.09.29	2016.09.29	Fixed rate 5.50	172,995	170,835	175,140
				<u>172,995</u>	<u>284,725</u>	<u>468,695</u>
Less: Discount on debentures				(893)	(1,080)	(1,408)
Less: Current Portion				-	(113,890)	(176,795)
				<u>₩ 172,102</u>	<u>₩ 169,755</u>	<u>₩ 290,492</u>

20. OTHER FINANCIAL LIABILITIES:

Other financial liabilities as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Derivative liabilities	₩ 812	₩ -	₩ 116	₩ 1,539	₩ -	₩ -
	<u>₩ 812</u>	<u>₩ -</u>	<u>₩ 116</u>	<u>₩ 1,539</u>	<u>₩ -</u>	<u>₩ -</u>

21. FINANCE LEASE LIABILITIES

(1) Finance lease liabilities as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011		
	Minimum lease payment	Interest	Book value
Within one year	₩ 5,683	₩ 1,730	₩ 3,953
From one year to five years	21,122	6,429	14,693
More than five years	74,019	22,495	51,524
	<u>₩ 100,824</u>	<u>₩ 30,624</u>	<u>₩ 70,170</u>

(Include Liabilities directly associated with assets held for sale)

	Dec. 31, 2010		
	Minimum lease payment	Interest	Book value
Within one year	₩ 9,384	₩ 2,856	₩ 6,528
From one year to five years	19,772	5,897	13,875
More than five years	85,302	16,414	68,888
	<u>₩ 114,458</u>	<u>₩ 25,167</u>	<u>₩ 89,291</u>

	Jan. 1, 2010		
	Minimum lease payment	Interest	Book value
Within one year	₩ 11,819	₩ 3,405	₩ 7,784
From one year to five years	20,935	6,244	14,691
More than five years	90,320	17,379	72,941
	<u>₩ 122,444</u>	<u>₩ 27,028</u>	<u>₩ 95,416</u>

(2) Liquidity classification of finance lease liabilities as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

Type	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Current liabilities	₩ 3,953	₩ 6,528	₩ 7,784
Non-current liabilities	66,217	82,763	87,632
	<u>70,170</u>	<u>89,291</u>	<u>95,416</u>
Less: Liabilities directly associated with assets classified as held for sale	-	(12,800)	-
	<u>₩ 70,170</u>	<u>₩ 76,491</u>	<u>₩ 95,416</u>

22. RETIREMENT BENEFIT OBLIGATIONS:

(1) Assumptions used on actuarial valuation as of are as follows:

	<u>Dec. 31, 2011</u>	<u>Dec. 31, 2010</u>	<u>Jan. 1, 2010</u>
Discount rate	4.33%	5.14%	5.93%
Expected rate of return on plan assets	4.94%	-	-
Future salary and benefit levels	2.10% ~ 7.26%	2.10% ~ 7.26%	2.10% ~ 7.26%

(2) Details of expense (expected return on assets) relating to retirement benefit obligation for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	<u>2011</u>		<u>2010</u>	
Current service cost	₩	9,695	₩	10,446
Interest cost		4,457		5,290
Expected return on plan assets		(93)		-
	<u>₩</u>	<u>14,059</u>	<u>₩</u>	<u>15,736</u>

(3) Retirement benefit obligation as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	<u>Dec. 31, 2011</u>		<u>Dec. 31, 2010</u>		<u>Jan. 1, 2010</u>	
Present value of defined benefit obligation(funding)	₩	52,355	₩	-	₩	-
Fair value of plan assets		(5,303)		-		-
		<u>47,052</u>		<u>-</u>		<u>-</u>
Present value of defined benefit obligation(not funding)		42		107,903		87,751
Shortage		-		-		-
Less: Liabilities directly associated with assets classified as held for sale		-		(7,509)		-
Net liabilities	<u>₩</u>	<u>47,094</u>	<u>₩</u>	<u>100,394</u>	<u>₩</u>	<u>87,751</u>

(4) Changes in retirement benefit obligation for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	<u>2011</u>		<u>2010</u>	
Beginning balance	₩	100,394	₩	87,751
Current service cost		9,695		10,446
Interest cost		4,457		5,290
Actuarial losses		4,685		9,331
Actual payments		(66,834)		(4,915)
Liabilities directly associated with assets classified as held for sale		-		(7,509)
Ending balance	<u>₩</u>	<u>52,397</u>	<u>₩</u>	<u>100,394</u>

(5) Changes in plan assets for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	<u>2011</u>		<u>2010</u>	
Beginning balance	₩	-	₩	-
Expected return		93		-
Actuarial gains( losses)		(6)		-
Exchange rate fluctuations		-		-
Contribution by employer		6,191		-
Contribution by plan participant		-		-
Actual payments		(975)		-
Others		-		-
Ending balance	<u>₩</u>	<u>5,303</u>	<u>₩</u>	<u>-</u>

During the period the Company recognized accumulated actuarial gains of 10,624 million won and 7,278 million won, respectively, as other comprehensive income.

(6) The types of plan assets and expected rate of return on plan assets as of December 31, 2011, December 31, 2010 and January 1, 2010, are as follows (Won in millions):

	Expected rate of return			FV of plan asset		
	Dec.31,2011	Dec.31,2010	Jan.1,2010	Dec.31,2011	Dec.31,2010	Jan.1,2010
Equity instrument	5.14%	-	-	1,328	-	-
Liability instrument	5.06%	-	-	1,377	-	-
Deposits	4.82%	-	-	1,619	-	-
Others	4.70%	-	-	979	-	-
Weighted average expected rate of return	4.94%	-	-	5,303	-	-

Expected rate of return is the weighted average of all type of plan assets. Management personnel evaluated expected rate on the basis of historical trend of return and market analysis for the existing periods of its' defined benefit obligation. Actual return for the year ended December 31, 2011 is 87 million won.

(7) Other long-term employee benefits liabilities as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows. (Won in millions):

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
Long-term compensated absences	₩	1,029	₩	1,059	₩	936
Other long-services leave		1,704		1,757		1,641
	₩	2,733	₩	2,816	₩	2,577

### 23. PROVISION

(1) Provision as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Other:						
Tax provision	₩ -	₩ 199	₩ -	₩ 203	₩ -	₩ 203
	₩ -	₩ 199	₩ -	₩ 203	₩ -	₩ 203

(2) Changes in provision for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	2011					
	Beginning balance	Recovery	Transfer to current portion	Others	Transfer to asset held for sale	Ending balance
Other:						
Tax provision	₩ 203	₩ (4)	₩ -	₩ -	₩ -	₩ 199
	₩ 203	₩ (4)	₩ -	₩ -	₩ -	₩ 199
	2010					
	Beginning balance	Recovery	Transfer to current portion	Others	Transfer to asset held for sale	Ending balance
Other:						
Tax provision	₩ 203	₩ -	₩ -	₩ -	₩ -	₩ 203
	₩ 203	₩ -	₩ -	₩ -	₩ -	₩ 203

