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DSME ANNUAL REPORT



Hearing
from the Sea

DSME

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Daewoo Shipbuilding & Marine Engineering (DSME) has grown into one of the world’s leading heavy industries groups. However, we are never satisfied. There is always room for improvement, and we will do our utmost to not only achieve more profitable growth but also better value creation.



Backed by our diversified, technology-driven business portfolio, DSME is laying foundations for business tomorrow.



Company Profile

Daewoo Shipbuilding & Marine Engineering Co. Ltd. (DSME) began operations in 1973 with its Okpo Shipyard. As a company specializing in shipbuilding and offshore structures, DSME's product portfolio includes commercial ships, passenger ships, offshore plants, and special ships. Since 1982, when the company's first ship, Bow Pioneer, was chosen as an outstanding vessel by (the publication that recognized DSME), DSME has produced a total 122 outstanding vessels over its 30 plus years.

DSME maintains its global leadership in product competitiveness in very large crude carriers (VLCCs), LNG ships, ultra-large FPSOs (floating, production, storage and offloading), and semi-submersible drilling rigs. Upon the completion of its corporate workout program in 2001, DSME posted revenues of KRW 3 trillion. And thanks to the establishment of a mid-term strategy and the implementation of the first phase of its F1 development strategy, DSME achieved revenue of KRW 13.2 trillion in 2009, making it one of the world's leading heavy industries group specializing in the construction of ships and offshore structures.

2011 marked the beginning of the second phase of the F1 strategy, fulfilling the complete launch of our Vision 2020 that was formulated in 2009, "to become the world's No.1 integrated heavy industries group". In 2011, DSME's revenue reached KRW 13,903.3 billion and its operating income stood at KRW 1,103.8 billion, making DSME a member of the '10-1 trillion club' – a term for firms that achieve more than 10 trillion won in revenue and 1 trillion won in operating profit on a yearly basis – for the second year in a row and the third time since 2008.

2011 has received a range of orders for a wide variety of ships and offshore plants, including 20 units of the world's largest containership as well as a LNG FSRU and pipe-laying vessels. We also became the first in Korea to successfully sign a contract with Indonesia to construct submarines for its navy. DSME's orders for 2011 reached USD 14.3 billion, 30% higher than our target of USD 11 billion. Such an achievement was only possible through our advanced technologies in

LNG shipbuilding, our independently developed dual derrick drillship, and our eco-friendly and increased efficiency ship technologies. Our success can also be attributed to the maintenance of long-term partnerships with the ship-owners who purchase our products.

As our offshore division has grown in response to client demand, we have made new investments to establish in-house PE zones, carry out breakwater reclamation projects, construct additional inner walls, and build an ultra-large floating dock (RD-5). With regards to our new businesses, we have completed equity investments in the Paenal Yard in Angola and mining areas in Cepu, Indonesia, made further investments for oil exploration in the Zhambyl oil field in Kazakhstan, further developed the DeWind model and worked on the development of clean coal power generation technologies.

Notable products that involved extraordinary determination and intelligence to bring to fruition include the delivery of the world's largest FPSO the "Pazflor", the world's first Wind Turbine Installation Vessel (WTV) for which we have already received an order; and the completion of a project to improve the performance of 209-grade submarines in Indonesia. DSME's Dock 1 has the world's largest production capacity and, in a mere 30 years, it has launched 200 batches of new ships. In addition, it has become the first dockyard in Korea to receive both the OHSAS18001 and KOSHA18001 certifications for safety and the environment, with a track record of zero serious disasters to date.

