KOREA WESTERN POWER CO., LTD.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, respectively, and the results of its operations and its cash flows for the years ended December 31, 2012 and 2011, 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 financial statements are not intended to present the financial position, result of operations, changes in shareholder's equity 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 financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

March 20, 2013

Notice to Readers

This report is effective as of March 20, 2013, 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 accompanying financial statements and may result in modifications to the auditor's report.

KOREA WESTERN POWER CO., LTD.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The accompanying consolidated financial statements including all footnote disclosures were prepared by and are the responsibility of the Korea Western Power Co., Ltd.

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, 2012 AND 2011

	Notes	Korean Won Dec. 31, 2012		Korean Won Dec. 31, 2011		Translation into U.S.Dollars(Note2) Dec. 31, 2012	
ASSETS			(Won in millions)				(In thousands)
CURRENT ASSETS:							
Cash and cash equivalents	5,6	₩	408,730	₩	285,023	US$	384,419
Current financial assets	5,9,10		18,040		4,926		16,967
Accounts and other receivables	5,7		478,348		568,237		449,897
Inventories	11		276,329		274,362		259,893
Current tax assets			748		19,997		704
Current non-financial assets	12		97,153		29,288		91,375
			1,279,348		1,181,833		1,203,255
NON-CURRENT ASSETS:							
Non-current financial assets	5,8,9,10		54,258		62,945		51,031
Non-current accounts and other receivables	5,7		5,948		7,714		5,594
Property, plant and equipment, net	15		4,372,984		3,970,017		4,112,886
Intangible assets	16		26,957		19,423		25,353
Investments in joint ventures	14		2,487		137		2,339
Investments in associates	14		74,467		24,520		70,038
Deferred tax assets	35		333		301		313
Non-current non-financial assets	12		22,855		20,269		21,495
			4,560,289		4,105,326		4,289,049
Total Assets		₩	5,839,637	₩	5,287,159	US$	5,492,304
LIABILITIES AND SHAREHOLDER'S EQUITY							
CURRENT LIABILITIES:							
Accounts and other payables	5,17,20		494,242	₩	533,465	US$	464,845
Borrowings	5,18		-		182,017		-
Current financial liabilities	5,9,18,19		224,130		220,810		210,799
Income tax payable			68,553		-		64,475
Current non-financial liabilities	23		9,771		2,072		9,190
			796,696		938,364		749,309
NON-CURRENT LIABILITIES:							
Non-current accounts and other payables	5,17,20		103		66,294		96
Non-current financial liabilities	5,9,18,19		1,603,715		1,073,744		1,508,328
Other non-current liabilities	23		642		300		604
Retirement benefit obligations	21		42,151		49,827		39,644
Deferred tax liabilities	35		174,391		206,579		164,019
Non-current provisions	22		199		199		188
			1,821,201		1,396,943		1,712,879
Total Liabilities			2,617,897		2,335,307		2,462,188

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KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2012 AND 2011

	Notes	Korean Won Dec. 31, 2012	Korean Won Dec. 31, 2011	Translation into U.S.Dollars(Note2) Dec. 31, 2012
		(Won in millions)		(In thousands)
SHAREHOLDER'S EQUITY:				
Capital stock	24	₩ 1,192,365	₩ 1,192,365	1,121,445
Retained earnings	25	1,828,700	1,757,289	1,719,932
Other components of equity	27	(37,356)	(36,830)	(35,133)
Hybrid bond	28	99,750	-	93,816
Equity attributable to the owners of the Company		3,083,459	2,912,824	2,900,060
Non-controlling interest		138,281	39,028	130,056
Total Equity		3,221,740	2,951,852	3,030,116
Total Liabilities and Equity		₩ 5,839,637	₩ 5,287,159	US$ 5,492,304

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, 2012 AND 2011

	Notes	Korean Won 2012	Korean Won 2011	Translation into U.S. Dollars (Note 2) 2012
		(Won in millions, except per share amounts)		(In thousands)
SALES	4,29	₩ 5,967,432	₩ 5,208,094	$ 5,612,498
COST OF SALES	36	5,716,783	5,030,428	5,376,758
GROSS PROFIT		250,649	177,666	235,740
SELLING AND ADMINISTRATIVE EXPENSES	30,36	60,215	54,774	56,634
OPERATING NET INCOME		190,434	122,892	179,106
OTHER OPERATING INCOME	31	3,673	5,022	3,455
OTHER OPERATING EXPENSE	31	1,111	10,310	1,045
OTHER INCOME	32	2,616	1,679	2,461
FINANCIAL INCOME	33	74,806	13,394	70,357
FINANCIAL EXPENSE	34	114,230	64,333	107,436
SHARE IN LOSS OF JOINT VENTURES AND ASSOCIATES		(4,932)	(1,464)	(4,640)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX		151,256	66,880	142,258
INCOME TAX EXPENSE FROM CONTINUING OPERATIONS	35	45,823	24,737	43,098
NET INCOME FROM CONTINUING OPERATIONS		105,433	42,143	99,160
NET INCOME		105,433	42,143	99,160

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KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Notes	Korean Won 2012	Korean Won 2011	Translation into U.S. Dollars (Note 2) 2012
		(Won in millions, except per share amounts)		(In thousands)
OTHER COMPREHENSIVE INCOME(LOSS)				
Net change in the fair value of available-for-sale financial assets		₩ 137	₩ 923	$ 129
Net change in the fair value of hedging instruments		2,731	796	2,568
Net change in other comprehensive income(loss) of joint ventures and associates		(2,392)	5	(2,249)
Foreign currency translation differences of foreign operations		(412)	(2,342)	(387)
Actuarial losses on retirement benefit obligations		(4,163)	(3,346)	(3,915)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		₩ 101,334	₩ 38,179	$ 95,305
NET INCOME(LOSS) ATTRIBUTABLE TO;				
Owners of the parent company		107,793	43,109	101,380
Non-controlling interests		(2,360)	(966)	(2,220)
TOTAL COMPREHENSIVE INCOME(LOSS) ATTRIBUTABLE TO;				
Owners of the parent company		103,694	39,145	97,526
Non-controlling interests		(2,360)	(966)	(2,220)
EARNIGS PER SHARE				
Basic earnings per share of continuing operations (won)	37	₩ 3,317	₩ 1,356	$ 3.12
Basic earnings per share of discontinued operations (won)	37	₩ -	₩ -	$ -

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, 2012 AND 2011

	Korean Won (In millions)						
	Capital stock	Retained earnings	Other components of equity	Hybrid Bond	Total shareholder's equity	Non-controlling Interest	Total Equity
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 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	₩ 1,192,365	₩ 1,757,289	₩ (36,830)	₩ -	₩ 2,912,824	₩ 39,028	₩ 2,951,852
Balance at January 1, 2012	₩ 1,192,365	₩ 1,757,289	₩ (36,830)	₩ -	₩ 2,912,824	₩ 39,028	₩ 2,951,852
Total other comprehensive income:							
Profit for the period	-	107,792	-	-	107,792	(2,361)	105,431
Net change in the fair value of available-for-sale financial assets	-	-	137	-	137	-	137
Net change in the fair value of hedging instruments	-	-	2,731	-	2,731	-	2,731
Net change in other comprehensive loss of joint ventures and associates	-	-	(2,392)	-	(2,392)	-	(2,392)
Foreign currency translation differences of foreign operations	-	-	(412)	-	(412)	-	(412)
Actuarial gains on retirement Benefit obligations	-	(4,163)	-	-	(4,163)	-	(4,163)
Dividends paid	-	(31,386)	-	-	(31,386)	-	(31,386)
Increase in paid-capital	-	-	(589)	-	(589)	101,613	101,024
Issuance of hybrid bond	-	-	-	99,750	99,750	-	99,750
Interest of hybrid bond	-	(833)	-	-	(833)	-	(833)
Balance at December 31, 2012	₩ 1,192,365	₩ 1,828,699	₩ (37,356)	₩ 99,750	₩ 3,083,458	₩ 138,281	₩ 3,221,739
Translation into U.S. Dollars (In thousands) (Note 2)	$ 1,121,445	$ 1,719,931	$ (35,134)	$ 93,817	$ 2,900,059	$ 130,056	$ 3,030,115

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, 2012 AND 2011

	Korean Won		Translation into U.S. Dollars (Note 2)
	2012	2011	2012
	(Won in millions)		(In thousands)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the period	₩ 105,431	₩ 42,143	$ 99,160
Adjustments for:			
Income tax expense	45,823	24,737	43,098
Depreciation	375,022	371,941	352716
Amortization of intangible assets	5,421	6,001	5,099
Loss on disposal of discarded of property, plant and equipment	112	-	106
Loss on disposal of property, plant and equipment	3,370	1,900	3,169
Loss on disposal of inventories	61	-	58
Reversal of provisions	5,241	-	4,929
Provisions of retirement benefit	9,042	13,716	8,504
Interest expense	66,829	48,673	62,854
Donations	-	4,606	-
Gain on disposal of property, plant and equipment	(89)	(24)	(83)
Gain on disposal of inventories	(302)	-	(284)
Interest income	(17,312)	(7,139)	(16,282)
Dividends income	-	(74)	-
Loss(gain) on change in fair value of derivative instruments, net	46,589	(2,260)	43,818
Loss(gain) on foreign exchange translation and transaction, net	(46,981)	14,250	(44,186)
Share in loss of joint venture and associates	4,934	1,464	4,640
Others	-	(255)	-
	497,760	477,536	468,156
Changes in operating assets and liabilities:			
Decrease(increase) in accounts receivables	80,398	(95,809)	75,616
Increase in other receivables	(17,102)	(16,953)	(16,085)
Increase in inventories	(3,070)	(123,324)	(2,887)
Decrease(increase) in current non-financial assets	(38,611)	5,257	(36,314)
Increase in non-current non-financial assets	(13,488)	-	(12,686)
Decrease(increase) in accounts payables	(94,869)	146,445	(89,226)
Increase(decrease) in other payables	55,070	(6,216)	51,795
Increase(decrease) in current non-financial liabilities	3,562	(2,848)	3,349
Increase in non-current non-financial liabilities	532	-	500
Payments of retirement benefit obligations	(18,497)	(65,859)	17,397
Reserve of retirement pension assets	(3,930)	(6,191)	(3,696)
Decrease in other non-current liabilities	-	(1,131)	-
	(50,005)	(166,629)	(47,031)
Cash generated from operating activities	553,186	353,050	520,285
Dividends received	-	74	-
Interest received	13,619	6,572	12,809
Interest paid	(62,249)	(47,860)	(58,546)
Income tax payment	(1,481)	(35,244)	(1,393)
Refund of income tax	10,989	-	10,335
	514,064	276,592	483,490