24. OTHER NON-FINANCIAL LIABILITIES:

Other non-financial liabilities as of December 31, 2011, December 31, 2010 and January 31, 2010 are as follows (Won in millions):

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Advanced payments	₩ -	₩ 300	₩ -	₩ 1,252	₩ -	₩ -
Unearned revenue	6	-	601	-	378	-
Withholdings	2,055	-	4,044	-	8,838	-
Others	11	-	289	-	31	-
	<u>₩ 2,072</u>	<u>₩ 300</u>	<u>₩ 4,934</u>	<u>₩ 1,252</u>	<u>₩ 9,247</u>	<u>₩ -</u>

25. SHARES ISSUED:

(1) Shares issued as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions except par value):

Type	Number of shares authorized	Number of shares issued	Par value	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
				Non-govt.	Sub-total	Non-govt.	Sub-total	Non-govt.	Sub-total
Common Stock	100,000,000	31,789,285	5,000	158,946	158,946	176,000	176,000	176,000	176,000

(2) Changes in the number of shares issued for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Beginning balance	35,200,000	35,200,000
Losses on capital reduction	(3,410,715)	-
Ending balance	<u>31,789,285</u>	<u>35,200,000</u>

(3) Share premium as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Share premium	1,033,418	1,266,638	1,266,638

26. RETAINED EARNINGS AND RESERVES:

(1) Reserves as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Legal reserves(*1)	₩ 47,857	₩ 40,469	₩ 37,832
Voluntary reserves	994,566	829,568	770,661
Retained earnings before appropriations	714,866	921,368	797,796
	<u>₩ 1,757,289</u>	<u>₩ 1,791,405</u>	<u>₩ 1,606,289</u>

(\*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% of annual cash dividends paid, until the 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 through a resolution of the Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the shareholders.

(2) Voluntary reserves as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	<u>Dec. 31, 2011</u>	<u>Dec. 31, 2010</u>	<u>Jan. 1, 2010</u>
Reserve for business stabilization(*1)	₩ 181	₩ 181	₩ 181
Reserve for research and human development(*2)	18,388	6,000	13,900
Reserve for investment on social overhead capital	14,500	19,667	28,500
Reserve for business expansion	<u>961,497</u>	<u>803,720</u>	<u>728,080</u>
	<u>₩ 994,566</u>	<u>₩ 829,568</u>	<u>₩ 770,661</u>

(\*1) Prior to 2002, the Company appropriated certain tax-deductible benefits as Reserve for business stabilization, for offsetting future deficit in accordance with the relevant tax laws. Due to the amendment of such tax laws on December 11, 2002, the reserve is no longer required. However, the Company continues to maintain such reserve on a voluntary basis.

(\*2) Reserve for research and human development were appropriated in order to recognize certain tax deductible benefits through the early recognition of future expenditure for tax purposes. These reserves will be reversed from appropriated and retained earnings in accordance with the relevant tax laws. When reserves are reversed, it will be included in taxable income during the reversal period.

(3) Changes in retained earnings before appropriations issued for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	<u>2011</u>		<u>2010</u>	
Beginning balance	₩	921,368	₩	797,796
Net income attributable to owners of the parent company		43,109		218,770
Dividends paid		(73,879)		(26,375)
Actuarial losses(gain)		(3,346)		(7,278)
Funding reserves		<u>(172,386)</u>		<u>(61,545)</u>
Ending balance	<u>₩</u>	<u>714,866</u>	<u>₩</u>	<u>921,368</u>

(4) Dividends paid for the years ended December 31, 2011 and 2010 are as follows (Won in millions except share):

<u>Type</u>	<u>2011</u>				
	<u>Number of shares issued(*)</u>	<u>Number of treasury shares</u>	<u>Number of dividend shares</u>	<u>Dividends per share</u>	<u>Total dividends</u>
Common stock	31,789,285	-	35,200,000	2,099 won	73,879

(\* ) Total number of dividend shares is different from shares issued because the Company determined the number of dividend shares based on the number of shares before spin-off of the pumped-storage facilities.

<u>Type</u>	<u>2010</u>				
	<u>Number of shares issued</u>	<u>Number of treasury shares</u>	<u>Number of dividend shares</u>	<u>Dividends per share</u>	<u>Total dividends</u>
Common stock	35,200,000	-	35,200,000	749 won	26,375



(5) Changes in actuarial gains(losses) for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	<u>2011</u>	<u>2010</u>
Beginning balance	₩ (7,278)	₩ -
Changes for the period	(4,685)	(9,331)
Tax effect	<u>1,339</u>	<u>2,053</u>
Ending balance	<u>₩ (10,624)</u>	<u>₩ (7,278)</u>

## 27. STATEMENT OF APPROPRIATION OF RETAINED EARNING

The Company's statements of appropriations of retained earnings relate for the years ended December 31, 2011 and 2010 are as follows. For the year ended December 31, 2011, KOWEPO's retained earnings are expected to be appropriated on March 30, 2012. For the year ended December 31, 2010, the Company's retained earnings (based under Korean GAAP) were appropriated on March 29, 2011. (Won in millions):

	<u>2011</u>	<u>2010</u>
<b>I. RETAINED EARNINGS BEFORE APPROPRIATIONS:</b>		
Unappropriated retained earnings carried over from prior year	₩ 676,227	₩ -
Cumulative effect of change in accounting policy	-	709,658
Net income (loss)	44,836	220,112
Actuarial gains(losses)	<u>(3,346)</u>	<u>(7,278)</u>
	<u>717,717</u>	<u>922,492</u>
<b>II. TRANSFERS FROM VOLUNTARY RESERVES:</b>		
Reserve for investment in social overhead capital	1,500	5,167
Reserve for research and human resource development	-	6,000
Reserve for business expansion	<u>26,903</u>	<u>-</u>
	<u>28,403</u>	<u>11,167</u>
	<u>746,120</u>	<u>933,659</u>
<b>III. APPROPRIATIONS:</b>		
Dividends		
Cash dividends	31,386	73,879
Legal Reserve	3,139	7,388
Investment in social overhead capital	-	18,388
business expansion	<u>-</u>	<u>157,777</u>
	<u>(34,525)</u>	<u>(257,432)</u>
<b>IV. UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR</b>		
	<u>₩ 711,595</u>	<u>₩ 676,227</u>

(\*) The comparative information on the statement of appropriation of retained earnings for the year ended December 31, 2010 includes K-IFRS transition adjustments. As such, it differs from the reported appropriation of retained earnings for the year ended December 31, 2010 under Korean GAAP, which was appropriated as of March 29, 2011.