We have been active in our R&D efforts to commercialize our eco-friendly and green ship technologies, which include a fuel cell system for ships, an integrated energy management system for green shipyards and the world's very first LTE-based smart shipyard. Our automatic location control system (DP-2), designed to be installed on offshore structures such as our independently developed drillships, has received marine certification, thereby laying the foundation for its entry into the global market. DSME's drillships were selected as a 'First-rate Global

Product' by the Korean Ministry of Knowledge Economy in 2011. In addition, from among the many ships built in 2011, a total of ten ships were recognized as world-class outstanding vessels by globally renowned industry publications, including the Naval Architect and Maritime Reporter. In fact, on an annual basis, no less than nine of our ships have been chosen for this distinction for the past five consecutive years. Further accolades include DSME being the first shipbuilding company to receive the '2011 Korea SCM Award' hosted by the Korean Society of Supply Chain Management and the Korean Ministry of the Knowledge Economy, in recognition for its IT capabilities and its corporate strategy of maintaining mutually beneficial relationships with partner companies.

We strengthened the foundation for business diversification, beginning with the signing of an MOU for various business projects with the China-based Riin Group. This was followed by an agreement reached with Tamar gas field companies in Israel for mining area development. DeWind, an affiliate of DSME, signed a contract to supply 55 wind generators. A ceremony was held to mark the completion of our plant in Trenton, Canada and production of wind power generation facilities has been fully launched. DSME Shandong Co., Ltd. (DSSC) completed building its first entire ship, laying the foundation for future advances. DW Mangalia Heavy Industries S.A (DMHI) completed the Zhambyl project earlier than planned, fuelling our great anticipation for the success of future offshore business projects. In addition, the signing of an outsourcing management contract with Daehan Shipbuilding is expected to generate excellent synergy with our company's needs, including enhanced competitiveness through the diversification of ship orders, and will further spur the success of our Vision 2020.

To further satisfy global standards on anti-corruption and ethical

management, we analyzed and assessed anti-corruption bills and trends in the US and Britain, and collected and analyzed the ethical standard materials of major customers, including oil companies. By doing so, we improved and overhauled our ethical infrastructure, thereby strengthening compliance with corporate ethics both within and outside the company. With regards to the 'agreement on fair subcontract trade and joint growth between large companies and small- to mid-sized companies', we have been faithfully executing the agreement and are expanding its scope to include second-tier partner companies. DSME was even acknowledged by the Korean Ministry of Employment and Labor as an outstanding example for subcontracting. In the area of corporate social responsibility, we extended our efforts and created the 'DSME Social Volunteer Group' to carry out social contribution activities together with our affiliates that benefits the company's stature and reputation. We have, therefore, established a foundation to share more with local residents.

Low growth is expected to continue globally in 2012. Only a small number of orders will be made for general commercial ships amidst increasing price competition. On the other hand, there will be continued demand for offshore products in tandem with high oil prices. In response to this trend, we plan to bolster our technological competencies for offshore products, boost cost competitiveness through efficient operations, and create total solutions based on our support systems. To develop future growth drivers, we have drawn up plans to make inroads into the offshore wind power market by building new products, work on receiving ship and offshore facility orders from the mining sector, and to develop the core competencies needed to advance into the subsea and plant markets.

Daewoo Shipbuilding & Marine Engineering (DSME) has grown into one of the world's leading heavy industries groups. However, we are never satisfied. There is always room for improvement, and we will do our utmost to not only achieve more profitable growth but also better value creation.

Backed by our diversified, technology-driven business portfolio, DSME is laying foundations for business tomorrow.

CEO Message



Honorable shareholders and stakeholders,

It gives me great pleasure to have this opportunity to greet you as the new CEO of DSME, a company that is rapidly moving toward becoming the world's No. 1 integrated heavy industries group.

Last year, it appeared the global economy's decline would bottom out, but the worsening eurozone crisis and high oil prices have created a situation where optimism about the future is significantly fading. Despite a difficult business environment, however, DSME smoothly overcame all obstacles thanks to its unique mindset of passion and trust. DSME achieved an outstanding year, receiving orders worth USD 14.3 billion last year, the second highest amount since the company's founding.

DSME recorded revenue of KRW 13,903.3 billion and an operating income of KRW 1,103.8 billion in 2011, retaining its membership in the '10-1 trillion club' of firms that have achieved more than 10 trillion won in revenue and 1 trillion won in operating income for the second consecutive year. In particular, DSME's operating income reached its highest level since the company's founding. DSME is the first non-conglomerate to record such an excellent performance for two straight years. This success can be attributed to the full support provided by all our shareholders and the tremendous efforts made by each and every employee to satisfy our stakeholders' expectations. I thank you all.