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KOREA WESTERN POWER CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Korean Won 2012	Korean Won 2011	Translation into U.S. Dollars (Note 2) 2012
	(Won in millions)		(In thousands)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of investments in associates and joint ventures	₩ (59,633)	₩ -	$ (56,086)
Disposal of available-for-sale financial assets	2,000	180	1,881
Acquisition of available-for-sale financial assets	-	(516)	-
Disposal of property, plant and equipment	903	32	849
Acquisition of property, plant and equipment	(791,432)	(467,343)	(744,358)
Acquisition of intangible assets	(215)	(11)	(202)
Disposal(acquisition) of other non-current assets	182	(3,238)	170
Acquisition of government subsidy	6,535	17,656	6,146
Increase in loans	(14,665)	(465)	(13,793)
Decrease in guarantee deposits	4,920	3,248	4,628
Decrease in other investments	-	9,535	-
	(851,405)	(440,922)	(800,765)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of finance lease liabilities	(70,170)	(6,321)	(65,996)
Proceeds from borrowings	303,160	184,607	285,128
Repayment of borrowings	(585,176)	(27,742)	(550,371)
Issue of debentures	765,422	498,378	719,894
Retirement of debentures	(120,000)	(313,890)	(112,863)
Increase in paid-in capital	101,024	22,950	95,015
Issuance of hybrid bond	99,750	-	93,817
Interest paid of hybrid bond	(833)	-	(783)
Dividends paid	(31,386)	(73,879)	(29,519)
Settlement of derivative instruments	(621)	15,602	(584)
Increase(Decrease) in other financing activities	-	(226)	-
	461,170	299,479	433,738
NET INCREASE IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE CHANGE	123,829	135,149	116,463
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(122)	(3,432)	(114)
NET INCREASE IN CASH AND CASH EQUIVALENTS	123,707	131,717	116,349
CASH AND CASH EQUIVALENTS, BEGINNG OF THE PERIOD	285,023	153,306	268,070
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	₩ 408,730	₩ 285,023	$ 384,419

See accompanying notes to consolidated financial statements

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, 2012, KEPCO holds all of the KOWEPO's outstanding shares and the KOWEPO owns and operates five 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.

As of December 31, 2012, KEPCO holds KOWEPO all outstanding shares.

In accordance with Korea International Financial Reporting Standards ("K-IFRS") 1027 *Consolidated and Separate Financial Statements,* the Company's consolidated financial statements include the financial results of KOWEPO, the parent company; Garolim Tidal power Co.,Ltd and four subsidiaries; Cheongna Energy Co.,Ltd and seven other investments, equity method investments.

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 and its subsidiaries ("the Company") have prepared the consolidated financial statements in accordance with the Korean International Financial Reporting Standards ("K-IFRS") for the annual period beginning on January 1, 2011.

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.

The principal accounting policies are set out below.

The Company maintains its official accounting records in Republic of Korean won ("Won") and prepares consolidated financial statements in conformity with 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.

New Accounting Standards

1) Amendments to IFRSs affecting amounts reported in the financial statements

The following amendments to IFRSs have been applied in the current year and have affected the amounts reported in these financial statements.

Amendments to K-IFRS 1107 *Disclosures – Transfers of Financial Assets*

The Company may have transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition. The amendments to K-IFRS 1107 increase the disclosure requirements for transactions involving transfers of financial assets in order to provide greater transparency around the nature of the transferred assets, the nature of the risks and rewards of ownership to which the Company is exposed, description of the nature of the relationship between the transferred assets and the associated liabilities and carrying value of the associated liabilities. When the Company continues its involvement on the transferred assets although the transferred assets are derecognized in their entirety, the Company discloses the carrying amounts of the transferred assets and the associated liabilities and information showing how the maximum exposure to loss.
Amendments to K-IFRS 1001 – *Presentation of Financial Statements*

In accordance with the amendments to K-IFRS 1001 *Presentation of Financial Statements*, the Company presented operating income by deducting cost of sales and selling and administrative expenses from revenue line item. The amendments have been applied retrospectively for the comparative period.

The amendments require the Company to exclude the items that were previously classified as other profit of ₩ 2,616 millions and other income of ₩ 3,673 millions and other expense ₩ 1,111 millions in presentation of operating income in the current year, and other profit of ₩ 1,678 millions and other income of ₩ 5,022 millions and other expense of ₩ 10,310 millions in the prior year. As such, the Company's operating income for the comparative period have increased by ₩ 3,610 millions. The amendments do not result in any impact on profit or loss and earning per shares.

Amendments to K-IFRS 1012 – *Income Taxes*

The Company has applied the amendments to K-IFRS 1012 *Income Taxes* in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with K- IFRS 1040 *Investment Property* are presumed to be recovered entirely through sale for the purpose of measuring deferred taxes unless the presumption is rebutted. Also, the Company recognizes deferred income tax assets and deferred income tax liabilities on investment properties that were revalued in accordance with K-IFRS 1016 *Property, Plant and Equipments*, under a business model whose objective is to consume substantially all of the economic benefits embodied through sales. The amendments do not have impact on the Company's financial statements.

2) New and revised IFRSs in issue but not yet effective

The amendments to K-IFRS 1001 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. The amendments are effective annual periods beginning on or after July 1, 2012. The Company is in the process of evaluating the impact on the financial statements upon the adoption of amendments.

Amendments to K-IFRS 1019 – *Employee Benefits*

The amendments to K-IFRS 1019 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 the 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. The Company is in the process of evaluating the impact on the financial statements upon the adoption of amendments.

Amendments to K-IFRS 1032 – *Financial Instruments: Presentation*

The amendments to K-IFRS 1032 clarify existing application issue relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

Company's right to offset must not be conditional on the occurrence of future events but enforceable anytime during the contract periods, during the ordinary course of business with counterparty, a default of counterparty and master netting agreement or in some forms of non-recourse debt. The amendments to K-IFRS 1032 are effective for annual periods beginning on January 1, 2014. The Company is in the process of evaluating the impact on the financial statements upon the adoption of amendments.

Amendments to K-IFRS 1107 – *Financial Instruments: Disclosures*

The amendments to K-IFRS 1107 are mainly focusing on presentation of the offset between financial assets and financial liabilities. The amendments to K-IFRS 1107 are effective for annual periods beginning on or after January 1, 2013. The Company is in the process of evaluating the impact on the financial statements upon the adoption of amendments.

K-IFRS 1110 – *Consolidated Financial Statements*

The amendments to K-IFRS 1110 include a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. This standard is effective for annual periods beginning on or after January 1, 2013. The Company is in the process of evaluating the impact on the financial statements upon the adoption of amendments.

K-IFRS 1111 *Joint Arrangement*

K-IFRS 1111 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under K-IFRS 1111, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. If the Company is a joint operator, the Company is to recognize assets, liabilities, revenues and expenses proportionally to its investment and if the Company is a joint ventures, the Company is to account for that investment using the equity method accounting. This standard is effective for annual periods beginning on or after January 1, 2013. The Company is in the process of evaluating the impact on the financial statements upon the adoption of amendments.

K-IFRS 1112 *Disclosure of Interest in Other Entities*

K-IFRS 1112 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates, or unconsolidated structured entities. This standard is effective for annual periods beginning on or after January 1, 2013. The Company is reviewing the impact of the application of this standard on the Company's financial statements.

K-IFRS 1113 *Fair Value Measurement*

K-IFRS 1113 establishes a single source of guidance for fair value measurements and disclosure about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. This standard is effective for annual periods beginning on or after January 1, 2013. The Company is reviewing the impact of the application of this standard on the financial statements.

K-IFRS 2120 *Stripping Costs in the Production Phase of a Surface Mine*

The interpretation provides accounting for the costs from waste removal activity (stripping). This interpretation is effective for annual periods beginning on or after January 1, 2013. The Company does not anticipate the application of the interpretation will have effect on the Company's financial statements as the Company does not engage in such activities.

Basis of Translation

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, 2012, have been translated into United States dollars at the rate of ₩1,063.24 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, 2012. 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.

(2) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (or its subsidiary). 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 a subsidiary 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-Company transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Company's ownership interests in a subsidiary that do not result in the Company losing control over the subsidiary 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 subsidiary. 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.

(3) Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

a) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 Income Taxes and K-IFRS 1019 Employee Benefits respectively;
b) liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102 *Share-based Payment* at the acquisition date; and assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any); over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held interest in the acquiree (if any); the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another K-IFRS.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with K-IFRS 1039 *Financial Instruments: Recognition and Measurement*, or K-IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

(4) Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Generally, significant influence is deem to exist when the Company has 20%~50% of share of the ownership of the associate entity with voting power.

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.

Upon disposal of an associate that results in the Company losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis we would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate.

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* 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.

(5) Investments in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

When a Group entity undertakes its activities under joint venture arrangements directly, the Group's shares of jointly controlled assets and any liabilities incurred jointly with other ventures are recognized in the financial statements of the relevant entity and classified accordingly to their nature. Liabilities and expenses incurred directly in respect of interest in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venture has an interest are referred to as jointly controller entities.

The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the invest 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

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising in a business combination (see Notes 2. (3), (6) above).

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognized in the Group's consolidated financial statements only to the extent of interest in the jointly controlled entity that are not related to the Group.

(6) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated [statement of comprehensive income/income statement]. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(7) Cash and cash equivalents

Cash and cash equivalents include cash, including checks issued by others, and checking accounts, ordinary deposits and financial instruments with maturities (or date of redemption) of three months or less from the date of acquisition that can be easily converted into cash and whose values changes due to changes in interest rates are not material.

(8) Financial Instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at 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:

a) It has been acquired principally for the purpose of selling it in the near term; or
b) 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
c) It is a derivative, including an embedded 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:

a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
b) 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
c) 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.

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.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When 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 financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses

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 effect of discounting is 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
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:

a) significant financial difficulty of the issuer or counterparty; or
b) default or delinquency in interest or principal payments; or
c) it becoming probable that the borrower will enter bankruptcy or financial re-organization.; or
d) the disappearance of an active market for that financial asset because of financial difficulties.

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.

For financial assets that are carried at 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. Such impairment loss will not be reversed in subsequent period.

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.

For financial assets measured at amortized cost, 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. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial assets other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

(9) 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.

(10) 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 years of the assets as follows:

	Method	Estimated Useful Years
Buildings	Straight-line	8 ~ 30
Structures	Straight-line	8 ~ 30
Machinery	Straight-line	6 ~ 24
Vehicles	Straight-line	4
Finance lease assets	Straight-line	6 ~ 30
Others	Straight-line	4

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.

Gain and loss from disposal of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

(11) 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.

(12) 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:

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
b) The intention to complete the intangible asset and use or sell it;
c) The ability to use or sell the intangible asset;
d) How the intangible asset will generate probable future economic benefits;
e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
f) 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 profit 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.

The estimated useful years and amortization method of intangible assets with finite useful lives are as follows:

	Method	Estimated Useful Years
Software	Straight-line	5
Development cost	Straight-line	5
Others	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, and are recognized in profit or loss when the asset is derecognized.

(13) Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the 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 profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest 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.

(14) 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 profit 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 profit 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.