## 28. OTHER COMPONENTS OF EQUITY

(1) Other components of equity as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	<u>Dec. 31, 2011</u>	<u>Dec. 31, 2010</u>	<u>Jan. 1, 2010</u>
Accumulated other comprehensive income(loss)	₩ 4,216	₩ 4,834	₩ 11,749
Other equity	<u>(41,046)</u>	<u>-</u>	<u>-</u>
	<u>₩ (36,830)</u>	<u>₩ 4,834</u>	<u>₩ 11,749</u>

(2) Changes in Accumulated other comprehensive income for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	2011			
	Available-for-sale financial assets valuation reserve	Reverse for gain(loss) on valuation of derivatives	Net change in other Comprehensive income(loss) of joint venture and associates	Reverse for gain(loss) on overseas operations derivatives
Beginning balance	₩ (1,264)	₩ 4,696	₩ (384)	₩ 1,785
Valuation loss on available-for-sale financial assets	923	-	-	-
Valuation of financial derivatives	-	796	-	-
Other comprehensive income(loss) of joint venture and associates	-	-	5	-
Foreign currency translation differences of foreign operations	-	-	-	(2,342)
Ending balance	<u>₩ (341)</u>	<u>₩ 5,492</u>	<u>₩ (379)</u>	<u>₩ (557)</u>

	2010			
	Available-for-sale financial assets valuation reserve	Reverse for gain(loss) on valuation of derivatives	Net change in other Comprehensive income(loss) of joint venture and associates	Reverse for gain(loss) on overseas operations derivatives
Beginning balance	₩ (608)	₩ 12,375	₩ -	₩ -
Valuation loss on available-for-sale financial assets	(656)	-	-	-
Valuation of financial derivatives	-	(7,661)	-	-
Other comprehensive income(loss) of joint venture and associates	-	-	(384)	-
Foreign currency translation differences of foreign operations	-	-	-	1,785
Ending balance	<u>₩ (1,264)</u>	<u>₩ 4,696</u>	<u>₩ (384)</u>	<u>₩ 1,785</u>

(3) Changes in other equity for the years ended December 31, 2011 and 2010 are as follows. (Won in millions):

	2011	2010
Beginning balance	₩ -	₩ -
Capital reduction	(41,046)	-
Tax effect	-	-
Ending balance	<u>₩ (41,046)</u>	<u>₩ -</u>

29. SALES:

Sales for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

Description	2011		2010	
	Domestic	Overseas	Domestic	Overseas
Income from sales of product	₩ 5,208,094	₩ -	₩ 4,571,971	₩ -
Income from rendering service	-	-	-	-
Income from construction contract	-	-	-	-
Other income	-	-	-	-
	<u>₩ 5,208,094</u>	<u>₩ -</u>	<u>₩ 4,571,971</u>	<u>₩ -</u>

30. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

Description	2011	2010
Salaries	₩ 13,612	₩ 10,293
Retirement benefit	1,850	1,964
Benefits	8,186	4,040
Insurance expenses	32	30
Depreciation	1,524	895
Amortization	3,264	424
Commission	10,975	9,615
Advertisement	365	504
Training	43	48
Vehicles	113	70
Publication expenses	121	97
Business expenses	297	340
Rent	2,484	2,067
Communication	1,015	1,142
Freight Expenses	-	4
Taxes and dues	470	228
Supplies expenses	104	98
Utilities expenses	20	15
Repairs	751	93
Ordinary development expenses	5,944	4,818
Travel Expenses	508	391
Clothing expenses	23	23
Research and analysis expense	8	4
Others	3,065	1,345
	<u>₩ 54,774</u>	<u>₩ 38,548</u>

31. OTHER OPERATING INCOME AND EXPENSE:

(1) Other operating incomes for the years ended December 31, 2011 and 2010 are as follows. (Won in millions):

Description	2011	2010
Income from Assets Contributed	₩ -	₩ 125
Rental income	5,022	4,252
	<u>₩ 5,022</u>	<u>₩ 4,377</u>

(2) Other operating expenses for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

Description	2011	2010
Donations	₩ 10,310	₩ 888
	<u>₩ 10,310</u>	<u>₩ 888</u>

### 32. OTHER INCOME AND LOSS

Composition of other incomes and losses for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

Description	2011	2010
Gain on disposal of property, plant and equipment	₩ 24	₩ 1
Gain on foreign currency translation	255	412
Gain on foreign currency transaction	13,125	18,261
Other income	8,654	15,828
Loss on disposal of property, plant and equipment	(1,900)	(4,557)
Impairment loss of intangible asset	-	(8)
Loss on foreign currency translation	(1,507)	(55)
Loss on foreign currency transaction	(16,347)	(13,731)
Other losses	(625)	(723)
₩	1,679	₩ 15,428

### 33. FINANCIAL INCOME

(1) Financial incomes for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

Description	2011	2010
Interest income of financial instruments	₩ 7,139	₩ 10,688
Dividends income	74	60
Gain on valuation of derivative instruments	2891	91
Gain on transactions of derivative instruments	323	20,074
Gain on foreign currency translation	527	7,414
Gain on foreign currency transaction	2,440	8,404
₩	13,394	₩ 46,731

(2) Interest income included in finance incomes for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

Description	2011	2010
Cash and cash equivalents	₩ 6,261	₩ 9,797
Loans and receivables	661	772
Other financial assets	27	34
Accounts and other receivables	190	85
₩	7,139	₩ 10,688

### 34. FINANCIAL EXPENSE

(1) Financial expenses for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

Description	2011	2010
Interest expense	₩ 48,673	₩ 48,540
Loss on foreign currency translation	13,526	-
Loss on foreign exchange transaction	1,180	17,647
Loss on valuation of derivative instruments	4	9,081
Loss on transaction of derivative instruments	950	5,611
₩	64,333	₩ 80,879

- (2) Interest expenses included in financial expenses for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

Description	2011	2010
Accounts and other payables	₩ 572	₩ 189
Short term borrowings	1,269	2,827
Long term borrowings	7,803	8,053
Debentures	44,277	53,622
Other financial liabilities	3,846	5,154
	57,767	69,845
Capitalization of financial expense	(9,094)	(21,305)
	₩ 48,673	₩ 48,540

(\*) Weighted average interest rate of borrowings for the years ended December 31, 2011 and 2010 are 3.67% per year and 3.28% per year, respectively.

35. INCOME TAX EXPENSE:

- (1) Components of incomes tax expenses for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	2011	2010
Current income tax expense		
Payment of income tax	₩ 1,432	₩ 64,437
Adjustment recognized in the period for current tax of prior period	(798)	(9,820)
Current income tax directly recognized in equity	662	4,399
Change in tax reserve for uncertain tax position	(4)	-
	1,292	59,016
Deferred income tax expense		
Generation and disappearance of temporary differences	14,387	5,518
Reclassified from equity to profit	-	-
Recognition of unrecognized tax losses in the past, tax credit and temporary differences prior to previous period	662	(4,083)
Changes in deferred tax on tax losses incurred in the period	-	-
Impairment of deferred tax assets	-	-
Tax credit carry back	-	-
Changes in tax rates or tax laws	8,396	4,072
Changes in accounting policy that cannot be applied retroactively	-	-
Charged directly to discontinued operations	-	(9,955)
	23,445	5,507
Income tax expense	₩ 24,737	₩ 54,568