Despite the ongoing climate of economic uncertainty, 2011 was another record-breaking year for DSME as we continued to exceed expectations and receive high order volumes that laid the foundation for sustainable growth.

I believe 2012 will be a truly difficult year; one that will put all our abilities to the test. The ongoing eurozone crisis that began last year has the potential to become a bigger crisis than the Great Recession of 2008. Soaring oil prices are further deteriorating economic conditions. The number of orders placed for ships is declining and small- to mid-sized shipbuilding companies are facing a serious crisis. However, DSME has accumulated diverse experiences and developed crisis management capabilities in preparation for such situations.

All of us at DSME regard the ongoing crisis as an opportunity to set new goals, and we will work to transform this current turmoil into a foundation for further growth. We will strive to achieve revenue of KRW 12 trillion on the basis of non-consolidated financial statements and receive orders worth more than USD 11 billion this year. These achievements will be effectively channeled so that we may reach revenues of KRW 40 trillion by 2020 and become an integrated heavy industries group that provides total solutions to customers.

DSME has set in place four management principles for 2012 in order to achieve this goal; actively developing technologies and fostering professionals; achieving internal stability in all major business areas; choosing and focusing on certain growth drivers; and creating a culture of trust and passion. In the shipbuilding and offshore industry, fierce competition is occurring in a market that has not yet fully recovered. This industry's peaks and valleys are akin to our company's heart in that they have not only created DSME's present condition, but will also sustain our future. The ratio of shipbuilding to offshore in terms of the volume of orders stood at 5.5:4.5 last year, but is expected to change to 3:7 or 2:8 this year, with offshore expected to continue making up a higher proportion of our order volume in the future. Therefore, DSME will place the highest priority on securing the necessary technologies and experts to gain a competitive edge in offshore structure. We are focusing on developing technological competencies for next-generation products, strengthening cost competitiveness through efficient operations, and creating total solutions for our supporting systems. By adopting these strategies, we will reinforce our position as the indisputable leader in the global market. Considering the overall conditions of the shipbuilding industry and the highly competitive environment, developing growth drivers through business diversification is extremely important. Taking into account the significant uncertainties that exist in the global macroeconomics, we will thoroughly re-examine our implementation strategies. We will select and focus on certain areas as a means of strengthening core business areas and enhancing core competencies, rather than simply entering new fields.



By doing so, we will adjust the rate in which investments are made and will effectively manage risks.

Our final management principle is the creation of a culture of trust and passion. I promise you that, based on mutual respect, labor and management will smoothly engage in discussions on all matters. And with their trust and passion, DSME employees will actively endeavor to perform more than the task at hand. Instead, they will creatively resolve issues through active participation and cooperation. I ask all of you to trust us and provide us with your continued support.

To paraphrase an old Chinese proverb, DSME will develop into a world-leading company by making prudent strategic decisions with fierce determination, like a tiger's gaze. And then, once the decision has been made, we will walk towards the destination like a cow unconcerned with its surroundings.

Many changes are expected this year, including changes in corporate governance. All DSME employees, including myself, will fight against the winds of turmoil and will proceed forward, whenever needed, for the benefit of all our shareholders and stakeholders. Through active communication and solid management, we will further enhance our transparent management – one of our core strengths. We will do our very best to achieve our ultimate goal of becoming the world's No. 1 integrated heavy industries group.

We will consider each and every suggestion offered by our shareholders and stakeholders as our golden rule when carrying out corporate management. This will make our shareholders and stakeholders satisfied, our employees will discover value in themselves while working for DSME, and the company itself will continue contributing to society. As such, DSME will grow into a company that gives happiness to all those involved.

Once again, we thank you for your continued encouragement and interest, and we wish you and your family the very best of health and happiness.

Thank you.