(15) 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 and the definitions of financial liability and an equity instrument.

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.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3) Financial liabilities

Fnancial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction cost that are directly attributable to the issue of financial liabilities are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction cost directly attributable to acquisition of financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

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:

a) It has been acquired principally for the purpose of repurchasing it in the near term; or
b) 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
c) 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:

a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
b) 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
c) 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'.

5) Other financial liabilities

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

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instruments.

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:

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

7) Derecognition of financial liabilities

The Company derecognize financial liabilities when the Company's obligation are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(16) 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.

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 non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are closely related to those of the host contracts and the 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 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 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.

(17) Retirement benefit costs

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Company’s defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortized over the expected average remaining working lives of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the 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.

(18) 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.

(19) 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.

(20) Foreign currencies

The individual financial statements of each Company 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 Company entity are expressed in Korean won (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 profit or loss in the period in which they arise except for:

a) 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;
b) Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 2 (14) below for hedging accounting policies);
c) 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 Currency Units 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 profit 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 profit 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.

(21) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

1) Sale of goods

Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. The Company recognizes revenue when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

2) Service Revenue

Revenue from services generally is recognized by reference to the stage of completion of the contract activity at the end of the reporting period (often referred to as the percentage of completion method). Reliable estimation of the outcome requires reliable estimates of the stage of completion, future costs and collectability of billings.

3) Dividend income 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

(22) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax

1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit 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 profit. 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 profits 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 profit nor the accounting profit.

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 profits 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 profits 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.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit 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.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY;

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that cannot be identified from other sources. The estimation and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may be different from those estimations. The estimates and underlying assumptions are continually evaluated. 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.

The main accounting estimates and assumptions related to the significant risks that may make significant changes to the carrying amounts of assets and liabilities after the reporting period are as follows:

(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) Goodwill impairment

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 management 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) Income Tax

Income tax assets and liabilities are measured at the amount expected to be paid to (recovered from) taxation authorities, using the rates/laws that have been enacted or substantively enacted by the balance sheet date. Recognizing and measuring of the deferred income tax assets and liabilities requires the management's judgments and assumptions of the Company's future. Tax difference may be realized in future years.

(4) Fair value measurement of derivative instruments

As described at Note 39, the Company's financial instruments the fair value of 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. 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, 2012 and 2011, respectively, are as follows (Won in millions):

1) Sales, operating income and loss for the period

Segment	Type	2012	2011
The Company	Total Sales	₩ 5,967,432	₩ 5,208,094
	Operating profit	190,433	122,892
	Net Income	105,431	42,142

2) Assets & Liabilities

Segment	Type	Dec. 31, 2012	Dec. 31, 2011
The Company	Total Assets	₩ 5,839,637	₩ 5,287,159
	Total Liabilities	2,617,897	2,335,307

(2) The Company's sales from goods and services, construction contract for the years ended December 31, 2012 and 2011 are as follows (Won in millions)

Segment	Type	2012	2011
The Company	Sales of goods	₩ 5,967,432	₩ 5,208,094
	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, 2012 and 2011, the Company recorded 98.95% and 99.62% of sales, respectively, with the Company's largest customer – KEPCO.

5. CLASSIFICATION AND FAIR VALUE OF FINANCIAL INSTRUMENTS:

(1) Financial assets as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012					
	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	₩ -	₩ 408,729	₩ -	₩ -	₩ -	₩ 408,729
Current financial assets	-	-	-	-	-	-
Derivative assets	-	-	-	-	-	-
Other financial assets	-	18,040	-	-	-	18,040
Accounts and other receivables	-	478,348	-	-	-	478,348
	-	905,117	-	-	-	905,117
	-					
Non-current Financial Assets:						
Non-current financial assets						
Available-for-sale financial assets	₩ -	₩ -	₩ 11,462	₩ -	₩ -	₩ 11,462
Derivative assets	-	-	-	-	29,892	29,892
Other financial assets	-	12,904	-	-	-	12,904
Accounts and other receivables	-	5,948	-	-	-	5,948
	-	18,852	11,462	-	29,892	60,206
	₩ -	₩ 923,969	₩ 11,462	₩ -	₩ 29,892	₩ 965,323

	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

(2) Financial liabilities as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012				
	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Derivatives using hedge accounting	Others	Total
Current Financial Liabilities:					
Borrowings	₩ -	100,230	₩ -	₩ -	₩ 100,230
Debentures	-	119,896	-	-	119,896
Derivative liabilities	4,004	-	-	-	4,004
Accounts and other payables	-	494,242	-	-	494,242
	4,004	714,368	-	-	718,372
Non-current Financial Liabilities:					
Borrowings	₩ -	₩ 3,524	₩ -	₩ -	₩ 3,524
Debentures	-	1,569,921	-	-	1,569,921
Derivative liabilities	-	-	30,270	-	30,270
Accounts and other payables	-	102	-	-	102
	-	1,573,547	30,270	-	1,603,817
	₩ 4,004	₩ 2,287,915	₩ 30,270	₩ -	₩ 2,322,189

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

(3) Net comprehensive income(loss) for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

Type	Description	2012	2011
Cash and cash equivalents	Interest income	₩ 16,625	₩ 6,261
	Gain(loss) on foreign currency transaction and translation, net	-	(3,429)
Available-for-sale financial assets	Dividend income	-	74
	Net change in fair value of available-for-sale financial assets, before tax-other comprehensive income	181	1,171
Loans and other receivables	Interest income	14	217
	Amortization of present value discount	673	661
Financial liability at amortized cost	Gain(loss) on foreign currency transaction and translation, net	56,683	(12,784)
	Interest expense of borrowings and debentures	63,324	44,255
	Other interest expense	3,505	4,418
Derivatives for trading purpose	Gain(loss) on valuation of derivative instruments, net	-	727
	Gain(loss) on transactions of derivative instruments, net	191	(833)
Derivatives using hedge accounting	Gain(loss) on valuation of derivative instruments, (net income effect)	(46,780)	2,160
	Net change in the fair value of hedging instruments, before tax	3,602	1,049
	Gain(loss) on transactions of derivative instruments, net	-	206

6. 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, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012	Dec. 31, 2011
Cash	₩ 2,648	₩ 6
Cash equivalents	421,838	286,604
Bank Overdrafts	-	-
Government grants	(15,757)	(1,587)
	₩ 408,729	₩ 285,023

(*) There is no restricted financial asset as of December 31, 2012.

7. ACCOUNTS AND OTHER RECEIVABLES:

(1) Accounts and other receivables as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012			
	Acquisition cost	Allowance for doubtful accounts	Amortization of present value discount	Book value
Current assets:				
Account receivables	₩ 450,201	₩ -	₩ -	₩ 450,201
Other receivables	28,303	-	(156)	28,147
	478,504	-	(156)	478,348
Non-current assets:				
Other receivables	6,063	-	(115)	5,948
	6,063	-	(115)	5,948
	₩ 484,567	₩ -	₩ (271)	₩ 484,296

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	37,896	-	(253)	37,643
	568,490	-	(253)	568,237
Non-current assets:				
Other receivables	7,803	-	(89)	7,714
	7,803	-	(89)	7,714
	₩ 576,293	₩ -	₩ (342)	₩ 575,951

(2) Details of other receivables as of December 31, 2012 and 2011 are as follows. (Won in millions):

	Dec. 31, 2012			
	Acquisition cost	Allowance for doubtful accounts	Amortization of present value discount	Book value
Current assets:				
Non-trade receivables	₩ 5,680	₩ -	₩ -	₩ 5,680
Accrued revenues	12,987	-	-	12,987
Guarantee	9,636	-	(156)	9,480
	28,303	-	(156)	28,147
Non-current assets:				
Guarantee	5,105	-	(115)	4,990
Others	958	-	-	958
	6,063	-	(115)	5,948
	₩ 34,366	₩ -	₩ (271)	₩ 34,095

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

(*) The Company has no account and other receivables which is impaired as of December 31, 2012

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS:

(1) Available-for-sale financial assets as of December 31, 2012 and 2011 are as follows (Won in millions):

Name	Ownership	Dec. 31, 2012 Current	Dec. 31, 2012 Non-current	Dec. 31, 2012 Current	Dec. 31, 2012 Non-current
Unlisted equity investments					
Korea Power Exchange	7.14%	₩ -	₩ 8,682	₩ -	₩ 8,682
Postech power venture fund	1.05%	-	240	-	240
Hanhwa power venture fund	1.20%	-	180	-	180
Kepco UHDE	3.00%	-	516	-	516
3i Power	15.00%	-	1,631	-	1,646
Kanan Hydroelectric(*1)	20.00%	-	19	-	19
Green & Sustainable Energy(*1)	20.00%	-	14	-	15
		₩ -	₩ 11,462	₩ -	₩ 11,298

(*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.

9. 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, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012		Dec. 31, 2011	
	Current	Non-current	Current	Non-current
Derivative assets:				
Currency forward	₩ -	₩ -	₩ -	₩ -
Currency swap	-	29,893	-	38,796
Interest rate swap	-	-	-	-
	₩ -	₩ 29,893	₩ -	₩ 38,796
Derivative liabilities:				
Currency forward	₩ 4,004	₩ -	₩ 4	₩ -
Currency swap	-	30,270	-	-
Interest rate swap	-	-	808	-
	₩ 4,004	₩ 30,270	₩ 812	₩ -

(2) Currency swap contracts as of December 31, 2012 are as follows (Won in millions and USD in thousands):

			Contract amounts		Contract interest rate		
Type	Counterparty	Period	Pay	Receive	Pay	Receive	Contract currency
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
CF Hedge	Barclays	2012~2017	Won 142,500	USD 125,000	3.83%	3.13%	1140.00
CF Hedge	Morgan stanley	2012~2017	Won 142,500	USD 125,000	3.83%	3.13%	1140.00
CF Hedge	RBS	2012~2017	Won 142,500	USD 125,000	3.83%	3.13%	1140.00
CF Hedge	JPMorgan	2012~2017	Won 142,500	USD 125,000	3.83%	3.13%	1140.00

(3) Currency forward contracts as of December 31, 2012 are as follows (Won in millions and USD in thousands):

				Contract amounts		
Type	Counterparty	Contract date	Maturity date	Pay	Receive	Contract currency
CF Hedge	RBS	2012.11.07	2013.02.28	Won 13,687	JPY 1,000	13.69
CF Hedge	RBS	2012.11.15	2013.02.28	Won 13,528	JPY 1,000	13.53
CF Hedge	RBS	2012.10.16	2013.02.28	Won 14,186	JPY 1,000	14.19
CF Hedge	RBS	2012.12.24	2013.02.28	Won 8,955	JPY 700	12.79

(4) The gain(loss) on valuation of derivatives for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