(2) A reconciliation between incomes tax expense and accounting income before income tax expense for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	<u>2011</u>	<u>2010</u>
Income before income tax expenses	₩ 66,680	₩ 239,106
Income tax expense in accordance with applicable tax rate	16,185	57,864
Adjustments		
Additional payment of income taxes and income tax refunds	(196)	(1,530)
Effect of applying gradual tax rate	-	(22)
Effect of non-taxable revenue	-	(1)
Effect of nondeductible expenses	776	93
Effect of tax losses not recognized as deferred tax assets	-	-
Effects of tax credits and deduction	(802)	(2,579)
Recognition of unrecognized tax losses in the past, tax credit, and temporary differences prior to previous period	-	-
Effect of changes in deferred tax according to changes in tax rates	8,253	(1,584)
Others	<u>521</u>	<u>2,327</u>
	8,552	(3,296)
Income tax expense recognized in profit or loss for the period with respect to continuing operations	<u>24,737</u>	<u>54,568</u>
Mean effective tax rate	<u>₩ 36.99%</u>	<u>₩ 22.82%</u>

(3) Income tax recognized as cumulative other comprehensive income for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	<u>2011</u>	<u>2010</u>
Income tax recognized as cumulative other comprehensive income		
Gains(Loss) on valuation of available-for-sale financial assets	₩ (248)	₩ 185
Gain(Loss) on valuation of derivatives using cash flow hedge accounting	(429)	2,161
Actuarial losses on retirement benefit obligations	1,339	2,053
Others	<u>326</u>	<u>-</u>
	<u>₩ 662</u>	<u>₩ 4,399</u>

(4) Changes in deferred income tax assets(liabilities) recognized in the statements of financial position as of December 31, 2011 and 2010 are as follows (Won in millions):

		2011						
	Beginning balance	Amounts recognized in profit(loss) for the period	Amounts recognized in cumulative other comprehensive income	Amounts recognized directly in equity	Reclassified from equity to profit(loss) for the period	Disposition	Others	Ending Balance
Deferred income tax on temporary differences								
Long term employee benefits	₩ 15,366	₩ (6,518)	₩ 1,339	₩ -	₩ -	₩ -	₩ -	₩ 10,187
Cash flow hedge	(11,330)	2,456	(429)	-	-	-	-	(9,303)
Investment in associates or subsidiaries	-	-	-	-	-	-	-	-
Property, plant and equipment, net	(189,796)	(21,974)	-	-	-	-	-	(211,770)
Finance lease	-	-	-	-	-	-	-	-
Intangible assets	12	42	-	-	-	-	-	54
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-
Available-for-sale financial assets	357	52	(248)	-	-	-	-	161
Deferred revenue	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-
Doubtful receivables	-	-	-	-	-	-	-	-
Other finance liabilities	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Gains(loss) on foreign currency translation	9,071	1,376	-	-	-	-	-	10,447
Allowance for bad debts	(1,015)	(72)	-	-	-	-	-	(1,087)
Accrued income	-	-	-	-	-	-	-	-
Special deduction	(939)	(3,331)	-	-	-	-	-	(4,270)
Reserve for research and human development	(3,880)	275	-	-	-	-	-	(4,155)
Reserve for investment on social overhead capital	(330)	330	-	-	-	-	-	-
Others	(1,011)	4,469	-	-	-	-	-	3,458
	<u>(183,495)</u>	<u>(23,445)</u>	<u>662</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(206,278)</u>
Deferred income tax on unused tax losses and tax credit								
Tax losses	-	-	-	-	-	-	-	-
Tax credit	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>₩ (183,495)</u>	<u>₩ (23,445)</u>	<u>₩ 662</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ (206,278)</u>

2010

	Beginning balance	Amounts recognized in profit(loss) for the period	Amounts recognized in cumulative other comprehensive income	Amounts recognized directly in equity	Reclassified from equity to profit(loss) for the period	Disposition	Others	Ending Balance
Deferred income tax on temporary differences								
Long term employee benefits	₩ 15,410	₩ (891)	₩ 2,053	₩ -	₩ -	₩ -	₩ (1,206)	₩ 15,366
Cash flow hedge	(31,598)	18,107	2,161	-	-	-	-	(11,330)
Investment in associates or subsidiaries	252	(252)	-	-	-	-	-	-
Property, plant and equipment, net	(198,478)	655	-	-	-	-	8,027	(189,796)
Finance lease	-	-	-	-	-	-	-	-
Intangible assets	-	12	-	-	-	-	-	12
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-
Available-for-sale financial assets	172	-	185	-	-	-	-	357
Deferred revenue	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-
Doubtful receivables	-	-	-	-	-	-	-	-
Other finance liabilities	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Gains(loss) on foreign currency translation	18,680	(9,609)	-	-	-	-	-	9,071
Allowance for bad debts	-	(1,015)	-	-	-	-	-	(1,015)
Accrued income	-	-	-	-	-	-	-	-
Special deduction	(4,116)	3,049	-	-	-	-	128	(939)
Reserve for research and human development	(1,452)	(2,593)	-	-	-	-	165	(3,880)
Reserve for investment on social overhead capital	(1,613)	1,283	-	-	-	-	-	(330)
Others	5,139	(6,010)	-	-	-	-	(140)	(1,011)
	<u>(197,604)</u>	<u>2,736</u>	<u>4,399</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,974</u>	<u>(183,495)</u>
Deferred income tax on unused tax losses and tax credit								
Tax losses	6,517	(6,517)	-	-	-	-	-	-
Tax credit	1,726	(1,726)	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
	<u>8,243</u>	<u>(8,243)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>₩ (189,361)</u>	<u>₩ (5,507)</u>	<u>₩ 4,399</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 6,974</u>	<u>₩ (183,495)</u>

(5) Deferred incomes tax assets(liabilities) as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows. (Won in millions):

Description	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Deferred income tax assets	₩ 301	₩ -	₩ -
Deferred income tax liabilities	<u>(206,579)</u>	<u>(183,495)</u>	<u>(189,361)</u>
	<u>₩ (206,278)</u>	<u>₩ (183,495)</u>	<u>₩ (189,361)</u>



36. OPERATING INCOME AND LOSS

Operating income and loss differences between Korean GAAP and K-IFRS applicable to the Company are as follows (Won in millions):

Description	2011		2010	
Gains on assets contributed	₩	-	₩	125
Other gains		5,022		4,252
Donations		(10,310)		(888)
Gain on disposal of property, plant and equipment		24		1
Gain on foreign currency translation(*)		255		412
Gain on foreign currency transaction(*)		13,125		18,261
Other profits		8,654		15,828
Loss on disposal of property, plant and equipment		(1,900)		(4,557)
Impairment loss on intangible assets		-		(8)
Loss on foreign currency translation(*)		(1,507)		(55)
Loss on foreign currency transaction(*)		(16,347)		(13,731)
Other losses		(626)		(723)

(\*) Gain(loss) on foreign currency translation and foreign exchange transaction arising from foreign currency borrowings and bonds under K-IFRS are classified as non-operating income.