March 30, 2012

Jae Ho KO

President & CEO of DSME

Board of Directors

The DSME Board of Directors comprises of three standing directors and six non-standing directors with vast expertise in their respective areas. The Board is responsible for overall corporate management and operates within a governance framework to ensure its complete independence and transparency.



Internal Directors



Jae Ho KO
President & CEO of DSME



Gab Joong KIM
Senior Executive Vice-President &
CFO at DSME



Dong Hyuk PARK
Executive Vice-President &
Chief Production Officer at DSME

External Directors



Hee Joon SONG
Professor of Public Administration at
Ewha Womans University
Audit Committee Member



Young Il KIM
Formerly Secretary General of
Global Korean Forum
Audit Committee Member



Ji Hong KIM
Currently Professor of Public Policy &
Management at KDI School
Audit Committee Member



Kyung Taek HAN
Currently Visiting Professor of Science &
Technology at Seoul National University
Audit Committee Member



Chang Joong YOON
Currently Commissioner for
National Election Commission
Audit Committee Member



Young Min KWON
Currently General Manager of
Corporate Banking Dept. IV at KDB Bank

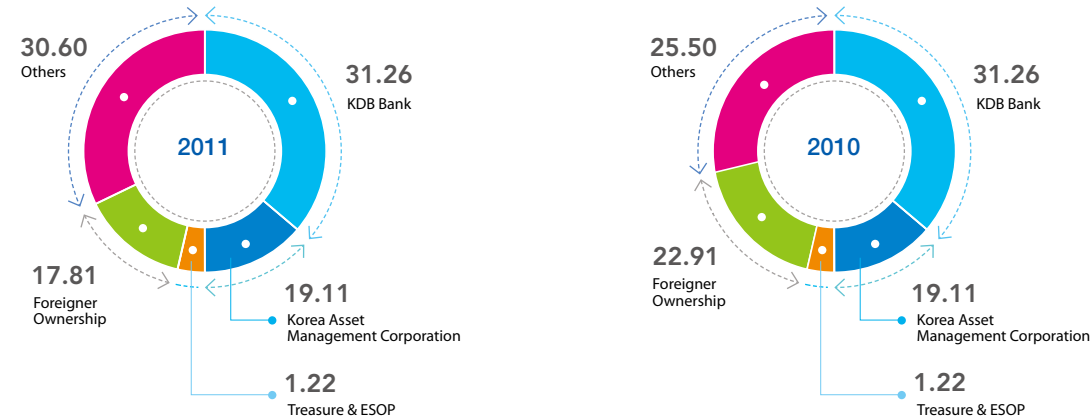
Key Figures

Major Operating Performance

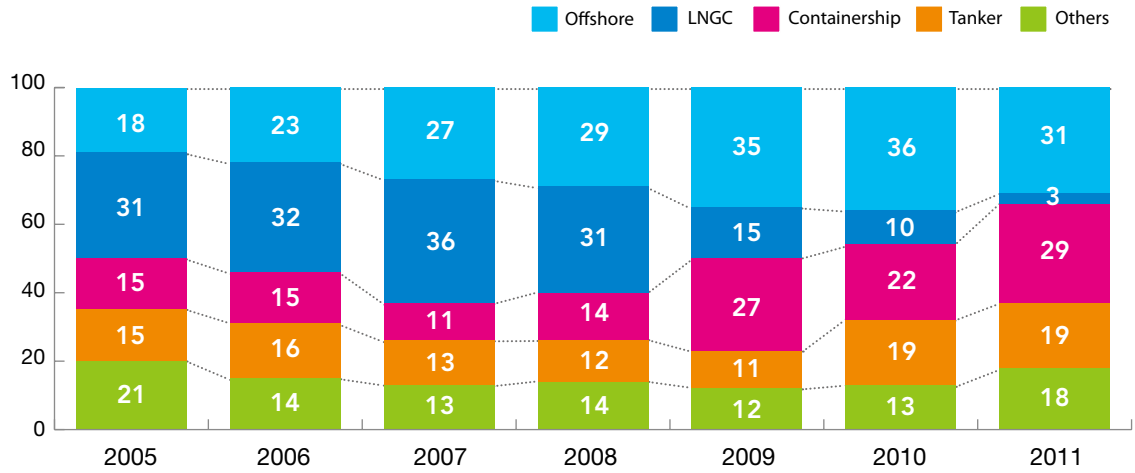
(KRW Billion)	2011	2010	2009
Sales	13,903.3	12,989.5	13,238.7
Operating Income	1,103.8	1,203.2	667.5
Net Income before Income Taxes	997.6	1,040.2	739.5
Net Income	648.3	776.0	546.9