	Net income effect of valuation gain(loss)		Net income effect of transaction gain(loss)		Other comprehensive income(*)	
	2012	2011	2012	2011	2012	2011
Currency forward	₩ -	₩ (4)	₩ 4	₩ 25	₩ (4,004)	₩ -
Currency swap	(46,780)	2,160	-	207	7,606	1,049
Interest rate swap	-	731	187	(859)	-	-
	₩ (46,780)	₩ 2,887	₩ 191	₩ (627)	₩ 3,602	₩ 1,049

(*) Gain (loss) of derivatives valuation 8,222 million won is the amount net of tax as of December 31, 2012

10. OTHER FINANCIAL ASSETS:

Other financial assets as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012		Dec. 31, 2011	
	Current	Non-current	Current	Non-current
Loans and receivables	₩ 16,040	₩ 12,904	₩ 926	₩ 12,851
Short-term and long-term financial assets	2,000	-	4,000	-
Available-for-sale financial assets	-	11,462	-	11,298
Derivatives	-	29,892	-	38,796
	₩ 18,040	₩ 54,258	₩ 4,926	₩ 62,945

11. INVENTORIES:

Inventories as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012			Dec. 31, 2011		
	Acquisition cost	Allowance for valuation	Book value	Acquisition cost	Allowance for valuation	Book value
Raw materials	₩ 172,392	₩ -	₩ 172,392	₩ 169,332	₩ -	₩ 169,332
Supplies	38,587	-	38,587	40,470	-	40,470
Inventory in transit	65,205	-	65,205	64,560	-	64,560
Others	145	-	145	-	-	-
	₩ 276,329	₩ -	₩ 276,329	₩ 274,362	₩ -	₩ 274,362

12. NON-FINANCIAL ASSETS:

Non-financial assets as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012		Dec. 31, 2011	
	Current	Non-current	Current	Non-current
Prepayments	₩ 58,524	₩ -	₩ 21,133	₩ -
Prepaid expenses	7,067	7,246	6,771	2,157
Others	31,563	15,609	1,384	18,112
	₩ 97,154	₩ 22,855	₩ 29,288	₩ 20,269

13. SUBSIDIARIES

(1) Investments in subsidiaries as of December 31, 2012 and 2011 are as follows (Won in millions):

Name	Key operating activities	Location	Ownership % or voting right Dec.31, 2012	Dec.31, 2011
Garolim Tidal power Co.,Ltd.(*1)	Power generation	Republic of Korea	49.00%	49.00%
Dongducheon Dream Power Co., Ltd.(*1)	Power generation	Republic of Korea	49.00%	49.00%
KOWEPO Australia Pty., Ltd.	Overseas resources development	Australia	100.00%	100.00%
KOWEPO international Corporation	Managing power plant	Philippines	99.99%	99.99%
Kowepo America.,LLC.	Photovoltaic power generation	United States of America	100%	-

(*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

(2) The key financials of investments accounted for using the equity method as of and for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

Investee	2012 Total assets	Total liabilities	Sales	Net loss
Garolim Tidal power Co.,Ltd.	₩ 37,476	₩ 1,546	₩ -	₩ (1,404)
Dongducheon Dream Power Co., Ltd.	236,102	892	-	(3,225)
KOWEPO Australia Pty., Ltd.	20,036	491	5,301	1,636
KOWEPO international Corporation	2,080	34	16	(182)
Kowepo America.,LLC.	4,517	346	-	(2,144)

Investee	2011 Total assets	Total liabilities	Sales	Net loss
Garolim Tidal power Co.,Ltd.	₩ 37,626	₩ 293	₩ -	₩ (124)
Dongducheon Dream Power Co., Ltd.	39,933	522	-	-
KOWEPO Australia Pty., Ltd.	19,010	792	1,915	1,867
KOWEPO international Corporation	2,257	53	-	(31)

14. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES:

(1) Investments in associates and joint ventures as of December 31, 2012 and 2011 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%
Pioneer gas power limited	Energy supply	Republic of Korea	30.00%	30.00%	30.00%
Eurasia Energy Holdings	Energy supply	Republic of Korea	30.00%	30.00%	30.00%
Xe-Pian Xe-Namnoy Power Co., Ltd.	Energy supply	Republic of Korea	30.00%	30.00%	30.00%
PT Mutiara Jawa	Energy supply	Republic of Korea	30.00%	30.00%	30.00%
Korea Offshore Wind Power Co.,Ltd. (*1)	Energy supply	Republic of Korea	30.00%	30.00%	30.00%
Investments in joint ventures:					
Rabigh O&M Co.,Ltd. (*2)	O&M	Saudi	40.00%	40.00%	40.00%
YeongAm F1 Solar Power Plant Co.,Ltd (*2)	O&M	Saudi	40.00%	40.00%	40.00%

(*1) The Company had acquired shares of Korea Offshore Wind Power Co.,Ltd in December. It is included in the scope of investments in associates as the Company can exercise significant influence according to the shareholders agreement even when the Company's ownership interest is less than 20%.

(*2) 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, 2012 and 2011 are as follows (Won in millions):

Investee	2012 Jan.1,2012	Acquisition	Disposal	Dividend	Equity gain(loss)	Changes in equity	Others	Dec.31,2012
Investments in associates:								
Cheongna Energy Co.,Ltd	₩ 24,520	₩ 13,900	₩ -	₩ -	₩ (5,090)	₩ -	₩ -	₩ 33,330
Pioneer gas power limited	-	39,899	-	-	-	(2,104)	-	37,795
Eurasia Energy Holdings	-	461	-	-	(461)	-	-	-
Xe-Pian Xe-Namnoy Power Co., Ltd.	-	29	-	-	-	(2)	-	27
PT Mutiara Jawa	-	2,978	-	-	(35)	(248)	-	2,695
Korea Offshore Wind Power Co.,Ltd.	-	625	-	-	(5)	-	-	620
Investments in joint ventures:								
Rabigh O&M Co.,Ltd.	137	-	-	-	724	(47)	-	814
YeongAm F1 Solar Power Plant Co.,Ltd	-	1,740	-	-	(67)	-	-	1,673
	₩ 24,657	₩ 59,632	₩ -	₩ -	₩ (4,934)	₩ (2,401)	₩ -	₩ 76,954

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
	₩ 26,117	₩ -	₩ -	₩ -	₩ (1,464)	₩ 4	₩ -	₩ 24,657

(3) The key financials of investments accounted for using the equity method as of December 31, 2012 and 2011are as follows (Won in millions):

Investee	Dec. 31, 2012 Total assets	Total liabilities	Sales	Net Income(loss)
Investments in associates:				
Cheongna Energy Co.,Ltd	₩ 446,396	₩ 376,358	₩ 31,125	₩ (11,556)
Pioneer gas power limited	65,092	16,371	-	119
Eurasia Energy Holdings	3,421	3,562	-	(1,271)
Xe-Pian Xe-Namnoy Power Co., Ltd.	13,539	13,432	-	-
PT Mutiara Jawa	9,068	16	-	(362)
Korea Offshore Wind Power Co.,Ltd.	5,000	-	-	-
Investments in joint ventures:				
Rabigh O&M Co.,Ltd.	4,350	2,315	9,009	1,810
YeongAm F1 Solar Power Plant Co.,Ltd	55,011	49,241	-	(235)
	₩ 601,877	₩ 461,295	₩ 40,134	₩ (11,490)

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
	₩ 389,052	₩ 307,114	₩ 15,293	₩ (4,896)

15. PROPERTY, PLANT AND EQUIPMENT:

(1) Property, plant and equipment as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012 Acquisition cost	Government grant	Accumulated depreciation	Accumulated impairment Loss	Transfer to assets classified held-for-sale	Book value
Land	₩ 568,436	₩ -	₩ -	₩ -	₩ -	₩ 568,436
Buildings	644,832	-	(178,839)	-	-	465,993
Structures	835,292	-	(263,353)	-	-	571,939
Machinery	2,964,760	(199)	(894,933)	-	-	2,069,628
Vehicles	5,376	-	(4,022)	-	-	1,354
Office Equipment	43,408	-	(25,542)	-	-	17,866
Tools and equipment	17,171	-	(13,728)	-	-	3,443
Construction in-progress	616,408	(32,469)	-	-	-	583,939
Finance lease assets	132,705	-	(42,319)	-	-	90,386
	₩ 5,828,388	₩ (32,668)	₩(1,422,736)	₩ -	₩ -	₩ 4,372,984

	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
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
	₩ 5,049,374	₩ (26,162)	₩ (1,053,194)	₩ -	₩ -	₩ 3,970,017

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

	2012						
	Jan. 1, 2012	Acquisition	Disposal	Depreciation	Impairment loss	Others	Dec. 31, 2012
Land	₩ 535,636	₩ 22,618	₩ (930)	₩ -	₩ -	₩ 11,112	₩ 568,436
Buildings	485,126	147	(83)	(38,309)	-	19,112	465,993
Structures	597,456	-	-	(33,430)	-	7,913	571,939
Machinery	2,005,102	104,587	(3,280)	(285,892)	-	249,111	2,069,628
Vehicles	761	8	(4)	(482)	-	1,071	1,354
Office Equipment	14,829	1,109	-	(8,732)	-	10,660	17,866
Tools and equipment	4,591	30	-	(8,732)	-	966	3,443
Construction in-progress	230,254	662,933	-	-	-	(309,248)	583,939
Finance lease assets	96,262	-	-	(6,033)	-	157	90,386
	₩ 3,970,017	₩ 791,432	₩ (4,297)	₩ (375,022)	₩ -	₩ (9,146)	₩ 4,372,984

	2011						
	Jan. 1, 2011	Acquisition	Disposal	Depreciation	Impairment loss	Others	Dec. 31, 2011
Land	₩ 539,499	₩ 534	₩ (8)	₩ -	₩ -	₩ (4,389)	₩ 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
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
	₩ 3,913,856	₩ 467,344	₩ (1,926)	₩ (371,941)	₩ -	₩ (37,315)	₩ 3,970,017

16. INTANGIBLE ASSETS:

(1) Intangible assets as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012				
	Acquisition cost	Government grant	Accumulated amortization	Accumulated impairment loss	Book value
Software	₩ 24,693	₩ -	₩ (11,029)	₩ -	₩ 13,664
Development costs	1,201	-	(327)	-	874
Others	94,068	-	(81,418)	(231)	12,419
	₩ 119,962	₩ -	₩ (92,774)	₩ (231)	₩ 26,957

	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
	₩ 107,307	₩ -	₩ (87,653)	₩ (231)	₩ 19,423

(2) Changes in intangible assets for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

	2012						
	Jan. 1, 2011	Acquisition	Disposal	Amortization	Impairment loss	Others	Dec.31, 2011
Software	₩ 16,346	₩ 159	₩ -	₩ (4,368)	₩ -	₩ 1,527	₩ 13,664
Development costs	156	-	-	(154)	-	872	874
Others	2,921	56	-	(899)	-	(10,341)	12,419
	₩ 19,423	₩ 215	₩ -	₩ (5,421)	₩ -	₩ 12,740	₩ 26,957