37. EXPENSES CLASSIFIED BY NATURE:

Expenses classified by nature for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

Description	2011		
	Selling and administrative expenses	Cost of sales	Total
Raw materials used	₩ -	₩ 4,392,553	₩ 4,392,553
Salaries	13,612	105,433	119,045
Retirement benefits	1,850	12,265	14,115
Benefits	8,186	11,778	19,964
Insurance expenses	32	4,877	4,909
Depreciation	1,524	370,418	371,942
Amortization of intangible assets	3,264	2,737	6,001
Commission	10,975	10,751	21,726
Advertisement	365	283	648
Training	43	204	247
Vehicles	113	57	170
Publication expenses	121	99	220
Business expenses	297	195	492
Rent	2,484	10,906	13,390
Communication	1,015	254	1,269
Freight Expenses	-	12	12
Taxes and dues	470	3,774	4,244
Supplies expenses	104	279	383
Utilities expenses	20	291	311
Repairs	751	86,494	87,245
Ordinary development expenses	5,944	12,869	18,813
Travel Expenses	508	753	1,261
Clothing expenses	23	222	245
Research and analysis expense	8	169	177
Others	3,065	2,755	5,820
	₩ 54,774	₩ 5,030,428	₩ 5,085,202

Description	2010		
	Selling and administrative expenses	Cost of sales	Total
Raw materials used	₩ -	₩ 3,614,631	₩ 3,614,631
Salaries	10,293	105,868	116,161
Retirement benefits	1,964	11,220	13,184
Benefits	4,040	12,616	16,656
Insurance expenses	30	3,134	3,163
Depreciation	895	394,823	395,718
Amortization of intangible assets	424	8,559	8,983
Commission	9,615	10,297	19,912
Advertisement	504	170	674
Training	48	228	276
Vehicles	70	58	128
Publication expenses	97	109	206
Business expenses	340	206	546
Rent	2,067	10,495	12,562
Communication	1,142	261	1,403
Freight Expenses	4	14	18
Taxes and dues	228	3,348	3,576
Supplies expenses	98	236	334
Utilities expenses	15	281	296
Repairs	93	88,725	88,818
Ordinary development expenses	4,818	9,800	14,618
Travel Expenses	391	255	647
Clothing expenses	23	448	471
Research and analysis expense	4	131	135
Others	1,345	638	1,983
	<u>₩ 38,548</u>	<u>₩ 4,276,551</u>	<u>₩ 4,315,099</u>

38. EARNINGS PER SHARE:

(1) The computation of earnings per share for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	2011	2010
Basic net earnings per share	₩	₩
Continuing operations	1,356	5,251
Discontinued operations	-	964
	<u>₩ 1,356</u>	<u>₩ 6,215</u>

(2) Net income and weighted average number of common shares outstanding for the years ended December 31, 2011 and 2010 is as follows (Won in millions except share):

	2011	2010
Income for the period		
Net income from continued operations	₩ 43,109	₩ 184,825
Net income from discontinued operations	-	33,945
Net income attributable to owners of the parent company	<u>₩ 43,109</u>	<u>₩ 218,770</u>
Weighted average number of common share	31,789,285	35,200,000

39. RISK MANAGEMENT:

(1) Capital risk management

The Company manages its capital to ensure that entities in the Company will be able to continue while maximizing the return to shareholder through the optimization of the debt and equity balance. The capital structure of the Company consists of net debt (offset by cash and bank balances) and equity. The Company's overall capital risk management strategy remains unchanged from that of the prior year.

Details of the Company's capital management accounts as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	<u>Dec. 31, 2011</u>	<u>Dec. 31, 2010</u>	<u>Jan. 1, 2010</u>
Total borrowings and debentures	₩ 1,475,759	₩ 1,124,023	₩ 1,471,741
Cash and cash equivalents	<u>285,023</u>	<u>153,306</u>	<u>139,753</u>
Net borrowings and debentures	1,190,736	970,717	1,331,986
Total equity	<u>₩ 2,951,852</u>	<u>₩ 3,256,148</u>	<u>₩ 3,078,234</u>
Total equity ratio of net borrowings and debentures	40.34%	29.81%	43.27%

(2) Financial risk management

The Company is exposed to various risks related to its financial instruments, such as, market risk (currency risk, interest rate risk, price risk), credit risk. The Company monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks. The Company uses derivative financial instruments to certain hedge risk exposures. The Company's overall financial risk management strategy remains unchanged from the prior year.

1) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Company's loan, card assets and securities. In addition, credit risk exposure may exist within financial guarantees and unused line of credits.

i) Credit risk management

The Company uses publicly available information and its own internal data related to accounts receivables, to rate its major customers and to measure the credit risk that a counter party will default on a contractual obligation. As the majority of the Company's accounts receivables are due from a governmental entities, the Company does not have significant credit risk exposure. Regarding its debt securities, the Company continuously reviews credit ratings issued by credit agencies, and the Company's working capital (i.e. cash) is deposits at a financial institution with a high credit rating.

ii) Impairment & allowance account

In accordance with Company policies, individual material financial assets are assessed on a regular basis, trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. If objective evidence of impairment for a portfolio of receivables has occurred but no loss has been realized, based on the Company's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with default on receivables, an allowance account is recognized.

The Company's maximum exposure to credit risk for the years ended December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Cash and cash equivalents	₩ 285,023	₩ 153,306	₩ 139,753
Available-for-sale financial assets	11,298	9,746	10,535
Other financial assets	17,777	27,088	14,207
Derivatives for trading purpose	-	91	385
Derivatives using hedge accounting	38,796	51,665	133,850
Account and other receivables	575,951	463,583	427,849

## 2) Market risk

Market risk is the risk that the Company's fair value of the financial instruments or future cashflows are effected by the changes in the market. Market risk consists of interest rate risk, currency risk and other price risk.

## 3) Sensitivity analysis

### i) Major assets and liabilities with uncertainties in underlying assumptions

#### ① Defined benefit obligation

Changes in the Company's defined benefit obligation for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

Description	Accounts	2011		2010	
		1% increase	1% decrease	1% increase	1% decrease
Expected rates of salary increases	Defined benefit obligation	₩ 7,578	₩ (6,684)	₩ 13,003	₩ (11,597)
Discount rate	Defined benefit obligation	(6,631)	7,952	(11,563)	13,603
Expected rate of return on plan assets	Retirement benefit	(43)	(12)	-	-

### ii) Management judgment effected by uncertainties in underlying assumptions

#### ① Foreign currency risk

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. The carrying amounts of the Company's, except for the Company's foreign subsidiary, foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows (USD in thousand, JPY in thousand):

	Foreign currency assets			Foreign currency liabilities		
	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
USD	\$ 85,491	\$ 16	\$ -	\$ 416,631	\$ 311,116	\$ 392,468
JPY	¥ -	¥ -	¥ -	¥ -	¥ 20,862	¥ 24,592,084

A sensitivity analysis on the Company's profit for the period assuming a 10% increase and decrease in currency exchange rates as of December 31, 2011 and 2010 is as follows (Won in millions):

Description	2011		2010	
	10% increase	10% decrease	10% increase	10% decrease
Increase(decrease) of income before income tax	₩ (38,190)	₩ 38,190	₩ (35,460)	₩ 35,460
Increase(decrease) of equity	(38,190)	38,190	(35,460)	35,460

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency as of December 31, 2011 and 2010.