* 2011, 2010 → K-IFRS (Consolidated)
** 2009 → K-GAAP (Consolidated)

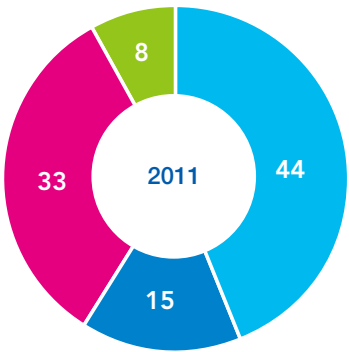
Shareholder Structure (%)



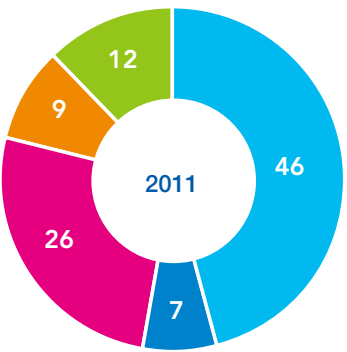
Sales Breakdown (%)



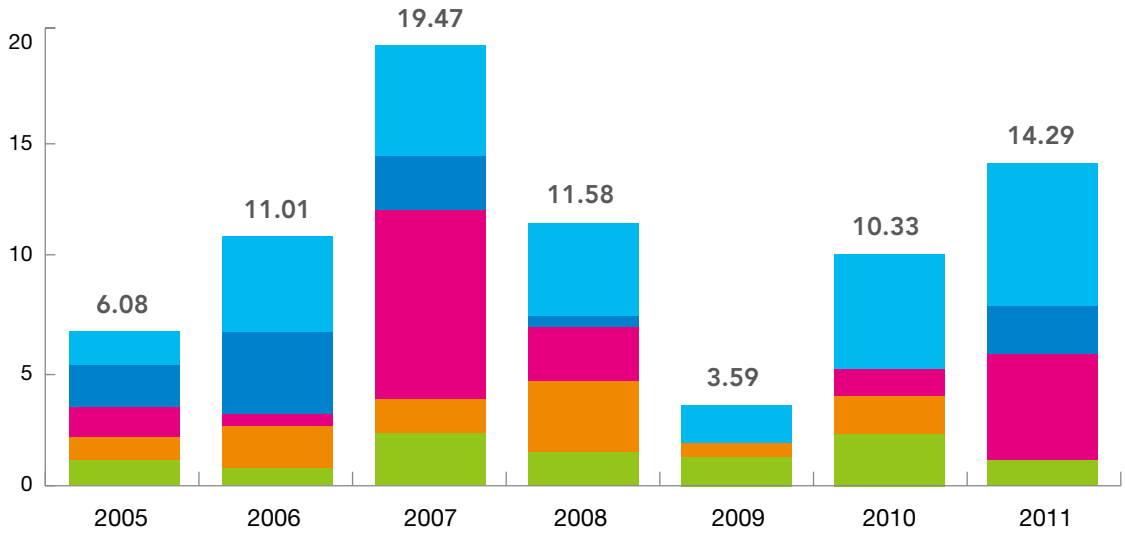
New Order Breakdown (%)



Order Backlog Breakdown (%)



New Order Trend (US\$ billion)



2011 at a Glance



01. January
Signed an MOU with China-based Rilin Group

AS part of its efforts to diversify its business, DSME signed a Memorandum of Agreement (MOU) with China's Rilin Group, a port development company, on January 7th in Shenyang, China.