	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
	₩ 7,073	₩ 11	₩ (5)	₩ (6,001)	₩ -	₩ 18,345	₩ 19,423

(3) The key intengible asset for the year ended December 31, 2012 is as follows (Won in millions):

Type	Contents	Amount	Residual Amortisation Period
Software	ERP system	₩ 9,578	3 years 2 months

17. ACCOUNTS PAYABLES AND OTHER PAYABLES:

Accounts and other payables as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012		Dec. 31, 2011	
	Current	Non-current	Current	Non-current
Accounts payables	₩ 379,157	₩ -	₩ 474,755	₩ -
Other payables	62,548	25	36,144	-
Accrued expenses	52,500	78	18,593	77
Leasehold deposits	-	-	3	-
Other deposits	37	-	17	-
Finance lease liabilities	-	-	3,953	66,217
	₩ 494,242	₩ 103	₩ 533,465	₩ 66,294

18. BORROWINGS AND DEBENTURES:

(1) Borrowings and debentures as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012	Dec. 31, 2011
Current borrowings:		
Short-term borrowings	₩ -	₩ 182,017
Current portion of long-term borrowings	100,230	100,000
Current portion of long-term debentures	120,000	120,000
Less: Discount on debentures	(104)	(2)
	220,126	402,015
Non-current borrowings:		
Long-term borrowings	3,524	103,754
Debentures	1,576,215	972,995
Less: Discount on debentures	(6,294)	(3,005)
Less: Transfer to Liabilities-held for sale	-	-
	1,573,445	1,073,744
	₩ 1,793,571	₩ 1,475,759

(2) Short-term borrowings as of December 31, 2012 and 2011 are as follows (Won in millions):

Type	Financial institution	Annual interest rate	Dec. 31, 2012
-	-	-	₩ -

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
			₩ 182,017

(3) Long-term borrowings as of December 31, 2012 and 2011 are as follows (Won in millions):

Type	Financial Institution	Description	Annual interest rate(%)		Maturity	Amount
	Dec. 31, 2012					
Long-term borrowings	Korea Exchange bank	Medium & Long term-CP	Fixed rate	3.63	2013.06.24	₩ 100,000
	Others(Domestic)	Other long term borrowings	Floating rate		2023.06.15	112
	"	"	Floating rate	KTB (3years) – 2.25	2023.12.15	272
	"	"	Floating rate		2024.06.15	74
	"	"	Floating rate		2024.09.15	208
	"	"	Floating rate		2025.07.15	11
	"	"	Floating rate		2025.12.15	83
	"	"	Floating rate		2023.03.15	2,994
						103,754
Less: Current portion						(100,230)
						₩ 3,524

Type	Financial Institution	Description	Annual interest rate(%)		Maturity	Amount
	Dec. 31, 2011					
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	KTB (3years) – 2.25	2023.12.15	272
	"	"	Floating rate		2024.06.15	74
	"	"	Floating rate		2024.09.15	208
	"	"	Floating rate		2025.07.15	11
	"	"	Floating rate		2025.12.15	83
	"	"	Floating rate		2023.03.15	2,994
						203,754
Less: Current portion						(100,000)
						₩ 103,754

(4) Domestic debentures as of December 31, 2012 and 2011 and January 1, 2010 are as follows (Won in millions):

Financial Institution	Issue date	Maturity date	Annual interest rate(%)		Dec. 31, 2012	Dec. 31, 2011
Corporate bond #10	2009.01.23	2012.01.23	Fixed rate	4.38	-	120,000
Corporate bond #11	2009.05.29	2014.05.29	Fixed rate	5.15	80,000	80,000
Corporate bond #12	2009.11.24	2013.11.24	Fixed rate	5.12	120,000	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	100,000
Corporate bond #15-2	2011.05.27	2016.05.27	Fixed rate	4.19	100,000	100,000
Corporate bond #16-1	2011.11.18	2016.11.18	Fixed rate	3.97	160,000	160,000
Corporate bond #16-2	2011.11.18	2018.11.18	Fixed rate	4.04	60,000	60,000
Corporate bond #16-3	2011.11.18	2021.11.18	Fixed rate	4.15	80,000	80,000
Corporate bond #17-1	2012.10.22	2022.10.22	Fixed rate	3.22	100,000	-
Corporate bond #17-2	2012.10.22	2022.10.22	Fixed rate	3.26	100,000	-
					1,000,000	920,000
Less: Discount on debentures					(2,184)	(2,112)
Less: Current Portion					(120,000)	(120,000)
Less: Liabilities directly associated with assets classified as held for sale					-	-
					₩ 877,816	₩ 797,888

(5) Foreign debentures as of December 31, 2012 and 2011 are as follows (Won in millions):

Financial Institution	Issue date	Maturity date	Annual interest rate(%)		Dec. 31, 2012	Dec. 31, 2011
Euro bond #2	2006.09.29	2016.09.29	Fixed rate	4.81	₩ 160,665	₩ 172,995
Global bond #1	2012.05.10	2017.05.10	Fixed rate	3.83	535,550	-
					696,215	172,995
Less: Discount on debentures					(4,110)	(893)
Less: Current Portion					-	-
					₩ 692,105	₩ 172,102

19. OTHER FINANCIAL LIABILITIES:

Other financial liabilites as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2011		Dec. 31, 2010	
	Current	Non-current	Current	Non-current
Derivative liabilities	₩ 4,004	₩ 30,270	₩ 812	₩ -
	₩ 4,004	₩ 30,270	₩ 812	₩ -

20. FINANCE LEASE LIABILITIES

(1) Finance lease liabilities as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012	
	Minimum lease payment	The present of minimum lease payment
Within one year	₩ -	₩ -
From one year to five years	-	-
More than five years	-	-
	₩ -	₩ -

	Dec. 31, 2011	
	Minimum lease payment	The present of minimum lease payment
Within one year	₩ 5,683	₩ 3,953
From one year to five years	21,122	14,693
More than five years	74,019	51,524
	₩ 100,824	₩ 70,170

(2) Liquidity classification of finance lease liabilities as of December 31, 2012 and 2011 are as follows (Won in millions):

Type	Dec. 31, 2012	Dec. 31, 2011
Current liabilities	₩ -	₩ 3,953
Non-current liabilities	-	66,217
	₩ -	₩ 70,170

21. RETIREMENT BENEFIT OBLIGATIONS:

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

	Dec. 31, 2011	Dec. 31, 2010
Discount rate	3.58%	4.33%
Expected rate of return on plan assets	4.78%	4.94%
Future salary and benefit levels	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 Demcember 31, 2012 and 2011 are as follows (Won in millions):

	2012	2011
Current service cost	₩ 7,522	₩ 9,695
Interest cost	1,846	4,457
Expected return on plan assets	(315)	(93)
	₩ 9,053	₩ 14,059

(3) Retirement benefit obligation as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012	Dec. 31, 2011
Present value of defined benefit obligation(funding)	₩ 48,696	₩ 52,355
Fair value of plan assets	(9,500)	(5,303)
	39,196	47,052
Present value of defined benefit obligation(not funding)	181	42
Shortage	-	-
Less: Liabilities directly associated with assets classified as held for sale	-	-
Net liabilities	₩ 39,377	₩ 47,094

(4) Changes in retirement benefit obligation for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

	2012	2011
Beginning balance	₩ 52,397	₩ 100,394
Current service cost	7,522	9,695
Interest cost	1,846	4,457
Actuarial losses	5,610	4,685
Actual payments	(18,497)	(66,834)
Liabilities directly associated with assets classified as held for sale	-	-
Ending balance	₩ 48,878	₩ 52,397

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

	2012	2011
Beginning balance	₩ 5,303	₩ -
Expected return	315	93
Actuarial gains(losses)	(48)	(6)
Exchange rate fluctuations	-	-
Contribution by employer	4,155	6,191
Contribution by plan participant	-	-
Actual payments	(225)	(975)
Others	-	-
Ending balance	₩ 9,500	₩ 5,303

During the period the Company recognized accumulated actuarial gains of 14,787million won and 10,624 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, 2012 and 2011 are as follows (Won in millions):

	Expected rate of return		FV of plan asset	
	Dec.31,2012	Dec.31,2011	Dec.31,2012	Dec.31,2011
Equity instrument	4.87%	5.14%	709	1,328
Liability instrument	4.95%	5.06%	1,743	1,377
Deposits	4.61%	4.82%	4,962	1,619
Others	4.78%	4.70%	2,086	979
Weighted average expected rate of return	4.78%	4.94%	9,500	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, 2012 is 267 million won.

(7) Other long-term employee benefits liabilities as of December 31, 2012 and 2011 are as follows. (Won in millions):

	Dec. 31, 2012	Dec. 31, 2011
Long-term compensated absences	₩ 1,079	₩ 1,029
Other long-services leave	1,695	1,704
	₩ 2,774	₩ 2,733

22. PROVISION

(1) Provision as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012		Dec. 31, 2011	
	Current	Non-current	Current	Non-current
Other:				
Tax provision	₩ -	₩ 199	₩ -	₩ 199
	₩ -	₩ 199	₩ -	₩ 199

(2) Changes in provision for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

	2012					
	Beginning balance	Recovery	Transfer to current portion	Others	Transfer to asset held for sale	Ending balance
Other:						
Tax provision	₩ 199	₩ -	₩ -	₩ -	₩ -	₩ 199
	₩ 199	₩ -	₩ -	₩ -	₩ -	₩ 199

	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

23. OTHER NON-FINANCIAL LIABILITIES:

Other non-financial liabilities as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012		Dec. 31, 2011	
	Current	Non-current	Current	Non-current
Advanced payments	₩ -	₩ 642	₩ -	₩ 300
Unearned revenue	7	-	6	-
Withholdings	3,212	-	2,055	-
Others	6,552	-	11	-
	₩ 9,771	₩ 642	₩ 2,072	₩ 300

24. SHARES ISSUED:

(1) Shares issued as of December 31, 2012 and 2011 are as follows (Won in millions except par value):

				Dec. 31, 2012		Dec. 31, 2011	
Type	Number of shares authorized	Number of shares issued	Par value	Non-govt.	Sub-total	Non-govt.	Sub-total
Common Stock	100,000,000	31,789,285	5,000	158,946	158,946	158,946	158,946

(2) Changes in the number of shares issued for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Beginning balance	31,789,285	35,200,000
Losses on capital reduction	-	(3,410,715)
Ending balance	31,789,285	31,789,285

(3) Share premium as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012	Dec. 31, 2011
Share premium	1,033,418	1,033,418

25. RETAINED EARNINGS AND RESERVES:

(1) Reserves as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012	Dec. 31, 2011
Legal reserves(*1)	₩ 50,996	₩ 47,857
Voluntary reserves	966,163	994,566
Retained earnings before appropriations	811,541	714,866
	₩ 1,828,700	₩ 1,757,289

(*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, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012		Dec. 31, 2011	
Reserve for business stabilization(*1)	₩	181	₩	181
Reserve for research and human development(*2)		18,388		18,388
Reserve for investment on social overhead capital		13,000		14,500
Reserve for business expansion		934,594		961,497
	₩	966,163	₩	994,566

(*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, 2012 and 2011 are as follows (Won in millions):

	2012		2011	
Beginning balance	₩	714,866	₩	921,368
Net income attributable to owners of the parent company		107,793		43,109
Dividends paid		(31,386)		(73,879)
Actuarial losses(gain)		(4,163)		(3,346)
Transfers from reserves		28,402		-
Funding reserves		(3,138)		(172,386)
Interest of hybrid bond		(833)		-
Ending balance	₩	811,541	₩	714,866

(4) Dividends paid for the years ended December 31, 2012 and 2011 are as follows (Won in millions except share):

	2012				
Type	Number of shares issued(*)	Number of treasury shares	Number of dividend shares	Dividends per share	Total dividends
Common stock	31,789,285	-	31,789,285	987 won	31,386

(*) 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.