To manage its foreign currency risk related to foreign currency denominated receivables and payables, the Company has a policy to enter into currency forward and cross-currency swap agreements.

② Interest rate risk

The Company is exposed to interest rate risk due to its borrowing with floating interest rates. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The Company's long-term borrowings and debentures with floating interest rates as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

Accounts	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Long-term borrowings	₩ 103,754	₩ 178,154	₩ 92,960
Debentures	-	113,890	116,760
	<u>₩ 103,754</u>	<u>₩ 292,044</u>	<u>₩ 209,720</u>

A sensitivity analysis on the Company's long-term borrowings and debentures assuming a 1% increase and decrease in interest rates as of December 31, 2011 and 2010 are as follows (Won in millions):

Description	2011		2010	
	1% point increase	1% point decrease	1% point increase	1% point decrease
Increase(decrease) of income before income tax	₩ (1,038)	₩ 1,038	₩ (2,920)	₩ 2,920
Increase(decrease) of equity	(1,038)	1,038	(2,920)	2,920

To manage its interest rate risks, the Company in addition to maintaining an appropriate mix of fixed and floating rate loans, it has entered into certain interest rate swap agreements.

4) Liquidity risk

The Company has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

In addition, the Company has established credit lines on its AC and bank overdrafts, and through payment guarantees it has received, it maintains an adequate credit (borrowing) line. In addition, in case of major construction investment, the Company has the ability to use reserve cash or utilize long-term borrowings.

Details of remaining maturities of the Company's non-derivative financial liabilities based on agreement terms is as follows. The amount disclosed below represents the undiscounted cash flows the Company is obligated to pay in the future on the most earliest redemption(repayment) date (Won in millions):

	Dec. 31, 2011				
	Less 1 year	1 ~ 2 years	2 ~ 5 years	Over 5 years	Total
Borrowings and debentures	₩ 402,017	₩ 220,230	₩ 754,009	₩ 102,510	₩ 1,478,766
Finance lease liabilities	5,683	5,503	15,619	74,019	100,824
Accounts and other payables (except, finance lease liabilities)	529,412	77	-	-	529,491
	<u>₩ 937,113</u>	<u>₩ 225,811</u>	<u>₩ 769,628</u>	<u>₩ 176,529</u>	<u>₩ 2,109,081</u>
	Dec. 31, 2010				
	Less 1 year	1 ~ 2 years	2 ~ 5 years	Over 5 years	Total
Borrowings and debentures	₩ 346,842	₩ 238,900	₩ 557,506	₩ 178,148	₩ 1,321,396
Finance lease liabilities	9,384	5,683	14,089	85,302	114,458
Accounts and other payables (except, finance lease liabilities)	389,121	173	-	-	389,294
	<u>₩ 745,347</u>	<u>₩ 244,756</u>	<u>₩ 571,595</u>	<u>₩ 263,450</u>	<u>₩ 1,825,148</u>
	Jan. 1, 2010				
	Less 1 year	1 ~ 2 years	2 ~ 5 years	Over 5 years	Total
Borrowings and debentures	₩ 484,603	₩ 331,660	₩ 472,068	₩ 186,232	₩ 1,474,563
Finance lease liabilities	11,189	9,383	11,552	90,320	122,444
Accounts and other payables (except, finance lease liabilities)	453,022	656	-	-	453,678
	<u>₩ 948,814</u>	<u>₩ 341,699</u>	<u>₩ 483,620</u>	<u>₩ 276,552</u>	<u>₩ 2,050,685</u>

As the Company manages its liquidity based on net assets and net liability balances, in order to understand the Company's liquidity risk management, non-derivative financial assets should be included.

Details of the Company's expected holding period of its non-derivative financial assets as of December 31,2011, December 31, 2010 and January 1, 2010 is as follows (Won in millions):

	Dec. 31, 2011				
	Less 1 year	1 ~ 5 years	Over 5 years	Uncertain	Total
Cash and cash equivalents	₩ 285,023	₩ -	₩ -	₩ -	₩ 285,023
Available-for-sale financial assets	-	-	-	11,298	11,298
Loans and receivables	1,047	12,846	-	-	13,893
Financial assets	4,000	-	-	-	4,000
Accounts and other receivables	547,182	6,899	-	-	554,081
	<u>₩ 837,252</u>	<u>₩ 19,745</u>	<u>₩ -</u>	<u>₩ 11,298</u>	<u>₩ 868,295</u>
	Dec. 31, 2010				
	Less 1 year	1 ~ 5 years	Over 5 years	Uncertain	Total
Cash and cash equivalents	₩ 153,306	₩ -	₩ -	₩ -	₩ 153,306
Available-for-sale financial assets	-	-	-	9,746	9,746
Loans and receivables	1,050	13,744	-	-	14,794
Financial assets	14,000	-	-	-	14,000
Accounts and other receivables	454,618	11,625	-	-	466,243
	<u>₩ 622,974</u>	<u>₩ 25,369</u>	<u>₩ -</u>	<u>₩ 9,746</u>	<u>₩ 658,089</u>

	Jan. 1, 2010					Total
	Less 1 year	1 ~ 5 years	Over 5 years	Uncertain		
Cash and cash equivalents	₩ 139,753	₩ -	₩ -	₩ -	₩ -	₩ 139,753
Available-for-sale financial assets	-	-	-	10,535	-	10,535
Loans and receivables	1,302	15,142	-	-	-	16,444
Accounts and other receivables	411,355	16,731	-	-	-	428,086
	<u>₩ 552,410</u>	<u>₩ 31,873</u>	<u>₩ -</u>	<u>₩ 10,535</u>	<u>₩ -</u>	<u>₩ 594,818</u>

The Company's derivative financial liabilities by residual contractual maturity as of December 31, 2011, December 31, 2010 and January 1, 2010 are classified as follows (Won in millions):

Type	Dec. 31, 2011					Total
	Under 1 year	1 ~ 2 years	2 ~ 5 years	Over 5 years		
Trading purpose	₩ 812	₩ -	₩ -	₩ -	₩ -	₩ 812
Hedge accounting purpose	-	-	-	-	-	-
	<u>₩ 812</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 812</u>

Type	Dec. 31, 2010					Total
	Under 1 year	1 ~ 2 years	2 ~ 5 years	Over 5 years		
Trading purpose	₩ 116	₩ 1,539	₩ -	₩ -	₩ -	₩ 1,655
Hedge accounting purpose	-	-	-	-	-	-
	<u>₩ 116</u>	<u>₩ 1,539</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 1,655</u>

Type	Jan. 1, 2010					Total
	Under 1 year	1 ~ 2 years	2 ~ 5 years	Over 5 years		
Trading purpose	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
Hedge accounting purpose	-	-	-	-	-	-
	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>

### (3) Fair value risk

The fair value of the Company's actively-traded financial instruments (i.e. financial assets available-for-sale, etc.) is based on the traded market-price as of the reporting period end. The fair value of the Company's financial assets is the amount which the asset could be exchanged for or the amount a liability could be settled for.