02. February
Won a containership order worth USD 1.8 billion from A.P. Moller Maersk

DSME made a contract to build 10 "Triple-E" vessels with an option for 20 more. The new giant container vessels will be known as "Triple-E, based on the three main purposes for their creation; economy of scale, energy efficiency, and environmentally improved.



03. March
Led the cruise market

To play a proactive sales activity in the cruse market, DSME joined to '2011 SeaTrade Cruise Shipping Miami' as the only South Korean shipbuilder. DSME displayed 135K GT cruise ship, Cotunav Ro-Pax, Bluestar Ro-Pax as well as some promotional videos & materials to efficiently promote the excellence of our product & shipbuilding capability.



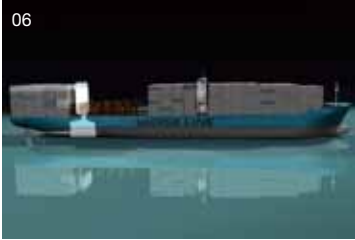
04. April
DeWind received USD 130 million order for 55 wind turbines

DSME's affiliate, DeWind, began to develop its business by acquiring a large scale order for wind turbines. DeWind won an order to supply 5 wind turbine units to WEICan, one of Canada's oldest wind energy research institutes.



05. May
Won a drillship order from Vantage Drilling and two LNG carrier orders from Awilco LNG

Vantage Drilling Company entered into an agreement with DSME to construct an ultra deepwater drillship, further expanding the Company's ultra-deepwater drilling fleet. Furthermore, DSME received an order to build two liquefied natural gas carriers from Norway's Awilco LNG AS. The contract also included an option for the customer to order two additional LNG ships.



06. June
Maersk exercised first option for additional 10 Triple-E container ships

At a signing ceremony in Tokyo, MaerskLine exercised its option with DSME to build 10 additional 18,000teu ships, the world's largest and most efficient container vessels. The new contract has a total value of more than KRW 2 trillion (USD 1.86 billion). The ten ships, 400 meters long and 59 meters wide, will be delivered between 2014 and May 20, 2015 and are in addition to the original ten units of the same type ordered in February.

07. July
Received an order to build four LNG carriers for Greece's Economou

DSME secured orders worth USD 850 million to build four LNG carriers from the Greek based George Economou Group. The 159,800 CBM ships will contain dual fuel diesel electric propulsion and will be delivered by 2014. The deal includes options for two additional LNG ships.

08. August
Won a USD 280 million deal to build a FSRU for Excelerate

DSME won a new order for the world's largest LNG-FSRU from USA-based Excelerate Energy. Valued at approximately USD 280 million, the 173,400 CBM LNG-FSRU (Floating Storage and Regasification Unit) will be delivered by the first quarter 2014. The LNG-FSRU will possess the world's largest regasification system capacity.

09. September
Won a new order for semi-submersible rigs

DSME won a new order for two semi-submersible rigs with Norwegian-based Songa Offshore. Valued at approximately USD 1.1 billion, these rigs will be delivered in the second half of 2014. Once completed, the rigs will be chartered by Statoil, the Norwegian State Oil Company, and will service the Norwegian coast, North Sea, and Polar Regions.

10. October
Received a new order for a fixed offshore platform from Chevron

DSME won a new order valued at approximately USD 1.4 billion for a fixed offshore platform with Chevron, the global oil company, on the 14th October. The fixed platform consists of a 37,000 ton topside, with a 27,000 ton steel gravity-based substructure supporting the topside. It will also possess a Gas-liquid Separation System and Dehydration & Compression System, making it is possible to refine 5,500m³ of natural gas per day.

11. November
Made an agreement to develop Israel's Tamar gas field

DSME will begin full-scale development of a sub-marine gas field in Israel. DSME made the Heads of Agreement with the owners of the Tamar gas field in Jerusalem, Israel for the exploitation of the gas field. DSME established D&H Solutions in Norway in 2010 with the goal of developing gas fields, and intends to implement an omni-directional business model with interests ranging from the exploitation of gas fields to LNG sales.