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

(5) Changes in actuarial gains(losses) for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

	2012		2011	
Beginning balance	₩	(10,624)	₩	(7,278)
Changes for the period		(5,658)		(4,685)
Tax effect		1,495		1,339
Ending balance	₩	(14,787)	₩	(10,624)

26. STATEMENT OF APPROPRIATION OF RETAINED EARNING

The Company's statements of appropriations of retained earnings relate for the years ended December 31, 2012 and 2011 are as follows. For the year ended December 31, 2012, KOWEPO's retained earnings are expected to be appropriated on March 29, 2013. For the year ended December 31, 2011, the Company's retained earnings were appropriated on March 30, 2012. (Won in millions):

	2012		2011	
I. RETAINED EARNINGS BEFORE APPROPRIATIONS:				
Unappropriated retained earnings carried over from prior year	₩	711,595	₩	676,227
Interest of hybrid bond		(832)		-
Net income (loss)		118,319		44,836
Actuarial gains(losses)		(4,162)		(3,346)
		824,920		717,717
II.TRANSFERS FROM VOLUNTARY RESERVES:				
Reserve for investment in social overhead capital		-		1,500
Reserve for research and human resource development		-		-
Reserve for business expansion		-		26,903
		-		28,403
		824,920		746,120
III. APPROPRIATIONS:				
Dividends				
Cash dividends		59,160		31,386
Legal Reserve		5,916		3,139
Investment in social overhead capital		-		-
business expansion		48,247		-
		(113,323)		(34,525)
IV. UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	₩	711,597	₩	711,595

27. OTHER COMPONENTS OF EQUITY

(1) Other components of equity as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012		Dec. 31, 2011	
Accumulated other comprehensive income(loss)	₩	4,279	₩	4,216
Other equity		(41,635)		(41,046)
	₩	(37,356)	₩	(36,830)

(2) Changes in Accumulated other comprehensive income for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

	2012			
	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	₩ (341)	₩ 5,492	₩ (379)	₩ (557)
Valuation loss on available-for-sale financial assets	137	-	-	-
Valuation of financial derivatives	-	2,731	-	-
Other comprehensive income(loss) of joint venture and associates	-	-	(2,392)	-
Foreign currency translation differences of foreign operations	-	-	-	(412)
Ending balance	₩ (204)	₩ 8,223	₩ (2,771)	₩ (969)

	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	₩ (341)	₩ 5,492	₩ (379)	₩ (557)

(3) Changes in other equity for the years ended December 31, 2012 and 2011 are as follows. (Won in millions):

	2012	2011
Beginning balance	₩ (41,046)	₩ -
Capital reduction	-	(41,046)
Tax effect	(589)	-
Ending balance	₩ (41,635)	₩ (41,046)

28. HYBRID BOND:

Hybrid bond classified as equity as of December 31, 2012 is as follows (Won in millions):

Description	Type	Issue date	Maturity date	Annual interest rate	Amount
Bond-hybrid capital securities#1	Interest-bearing, unwarranted and subordinated bonds to bear	2012.10.18	2042.10.18	KTB(5years) +1.20	₩ 100,000
Issuance costs					(250)
					₩ 99,750

In October 2012, Korea Western Power Co., Ltd. issued a hybrid bond and Korea Western Power Co., Ltd. has a right to extend the maturity date of the hybrid bond with the same condition of it at the maturity date, continually.

Interest payments may be deferred under certain conditions, especially if the general meeting of stockholders resolves that a dividend not be paid.

29. SALES:

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

	2012		2011	
Description	Domestic	Overseas	Domestic	Overseas
Income from sales of product	₩ 5,962,115	₩ 5,317	₩ 5,208,094	₩ 5,507
	₩ 5,962,115	₩ 5,317	₩ 5,208,094	₩ 5,507

30. SELLING AND ADMINISTRATIVE EXPENSES:

Selling and administrative expenses for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

Description	2012	2011
Salaries	₩ 16,521	₩ 13,612
Retirement benefit	2,435	1,850
Benefits	4,506	8,186
Insurance expenses	62	32
Depreciation	2,419	1,524
Amortization	4,045	3,264
Commission	12,017	10,975
Advertisement	591	365
Training	92	43
Vehicles	153	113
Publication expenses	160	121
Business expenses	213	297
Rent	3,955	2,484
Communication	990	1,015
Freight Expenses	19	-
Taxes and dues	591	470
Supplies expenses	103	104
Utilities expenses	31	20
Repairs	438	751
Ordinary development expenses	8,196	5,944
Travel Expenses	786	508
Clothing expenses	34	23
Research and analysis expense	2	8
Others	1,856	3,065
	₩ 60,215	₩ 54,774

31. OTHER OPERATING INCOME AND EXPENSE:

(1) Other operating incomes for the years ended December 31, 2012 and 2011 are as follows. (Won in millions):

Description	2012		2011	
Rental income	₩	3,673	₩	5,022
	₩	3,673	₩	5,022

(2) Other operating expenses for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

Description	2012		2011	
Donations	₩	1,111	₩	10,310
	₩	1,111	₩	10,310

32. OTHER INCOME AND LOSS

Composition of other incomes and losses for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

Description	2012		2011	
Gain on disposal of property, plant and equipment	₩	89	₩	24
Gain on foreign currency translation		207		255
Gain on foreign currency transaction		12,773		13,125
Other income		8,776		8,654
Loss on disposal of property, plant and equipment		(3,482)		(1,900)
Loss on foreign currency translation		(7)		(1,507)
Loss on foreign currency transaction		(8,890)		(16,347)
Other losses		(6,850)		(625)
	₩	2,616	₩	1,679

33. FINANCIAL INCOME

(1) Financial incomes for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

Description	2012		2011	
Interest income of financial instruments	₩	17,311	₩	7,139
Dividends income		-		74
Gain on valuation of derivative instruments		-		2891
Gain on transactions of derivative instruments		812		323
Gain on foreign currency translation		46,780		527
Gain on foreign currency transaction		9,903		2,440
	₩	74,806	₩	13,394

(2) Interest income included in finance incomes for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

Description	2012		2011	
Cash and cash equivalents	₩	16,624	₩	6,261
Loans and receivables		673		661
Other financial assets		14		27
Accounts and other receivables		-		190
	₩	17,311	₩	7,139

34. FINANCIAL EXPENSE

(1) Financial expenses for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

Description	2012		2011	
Interest expense	₩	66,829	₩	48,673
Loss on foreign currency translation		-		13,526
Loss on foreign exchange transaction		-		1,180
Loss on valuation of derivative instruments		46,780		4
Loss on transaction of derivative instruments		621		950
	₩	114,230	₩	64,333

(2) Interest expenses included in financial expenses for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

Description	2012		2011	
Accounts and other payables	₩	107	₩	572
Short term borrowings		1,860		1,269
Long term borrowings		7,215		7,803
Debentures		58,588		44,277
Other financial liabilities		3,397		3,846
		71,167		57,767
Capitalization of financial expense		(4,338)		(9,094)
	₩	66,829	₩	48,673

(*) Weighted average interest rate of borrowings for the years ended December 31, 2012 and 2011 are 3.99% per year and 3.67% 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):

	2012		2011	
Current income tax expense				
Payment of income tax	₩	71,820	₩	1,432
Adjustment recognized in the period for current tax of prior period		5,678		(798)
Current income tax directly recognized in equity		404		662
Change in tax reserve for uncertain tax position		-		(4)
		77,902		1,292
Deferred income tax expense				
Generation and disappearance of temporary differences		(32,079)		14,387
Reclassified from equity to profit		-		-
Recognition of unrecognized tax losses in the past, tax credit and temporary differences prior to previous period		-		662
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
Changes in accounting policy that cannot be applied retroactively		-		-
Charged directly to discontinued operations		-		-
		(32,079)		23,445
Income tax expense	₩	45,823	₩	24,737

(2) A reconciliation between incomes tax expense and accounting income before income tax expense for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

	2012	2011
Income before income tax expenses	₩ 151,255	₩ 66,680
Income tax expense in accordance with applicable tax rate	36,604	16,185
Adjustments		
Additional payment of income taxes and income tax refunds	5,678	(196)
Effect of applying gradual tax rate	(462)	-
Effect of non-taxable revenue	-	-
Effect of nondeductible expenses	337	776
Effect of tax losses not recognized as deferred tax assets	-	-
Effects of tax credits and deduction	(1,876)	(802)
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
Others	5,542	521
	45,823	8,552
Income tax expense recognized in profit or loss for the period with respect to continuing operations	45,823	24,737
Mean effective tax rate	₩ 30.30%	₩ 36.99%

(3) Income tax recognized as cumulative other comprehensive income for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

	2012	2011
Income tax recognized as cumulative other comprehensive income		
Gains(Loss) on valuation of available-for-sale financial assets	₩ (44)	₩ (248)
Gain(Loss) on valuation of derivatives using cash flow hedge accounting	(872)	(429)
Actuarial losses on retirement benefit obligations	1,329	1,339
Others	(9)	-
	₩ 404	₩ 662

(4) Changes in deferred income tax assets(liabilities) recognized in the statements of financial position as of December 31, 2012and 2011are as follows (Won in millions):

	2012							
	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	₩ 10,187	₩ (2,995)	₩ 1,329	₩ -	₩ -	₩ -	₩ -	₩ 8,521
Cash flow hedge	(9,303)	11,188	(871)	-	-	-	-	1,014
Investment in associates or subsidiaries	-	-	-	-	-	-	-	-
Property, plant and equipment, net	(211,770)	29,461	-	-	-	-	-	(182,309)
Finance lease	-	-	-	-	-	-	-	-
Intangible assets	54	2	-	-	-	-	-	56
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-
Available-for-sale financial assets	161	(52)	(44)	-	-	-	-	65
Deferred revenue	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	-	-
Doubtful receivables	-	-	-	-	-	-	-	-
Other finance liabilities	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Gains(loss) on foreign currency translation	10,447	(14,008)	-	-	-	-	-	(3,561)
Allowance for bad debts	(1,087)	(29)	-	-	-	-	-	(1,116)
Accrued income	-	-	-	-	-	-	-	-
Special deduction	(4,270)	(113)	-	-	-	-	-	(4,383)
Reserve for research and human development	(4,155))	(113)	-	-	-	-	-	(4,268)
Reserve for Investment on social overhead capital	-	-	-	-	-	-	-	-
Others	3,458	8,473	(9)	-	-	-	-	11,922
	(206,278)	31,814	405	-	-	-	-	(174,059)
Deferred income tax on unused tax losses and tax credit								
Tax losses	-	-	-	-	-	-	-	-
Tax credit	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	₩ (206,278)	₩ 31,814	₩ 405	₩ -	₩ -	₩ -	₩ -	₩ (174,059)