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Company uses that technique.

For accounts receivables and payables, the Company considers the carrying value net of impairment as fair value. While for disclosure purposes, the fair value of financial liabilities is estimated by discounting a financial instruments with similar contractual cashflows based on the effective interest method.

1) Fair and book value of financial assets and liabilities as of December 31, 2011, 2010 and January 01, 2010 are as follows (Won in millions):

Type	Dec. 31, 2011		Dec. 31, 2010		Jan. 01, 2010	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
<b>Assets recognized at fair value</b>						
Available-for-sale financial assets	₩ 11,298	₩ 11,298	₩ 9,746	₩ 9,746	₩ 10,535	₩ 10,535
Other financial assets	4,000	4,000	14,000	14,000	-	-
Derivatives assets(trading purpose)	-	-	91	91	385	385
Derivatives assets (using hedge accounting)	<u>38,796</u>	<u>38,796</u>	<u>51,665</u>	<u>51,665</u>	<u>133,850</u>	<u>133,850</u>
	<u>₩ 54,094</u>	<u>₩ 54,094</u>	<u>₩ 75,502</u>	<u>₩ 75,502</u>	<u>₩ 144,770</u>	<u>₩ 144,770</u>
<b>Assets carried at amortized cost</b>						
Accounts and other receivables	575,951	575,951	463,583	463,583	427,849	427,849
Other financial assets	<u>13,777</u>	<u>13,777</u>	<u>13,088</u>	<u>13,088</u>	<u>14,207</u>	<u>14,207</u>
	<u>₩ 589,728</u>	<u>₩ 589,728</u>	<u>₩ 476,671</u>	<u>₩ 476,671</u>	<u>₩ 442,056</u>	<u>₩ 442,056</u>
<b>Liabilities recognized at fair value</b>						
Derivatives liabilities (trading purpose)	812	812	1,655	1,655	-	-
Derivatives Liabilities (using hedge accounting)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>₩ 812</u>	<u>₩ 812</u>	<u>₩ 1,655</u>	<u>₩ 1,655</u>	<u>₩ -</u>	<u>₩ -</u>
<b>Liabilities carried at amortized cost</b>						
Borrowings	385,771	386,695	221,496	223,175	285,868	287,376
Debentures	1,089,988	1,122,848	902,527	921,350	1,185,873	1,227,620
Finance lease liabilities	70,170	70,170	76,491	76,491	95,416	95,416
Accounts and other payables	<u>529,589</u>	<u>529,589</u>	<u>386,244</u>	<u>386,244</u>	<u>458,800</u>	<u>458,800</u>
	<u>₩ 2,075,518</u>	<u>₩ 2,109,302</u>	<u>₩ 1,586,758</u>	<u>₩ 1,607,260</u>	<u>₩ 2,025,957</u>	<u>₩ 2,069,212</u>

2) The discount rate used for calculating fair value is derived from interest rates which are observable from the market, such as Government Bond interest rate, after considering its credit spread.

3) Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, classified as Level 1, 2, or 3, based on the degree to which the fair value is observable.

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 Inputs that are not based on observable market data.



Fair values of financial instruments by heirarchy level as of December 31, 2011, December 31, 2010 and January 1, 2010, respectively, are as follows (Won in millions):

Type	Dec. 31, 2011			
	Level 1	Level 2	Level 3	Fair value
<b>Financial assets at fair value:</b>				
Available-for-sale financial assets	₩ -	₩ -	₩ 11,298	₩ 11,298
Derivative assets for trading purpose	-	-	-	-
Derivative assets using hedging accounting	-	38,796	-	38,796
	<u>₩ -</u>	<u>₩ 38,796</u>	<u>₩ 11,298</u>	<u>₩ 50,094</u>
<b>Financial liabilities at fair value:</b>				
Derivative assets for trading purpose	₩ -	₩ 812	₩ -	₩ 812
Derivative assets using hedging accounting	-	-	-	-
	<u>₩ -</u>	<u>₩ 812</u>	<u>₩ -</u>	<u>₩ 812</u>
Type	Dec. 31, 2010			
	Level 1	Level 2	Level 3	Fair value
<b>Financial assets at fair value:</b>				
Available-for-sale financial assets	₩ -	₩ -	₩ 9,746	₩ 9,746
Derivative assets for trading purpose	-	91	-	91
Derivative assets using hedging accounting	-	51,665	-	51,665
	<u>₩ -</u>	<u>₩ 51,756</u>	<u>₩ 9,746</u>	<u>₩ 61,502</u>
<b>Financial liabilities at fair value:</b>				
Derivative assets for trading purpose	₩ -	₩ 1,655	₩ -	₩ 1,655
Derivative assets using hedging accounting	-	-	-	-
	<u>₩ -</u>	<u>₩ 1,655</u>	<u>₩ -</u>	<u>₩ 1,655</u>
Type	Jan. 1, 2010			
	Level 1	Level 2	Level 3	Fair value
<b>Financial assets at fair value:</b>				
Available-for-sale financial assets	₩ -	₩ -	₩ 10,535	₩ 10,535
Derivative assets for trading purpose	-	385	-	385
Derivative assets using hedging accounting	-	133,850	-	133,850
	<u>₩ -</u>	<u>₩ 134,235</u>	<u>₩ 10,535</u>	<u>₩ 144,770</u>
<b>Financial liabilities at fair value:</b>				
Derivative assets for trading purpose	₩ -	₩ -	₩ -	₩ -
Derivative assets using hedging accounting	-	-	-	-
	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>

2) Changes in Level 3 available-for-sale financial assets for the year ended December 31, 2011 are as follows (Won in millions):

Type	Beginning	Acquisition	Evaluation	Disposal	Net Exchange Difference	Ending
Unlisted equity investments	9,746	516	1,171	(180)	45	11,298

40. RELATED PARTY TRANSACTIONS:

(1) The nature of the Company's related parties as of December 31, 2011 is as follows:

<u>Relationship</u>	<u>Related Party</u>
Parent company	Korea Electric Power Corporation
Investments in associates and joint ventures	Cheongna Energy Co., Ltd. Rabigh O&M Co.,Ltd.
Other related company	Korea Hydro & Nuclear Power Co., Ltd. Korea South-East Power Co., Ltd. Korea Midland Power Co., Ltd. Korea Southern Power Co., Ltd. Korea East-West Power Co., Ltd. KEPCO Plant Service & Engineering Co., Ltd. KEPCO KPS Co., Ltd. KEPCO KDN Co., Ltd. KEPCO NF Co., Ltd. Korea Gas Corporation Korea Electronic Power Industrial Development Co., Ltd. Korea Power Exchange

(2) All transactions between KOWEPO and the consolidated subsidiaries are eliminated in consolidation, and transactions with related parties other than subsidiaries for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