12. December
Won a new order for submarines from Indonesia

DSME won a new order for three submarines from Indonesia. This contract is the single largest arms sales deal by a Korean firm, with the value of the contract approximately USD 1.1 billion. The submarines scheduled to be delivered in the first half of the year in 2018.



FROM

Builder

In the rapidly changing world, we've taken steps to navigate through today's challenges and seize tomorrow's opportunities. In this changing world, DSME is building a firm base for sustainable growth by realizing our vision of becoming the 'World's No.1 Heavy Industries Group.'



TO

Solution-Provider

World's No.1
Heavy Industries
Group

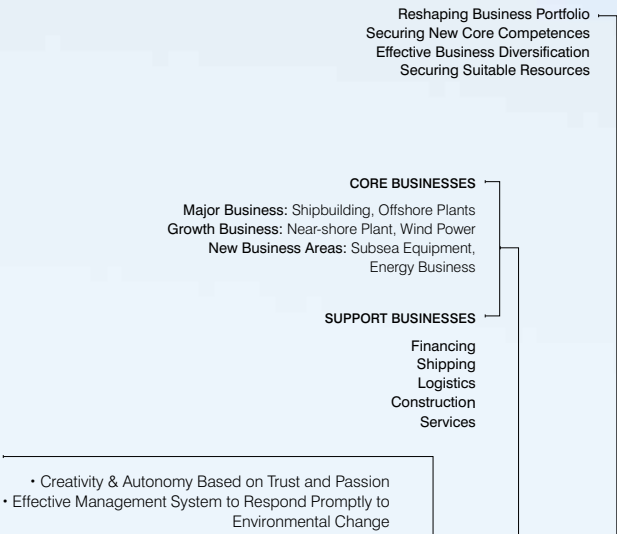
Vision

Vision 2020

Strategic Goals

Business Domain

Infrastructure



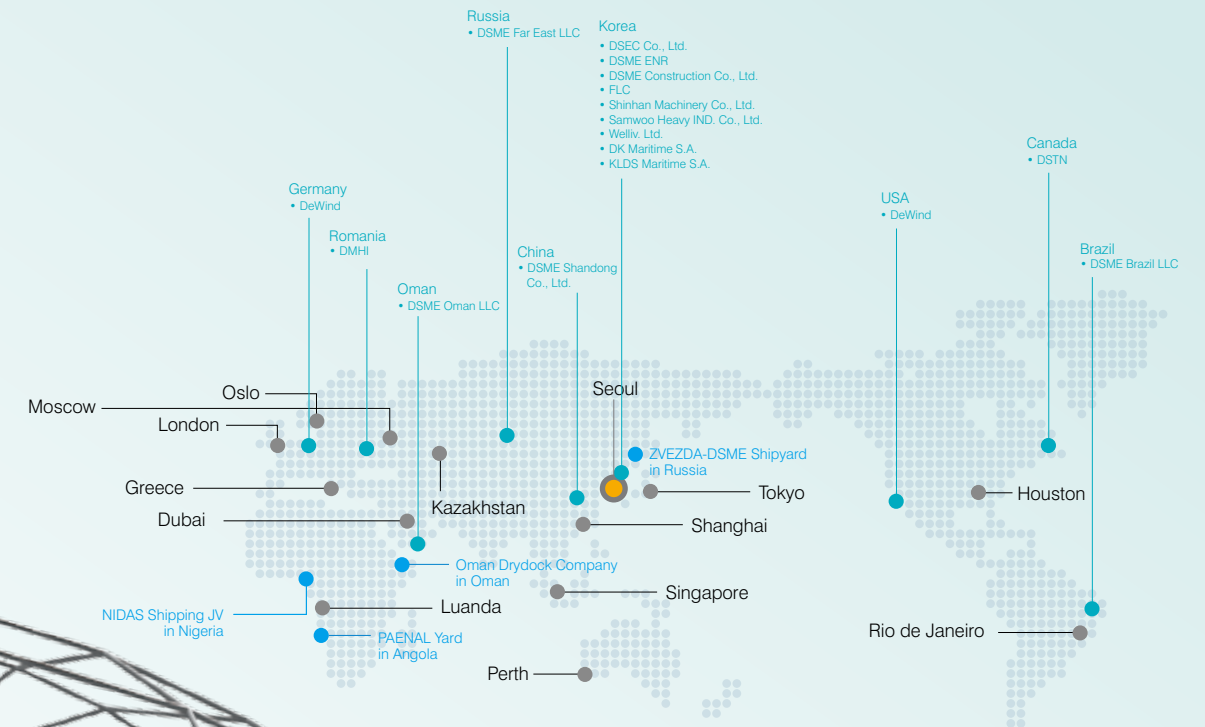
FROM

Limited

DSME has grown into a global company, operating 17 affiliates, 13 branch offices, and 4 joint ventures worldwide to ensure efficient overseas business operations. Our global management structure has allowed us to strengthen our presence in the global market and offer the best local solutions.

TO

Unlimited



Global Network

- Head Office
- DSME Affiliates & Subsidiaries
- Overseas Offices
- Joint Ventures

FROM

More

DSME is committed to operating in a responsible way with respect to environment. By establishing and implementing an advanced environmental management system, DSME will become a global eco-friendly leader, ensuring the well-being of the generations to come.

TO

Better



FROM

Strong

DSME is aware of that we are a part of society, and fulfilling our responsibility as a corporate citizen is pivotal to our future success. That is why we have a substantive and proactive view toward the communities where we live and work. And by actively engaging in social contributions, we will grow together with all of our stakeholders.

TO

Sustainable

CSR System

DSME's system for social contribution activities

Establishment of infrastructure for social activities

Executives' and workers' social contribution activities based on local community

Korea's representative social contribution activities

Community-driven global social contribution activities

OPERATION REVIEW

Through our expertise in what we do best, coupled with our passion and commitment to do it better, DSME has achieved excellent business results in 2011 while building a firm foundation to create a better future for all of our stakeholders.