	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
	(183,495)	(23,445)	662	-	-	-	-	(206,278)
Deferred income tax on unused tax losses and tax credit								
Tax losses	-	-	-	-	-	-	-	-
Tax credit	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	₩ (183,495)	₩ (23,445)	₩ 662	₩ -	₩ -	₩ -	₩ -	₩ (206,278)

(5) Deferred incomes tax assets(liabilities) as of December 31, 2012 and 2011 are as follows. (Won in millions):

Description	Dec. 31, 2012	Dec. 31, 2011
Deferred income tax assets	₩ 333	₩ 301
Deferred income tax liabilities	(174,392)	(206,579)
	₩ (174,059)	₩ (206,278)

36. EXPENSES CLASSIFIED BY NATURE:

Expenses classified by nature for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

	2012		
Description	Selling and administrative expenses	Cost of sales	Total
Raw materials used	₩ -	₩ 5,041,377	₩ 5,041,377
Salaries	16,521	122,295	138,816
Retirement benefits	2,435	11,135	13,570
Benefits	4,506	11,470	15,976
Insurance expenses	62	4,916	4,978
Deprecation	2,419	372,359	374,778
Amortization of intangible assets	4,045	1,335	5,380
Commission	12,017	12,518	24,535
Advertisement	591	320	911
Training	92	252	344
Vehicles	153	64	217
Publication expenses	160	104	264
Business expenses	213	159	372
Rent	3,955	10,242	14,197
Communication	990	225	1,215
Freight Expenses	19	12	31
Taxes and dues	591	4,735	5,326
Supplies expenses	103	231	334
Utilities expenses	31	271	302
Repairs	438	98,114	98,552
Ordinary development expenses	8,196	14,888	23,084
Travel Expenses	786	701	1,487
Clothing expenses	34	469	503
Research and analysis expense	2	143	145
Others	1,856	8,448	10,304
	₩ 60,215	₩ 5,716,783	₩ 5,776,998

Description	2011 Selling and administrative expenses	2011 Cost of sales	2011 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
Deprecation	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

37. EARNINGS PER SHARE:

(1) The computation of earnings per share for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

	2012	2011
Basic net earnings per share	₩	₩
Continuing operations	3,317	1,356
Discontinued operations	-	-
	₩ 3,317	₩ 1,356

(2) Net income and weighted average number of common shares outstanding for the years ended December 31, 2012 and 2011 is as follows (Won in millions except share):

	2012	2011
Income for the period		
Net income from continued operations	₩ 107,792	₩ 43,109
Net income from discontinued operations	-	-
Net income attributable to owners of the parent company	₩ 107,792	₩ 43,109
Weighted average number of common share	31,789,285	31,789,285

38. 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, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012		Dec. 31, 2011	
Total borrowings and debentures	₩	1,793,571	₩	1,475,759
Cash and cash equivalents		408,730		285,023
Net borrowings and debentures		1,384,841		1,190,736
Total equity	₩	3,221,740	₩	2,951,852
Total equity ratio of net borrowings and debentures		42.98%		40.34%

(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 Compnany 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 intenral data related to accouts receivables, to rate its major customers and to measure the credit risk that a counter party will default on a contratual obligation. As the majority of the Company's accounts receivables are due from a governmental entities, the Company does not have singificant 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 instituition with a high credit rating.

ii) Impariment & 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, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012	Dec. 31, 2011
Cash and cash equivalents	₩ 408,730	₩ 285,023
Available-for-sale financial assets	11,462	11,298
Other financial assets	30,944	17,777
Derivatives for trading purpose	-	-
Derivatives using hedge accounting	29,893	38,796
Account and other receivables	484,296	575,951

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 uncertanties in underlying assumptions

① Defined benefit obligation

Changes in the Company's defined benefit obligation for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

		2012		2011	
Description	Accounts	1% increase	1% decrease	1% increase	1% decrease
Expected rates of salary increases	Defined benefit obligation	₩ 7,669	₩ (6,634)	₩ 7,578	₩ (6,684)
Discount rate	Defined benefit obligation	(6,682)	8,093	(6,631)	7,952
Expected rate of return on plan assets	Retirement benefit	(19)	19	(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, EUR in thousand, SEK in thousand):

	Foreign currency assets		Foreign currency liabilites	
	Dec. 31. 2012	Dec. 31. 2011	Dec. 31. 2012	Dec. 31. 2011
USD	$ 85,491	$ 85,491	$ 707,853	$ 416,631
JPY	¥ -	¥ -	¥ 5,551	¥ -
EUR	€ -	€ -	€ 355	€ -
SEK	kr -	kr -	kr 455	kr -

A sensivity analysis on the Company's profit for the period assuming a 10% increase and decrease in currency exchange rates as of December 31, 2012 and 2011 is as follows (Won in millions):

Description	2012 10% increase	2012 10% decrease	2011 10% increase	2011 10% decrease
Increase(decrease) of income before income tax	₩ (75,883)	₩ 75,883	₩ (38,190)	₩ 38,190
Increase(decrease) of equity	(75,883)	75,883	(38,190)	38,190

Sensitivity analysis above is conducted for monetary assets and liabilities denominated in foreign currencies other than functional currency as of December 31, 2012 and 2011

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, 2012 and 2011 are as follows (Won in millions):

Accounts	Dec. 31, 2012	Dec. 31, 2011
Long-term borrowings	₩ 3,724	₩ 103,754
Debentures	-	-
	₩ 3,724	₩ 103,754

A sensivity analysis on the Company's long-term borrowings and debentures assuming a 1% increase and decrease in interest rates as of December 31, 2012 and 2011 are as follows (Won in millions):

Description	2012 1% point increase	2012 1% point decrease	2011 1% point increase	2011 1% point decrease
Increase(decrease) of income before income tax	₩ (35)	₩ 35	₩ (1,038)	₩ 1,038
Increase(decrease) of equity	(35)	35	(1,038)	1,038

To manage its interest rate risks, the Company in addition to maintaing 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 estalished credit lines on its AC and bank overdrafts, and through payment gurantees 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 utlize 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, 2012				
	Less 1 year	1 ~ 2 years	2 ~ 5 years	Over 5 years	Total
Borrowings and debentures	₩ 220,131	₩ 80,000	₩ 520,665	₩ 979,074	₩ 1,799,870
Accounts and other payables (except, finance lease liabilities)	494,242	103	-	-	494,345
	₩ 714,373	₩ 80,103	₩ 520,665	₩ 979,074	₩ 2,294,215

	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
	₩ 937,113	₩ 225,811	₩ 769,628	₩ 176,529	₩ 2,109,081

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 31,2012 and 2011 is as follows (Won in millions):

	Dec. 31, 2012				
	Less 1 year	1 ~ 5 years	Over 5 years	Uncertain	Total
Cash and cash equivalents	₩ 408,730	₩ -	₩ -	₩ -	₩ 408,730
Available-for-sale financial assets	-	-	-	11,461	11,461
Loans and receivables	16,040	12,904	-	-	28,944
Financial assets	2,000	-	-	-	2,000
Accounts and other receivables	478,349	5,948	-	-	484,297
	₩ 905,119	₩ 18,852	₩ -	₩ 11,461	₩ 935,432

	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
	₩ 837,252	₩ 19,745	₩ -	₩ 11,298	₩ 868,295

The Company's derivative financial liabilities by residual contractual maturity as of December 31, 2012 and 2011 are classified as follows (Won in millions):

	Dec. 31, 2012				
Type	Under 1 year	1 ~ 2 years	2 ~ 5 years	Over 5 years	Total
Trading purpose	₩ -	₩ -	₩ -	₩ -	₩ -
Hedge accounting purpose	4,004	-	30,270	-	34,274
	₩ 4,004	₩ -	₩ 30,270	₩ -	₩ 34,274

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

(3) Fair value risk

The fair value of the Company's actively-traded financial instruments (i.e. financial assests available-for-sale, etc.) is the 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 consideres the carrying value net of impairment as fair value. While for disclosure purposes, the fair value of financial liablities 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 31,2012 and 2011 are as follows (Won in millions):

Type	Dec. 31, 2012 Book value	Dec. 31, 2012 Fair value	Dec. 31, 2011 Book value	Dec. 31, 2011 Fair value
Assets recognized at fair value				
Available-for-sale financial assets	₩ 11,461	₩ 11,461	₩ 11,298	₩ 11,298
Other financial assets	2,000	2,000	4,000	4,000
Divatives assets(trading purpose)	-	-	-	-
Derivatives assets (using hedge accounting)	29,893	29,893	38,796	38,796
	₩ 43,354	₩ 43,354	₩ 54,094	₩ 54,094
Assets carried at amortized cost				
Accounts and other receivables	484,295	484,295	575,951	575,951
Other financial assets	28,944	28,944	13,777	13,777
	₩ 513,239	₩ 513,239	₩ 589,728	₩ 589,728
Liabilities recognized at fair value				
Derivatives liabilities (trading purpose)	-	-	812	812
Derivatives Liabilities (using hedge accounting)	34,274	34,274	-	-
	₩ 34,274	₩ 34,274	₩ 812	₩ 812
Liabilities carried at amortized cost				
Borrowings	103,754	103,754	385,771	386,695
Debentures	1,689,817	1,782,820	1,089,988	1,122,848
Finance lease liabilities	-	-	70,170	70,170
Accounts and other payables	494,344	494,344	529,589	529,589
	₩ 2,287,915	₩ 2,380,918	₩ 2,075,518	₩ 2,109,302

2) The discount rate used for caculating 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, 2012 and 2011, respectively, are as follows (Won in millions):

Type	Dec. 31, 2012 Level 1	Level 2	Level 3	Fair value
Financial assets at fair value:				
Available-for-sale financial assets	₩ -	₩ -	₩ 11,461	₩ 11,461
Derivative assets for trading purpose	-	-	-	-
Derivative assets using hedging accounting	-	29,893	-	29,893
	₩ -	₩ 29,893	₩ 11,461	₩ 41,354
Financial liabilities at fair value:				
Derivative assets for trading purpose	₩ -	₩ -	₩ -	₩ -
Derivative assets using hedging accounting	-	34,274	-	34,274
	₩ -	₩ 34,274	₩ -	₩ 34,274