<u>Related parties</u>	<u>Sales and others</u>		<u>Purchase and others</u>	
	2011	2010	2011	2010
Korea Electric Power Corporation	₩ 5,189,194	₩ 4,746,705	₩ 41,108	₩ 135,976
Cheongna Energy Co., Ltd.	1,116	1,274	-	-
Korea South-East Power Co., Ltd.	-	147	391	18
Korea Midland Power Co., Ltd.	-	123	308	31
Korea Southern Power Co., Ltd.	1,702	2,799	1,424	651
Korea East-West Power Co., Ltd.	-	152	255	6
KEPCO Plant Service & Engineering Co., Ltd.	-	34	2,499	3,618
KEPCO KPS Co., Ltd.	34	1,113	32,679	78,192
KEPCO KDN Co., Ltd.	-	-	3,447	5,439
Korea Gas Corporation	-	-	2,341,360	931,654
Korea Electronic Power Industrial Development Co., Ltd.	5,267	5,214	18,927	17,415
	<u>₩ 5,197,313</u>	<u>₩ 4,757,561</u>	<u>₩ 2,442,398</u>	<u>₩ 1,173,000</u>

(3) Receivables and payables arising from related party transactions as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

<u>Related parties</u>	<u>Dec. 31, 2011</u>		<u>Dec. 31, 2010</u>		<u>Jan. 1, 2010</u>	
	Accounts receivables and others	Accounts payables and others	Accounts receivables and others	Accounts payables and others	Accounts receivables and others	Accounts payables and others
Korea Electric Power Corporation	528,334	69,178	452,438	103,488	386,177	103,908
Cheongna Energy Co., Ltd.	119	-	1,402	-	1,041	198
Korea South-East Power Co., Ltd.	-	186	-	-	15	-
Korea Midland Power Co., Ltd.	-	1,687	-	7,265	15	-
Korea Southern Power Co., Ltd.	1,481	957	500	110	15	-
Korea East-West Power Co., Ltd.	-	-	25,306	24,844	15	-
KEPCO Plant Service & Engineering Co., Ltd.	-	145	-	139	-	-
KEPCO KPS Co., Ltd.	-	1,968	-	4,928	-	2,659
KEPCO KDN Co., Ltd.	-	264	-	216	-	296
Korea Gas Corporation	-	304,640	-	261,462	176	151,801
Korea Electronic Power Industrial Development Co., Ltd.	284	495	187	1,548	-	1,535

- (4) Employee benefits to key executives for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

Description	2011	2010
Short-term employee benefits	542	472

- (5) Payment guarantee to related party as of December 31, 2011 is as follows (Won in millions):

Related parties	Description	Limit	Financial institution
Cheongna Energy Co., Ltd.	Investments in associate pledged as collateral	30,000	Hana Bank and KEB

#### 41. NON-CASH TRANSACTIONS

Significant transactions with no effect on cash flows for the years ended December 31, 2011 and 2010, are as follows (Won in millions):

Description	2011	2010
Reclassification of long-term borrowings and debentures to current portion	₩ 220,343	₩ 328,549
Reclassification of construction in progress	317,276	921,693
Reclassification of long-term loans to current portion	1,514	2,621
Reclassification of long-term receivables to current portion	-	5,156
Reclassification of long-term leasehold deposit to current portion	16,078	-

#### 42. COMMITMENTS FOR EXPENDITURE:

Commitments for acquisition of property, plant and equipment as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

Description	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Contract	Residual	Contract	Residual	Contract	Residual
Payments	₩ 145,636	₩ 129,349	₩ 233,430	₩ 37,181	₩ 518,792	₩ 130,800

#### 43. COMMITMENTS AND CONTINGENCIES:

- (1) Contingencies as of December 31, 2011, December 31, 2010 and January 1, 2010 are as follows (Won in millions):

Description	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Number of cases	Claim amount	Number of cases	Claim amount	Number of cases	Claim amount
As the defendant	5	174	1	7	5	483
As the plaintiff	2	420	-	-	-	-

(\*) At the end of the reporting period the results of litigation cannot be predicted.

(2) Key guarantees provided by financial institutions as of December 31, 2011 is as follows (Won in millions):

Description	Financial institutions	Type	Amount
Commitments on Bank-overdraft Limit amount available for CP	Nonghyup Bank	KRW	100,000
	Korea Exchange Bank	KRW	284,000
	Shinhan Bank	KRW	100,000
Certification of payment on L/C	Hana Bank	USD	60,000
	Kookmin Bank	USD	30,000
	Woori Bank	USD	30,000
	Korea Exchange Bank	USD	90,730
Loan limit	Korea Exchange Bank	USD	18,000
	RBS	USD	80,000
	BNP	USD	60,000
	SC Bank	USD	50,000
	Shinhan Bank	USD	30,000
	HSBC	USD	100,000
	Mizuhoc	USD	100,000

(3) According to the Commercial Code Article 530 entity pursuant to Article 3 Article 1 of the General Meeting of Shareholders by special resolution on January 1, 2011, the debt related to the pumped storage facilities division prior to it being spilt out of the Company and reorganized under Korea Hydro & Nuclear Power Co., Ltd. (“KHNP”), is jointly guaranteed by KHNP and the Company.

#### 44. SPIN-OFF

On January 1, 2011, in accordance with the Development Plan announced by the Ministry of Knowledge Economy, the Company’s pumped-storage facility was spilt-off and reorganized under KHNP, a related-party.

(1) The Company’s financial statements before and after the spilt is as follows (Won in millions):

	Before	Spin-off	After
<b>ASSETS:</b>			
Current Assets	₩ 840,798	₩ (20,459)	₩ 820,339
Non-current Assets	<u>4,547,586</u>	<u>(507,776)</u>	<u>4,039,810</u>
	<u>₩ 5,388,384</u>	<u>₩ (528,235)</u>	<u>₩ 4,860,149</u>
<b>LIABILITIES:</b>			
Current liabilities	₩ 773,197	₩ (15,996)	₩ 757,201
Non-current liabilities	<u>1,359,039</u>	<u>(220,920)</u>	<u>1,138,119</u>
	<u>₩ 2,132,236</u>	<u>₩ (236,916)</u>	<u>₩ 1,895,320</u>
<b>EQUITY:</b>	<u>₩ 3,256,148</u>	<u>₩ (291,319)</u>	<u>₩ 2,964,829</u>

Succession to assets and liabilities according to spin-off were classified ‘Assets classified as held for sale’ and ‘Liabilities directly associated with assets classified as held for sale’ as of December 31, 2010

(2) Income from discontinued operations for the year ended December 31, 2010 is as follows (Won in millions):

	<u>2010</u>
Sales	₩ 194,890
Cost of sales	<u>150,740</u>
Gross profit	44,150
Other operating income	26
Selling and administrative expenses	172
Other operating expense	9
Other profit	339
Operating profit	44,334
Finance income	292
Finance expense	<u>726</u>
Income from discontinued operations	
before income tax	43,900
Income tax expense	<u>9,955</u>
Net income from discontinued operation	<u>₩ 33,945</u>