Type	Dec. 31, 2011 Level 1	Level 2	Level 3	Fair value
Financial assets at fair value:				
Available-for-sale financial assets	₩ -	₩ -	₩ 11,298	₩ 11,298
Derivative assets for trading purpose	-	-	-	-
Derivative assets using hedging accounting	-	38,796	-	38,796
	₩ -	₩ 38,796	₩ 11,298	₩ 50,094
Financial liabilities at fair value:				
Derivative assets for trading purpose	₩ -	₩ 812	₩ -	₩ 812
Derivative assets using hedging accounting	-	-	-	-
	₩ -	₩ 812	₩ -	₩ 812

2) Changes in Level 3 available-for-sale financial assets for the year ended December 31, 2012 are as follows (Won in millions):

Type	Beginning	Acquisition	Evaluation	Disposal	Net Exchange Difference	Ending
Unlisted equity investments	11,298	-	204	-	(17)	11,461

39. RELATED PARTY TRANSACTIONS:

(1) The nature of the Company's related parties as of December 31, 2012 is as follows:

Relationship	Related Party
Parent company	Korea Electric Power Corporation
Investments in associates and joint ventures	Cheongna Energy Co., Ltd.
	Pioneer gas power limited
	Eurasia Energy Holdings
	Xe-Pian Xe-Namnoy Power Co., Ltd.
	PT Mutiara Jawa
	Korea Offshore Wind Power Co.,Ltd
	Rabigh O&M Co.,Ltd.
	YeongAm F1 Solar Power Plant 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, 2012 and 2011 are as follows (Won in millions):

Related parties	Sales and others 2012	Sales and others 2011	Purchase and others 2012	Purchase and others 2011
Korea Electric Power Corporation	₩ 5,936,416	₩ 5,189,194	₩ 78,154	₩ 41,108
Cheongna Energy Co., Ltd.	2,291	1,116	-	-
Korea South-East Power Co., Ltd.	-	-	93	391
Korea Midland Power Co., Ltd.	-	-	108	308
Korea Southern Power Co., Ltd.	1,838	1,702	921	1,424
Korea East-West Power Co., Ltd.	-	-	-	255
KEPCO Plant Service & Engineering Co., Ltd.	-	-	2,469	2,499
KEPCO KPS Co., Ltd.	1,287	1,185	78,466	71,117
KEPCO KDN Co., Ltd.	-	-	4,352	3,447
Korea Gas Corporation	-	-	2,838,391	2,341,360
Korea Electronic Power Industrial Development Co., Ltd.	6,827	5,267	24,234	18,927
Korea Power Exchange	-	-	4,642	-
Korea Hydro & Nuclear Power Co., Ltd.	-	-	21	-
	₩ 5,948,659	₩ 5,198,464	₩ 3,031,851	₩ 2,480,836

(3) Receivables and payables arising from related party transactions as of December 31, 2012 and 2011 are as follows (Won in millions):

Related parties	Dec. 31, 2012 Accounts receivables and others	Dec. 31, 2012 Accounts payables and others	Dec. 31, 2011 Accounts receivables and others	Dec. 31, 2011 Accounts payables and others
Korea Electric Power Corporation	448,390	20,564	528,334	69,178
Cheongna Energy Co., Ltd.	2,093	-	119	-
Korea South-East Power Co., Ltd.	-	-	-	186
Korea Midland Power Co., Ltd.	2,075	2,545	-	1,687
Korea Southern Power Co., Ltd.	436	171	1,481	957
Korea East-West Power Co., Ltd.	-	-	-	-
KEPCO Plant Service & Engineering Co., Ltd.	-	6,809	-	145
KEPCO KPS Co., Ltd.	-	5,635	-	1,968
KEPCO KDN Co., Ltd.	-	292	-	264
Korea Gas Corporation	204	316,309	-	304,640
Korea Hydro & Nuclear Power Co., Ltd.	-	21	-	-
Korea Electronic Power Industrial Development Co., Ltd.	549	166	284	495

(4) Employee benefits to key executives for the years ended December 31, 2012 and 2011 are as follows (Won in millions):

Description	2012	2011
Short-term employee benefits	722	542

(5) Payment guarantee to related party as of December 31, 2012 is as follows (Won in millions):

Related parties	Description	Limit	Financial institution
Cheongna Energy Co., Ltd.	Investments in associate pledged as collateral	43,900	Hana Bank, etc.

40. NON-CASH TRANSACTIONS

Significant transactions with no effect on cash flows for the years ended December 31, 2012 and 2011, are as follows (Won in millions):

Description	2012	2011
Reclassification of long-term borrowings and debentures to current portion	₩ 220,126	₩ 220,343
Reclassification of construction in progress	291,767	317,276
Reclassification of long-term loans to current portion	1,776	1,514
Reclassification of long-term receivables to current portion	-	-
Reclassification of long-term leasehold deposit to current portion	(2,638)	16,078

41. 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):

	Dec. 31, 2012		Dec. 31, 2011	
Description	Contract	Residual	Contract	Residual
Payments	₩ 2,152,018	₩ 1,976,172	₩ 145,636	₩ 129,349

42. COMMITMENTS AND CONTINGENCIES:

(1) Contingencies as of December 31, 2012 and 2011 are as follows (Won in millions):

	Dec. 31, 2012		Dec. 31, 2011	
Description	Number of cases	Claim amount	Number of cases	Claim amount
As the defendant	2	16,564	5	174
As the plaintiff	3	901	2	420

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

(2) Credit lines provided by financial institutions as of December 31, 2012 is as follows (Won in millions):

Financial institution	Currency	Amount	Description
Nonghyup Bank	KRW	100,000	Commitments on bank-overdraft
Industrial Bank	KRW	100,000	"
Shinhan Bank	KRW	100,000	Limit amount available for CP
Korea Exchange Bank	KRW	84,000	"
Hana Bank	USD	40,000	Certification of payment on L/C
Kookmin Bank	USD	50,000	"
Shinhan Bank	USD	30,000	"
Korea Exchange Bank	USD	90,730	"
Korea Exchange Bank	USD	18,000	Loan limit
RBS	USD	80,000	"
BNP	USD	60,000	"
SC Bank	USD	50,000	"
Shinhan Bank	USD	30,000	"
HSBC	USD	100,000	"
Mizuho Corporate Bank	USD	100,000	"
Deutsche Bank	USD	100,000	"
Bank of communications	USD	100,000	"
Scotiabank	USD	50,000	"

(3) The main raw material purchase agreements as of December 31, 2012 are as follows (Ton in thousand and kl in thousands):

Raw materials	Supplier	The term of the contract	Volume
Bituminous coal	Energy Coal Marketing PTY, etc.	2011.01~2018.03	2,565
"	Energy Man Holdings LTD, etc.	2010.10~2018.03	2,340
"	Glencore International AG	2012.08~2013.03	210
"	Cloud Peak Energy Logistics LLC, etc.	2012.04~2017.12	995
BC oil	Vitol	2012.12~2013.02	30
"	Vitol	2013.01~2013.03	30
"	Samsung C&T Corp.	2013.01~2013.03	30
LNG	Korea Gas Corporation	2007~2026	Annually to determine

(4) Long-term shipping contracts are made to secure the stability of coal transportation from overseas suppliers as of December 31, 2012, and the details of the contracts are as follows:

Shipping company	Ship name	The term of the contract
STX Pan Ocean Co., Ltd.	Ocean Master	1995.04~2013.03
KLG Co., Ltd.	BlueBell	1996.10~2014.09
K-Line	CSK Brilliance	2011.11~2021.10
NYK	LOWLANDS PHOENIX	2012.02~2027.01
K-Line	Brilliant River	2009.02~2019.01
MOL	Gloriosa Lily	2008.10~2018.09
MOL	TTM HOPE	2008.10~2018.09
MOL	AOM ELENA	2008.11~2018.10
HANJIN SHPPING Co., Ltd.	Hanjin Balikpapan	2011.07~2026.06
Hansung Line Co.Ltd.	Western Marine	2012.01~2026.12
K-Line	Dolce	2007.07~2017.06
DAEBO INTERNATIONAL SHIPPING CO,.LTD.	TBN	2015.4Q ~ 2030.3Q

(5) Korea Western Power Co., Ltd. is under an agreement to make an investment to Dongducheon Dream Power Co., Ltd., subsidiary of Korea Western Power Co., Ltd., in relation with the project financing related with Dongducheon Conventional Combined Cycle Project, and the shares of Dongducheon Dream Power Co., Ltd. owned by Korea Western Power Co., Ltd are pledged for the above investment agreement.

Meanwhile, Dongducheon Dream Power Co., Ltd. made a project financing agreement that Kookmin Bank and Samsung Life Insurance jointly prepared in association with Dongducheon Conventional Combined Cycle Project in July 2012, and the construction business expenses are estimated at 1,596 Korean Won in billions. The construction business expenses are planned to be financed by equity capital of 331 Korean Won in billions and loan of 1,265 Korean Won in billions, respectively.

1) Expected of equity capital associated with the PF are summarized as follows(Korean Won in billions):

Description	Financial institutions	Amount	Ratio
Operating founder	Korea Western Power Co., Ltd.	₩ 144	43.6%
Construction founder	Samsung C&T Corp.	103	31.1%
Construction founder	Hyundai development company	47	14.2%
Financial founder	The Korean teachers' credit union (and four others)	36	11.0%

2) PF associated with major shareholder is composed of 27 financial institutions, including Kookmin Bank and Samsung Life Insurance. And details associated with the loan commitment are as follows (Won in hundred millions):

Loan agreement	The lender	Amount
Long-term loan agreement#1 (Floating rate)	Kookmin Bank & Samsung life insurance	₩ 1,200
"	Nonghyup Bank & Hanwha life insurance & Busan Bank	1,500
"	KT capital	350
"	National Pension Service & Hana Bank	600
"	SamsungFire&Marine Insurance & KFCC	500
"	IBK annuity insu	200
"	Kyobo life insurance & Woori Bank & KB life insurance	300
"		₩ 4,650

Loan agreement	The lender	Amount
Long-term loan agreement#2	Samsung life insurance	₩ 700
(Fixed rate)	National pension service	500
"	Kyobo life insurance	400
"	KT capital	350
"	Dongbu Insurance	300
"	Nonghyup life insurance & SamsungFire&Marine Insurance & Korea Exchange Bank	750
"	Hanwha life insurance & Dongbu life insurance & Allianz life insurance & Hana Bank	800
"	Heungkuk life insurance	150
"	Others	700
		4,650
Granting of credit agreement	Samsung securities	1,000
(Debenture)	Kookmin Bank	500
"	Hanwha life insurance & Busan Bank	200
"	Hana Bank	100
"		2,000
Subordinated loan agreement	Daegu Bank	1,350
Total		₩ 12,650

3) After the completion of the power plant, Dongducheon Dream Power Co., Ltd. will put up the issued shares, savings, receivables and the power plant(after completion) as a collateral to the group of lender for the loan.

(6) 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.