24
Ship Business



26
Offshore Business



28
New Growth Engines



30
Research & Development



32
HSE



Ship Business

In 2011, DSME was able to further bolster its reputation as an industry leader, taking in orders for a wide range of ships, including the world’s largest LNG-FSRU, as well as concluding Korea’s first contract to export submarines.



Sales (Including special ships)
(KRW Trillion, %)

8.28 KRW Trillion



New Orders (Including special ships)
(USD Billion, %)

7.99 USD Billion



DSME boasts world-leading technology and competitiveness in LNG carriers, including LNG-RVs and all other product categories under commercial ships.

2011 was marked by challenging market conditions, primarily due to the global economic downturn of the previous years. Nevertheless, DSME strived to overcome sluggish order placements by accurately predicting and responding the ever-changing trends in demand. These efforts led to the receipt of an order to build twenty 18,000 TEU containerships, the largest in the world, in the first half of 2011. We later received additional orders, resulting in a total order for 27 containerships. Overall, we successfully signed contracts to supply 39 ships. By sharply ascertaining and accurately analyzing the rapidly changing market, we successfully received orders to build eight LNG carriers, proving our outstanding abilities in building high value-added ships.

What is especially worthy of note is the contract with the US-based Excelerate to supply the world’s largest LNG-FSRU. This contract demonstrates DSME’s competitiveness in the rapidly-growing LNG market. Unlike other FSRUs, the LNG-FSRU we are building is based on eight LNG-RV models that we independently designed and built. Its top speed is much faster than other FSRUs, making it more efficient and giving it greater competitiveness. Its major strength is in its mobility, in that it can supply natural gas without large-scale on-shore facility investments. Demand for our independently designed LNG-FSRU is expected to steadily increase.

In addition to receiving a great number of orders, ten of our ships were selected as outstanding vessels in 2011 by world-renowned industry publications, with three of our ships chosen by two publications simultaneously. These accolades highlight how our technological prowess and superior quality is receiving worldwide recognition.

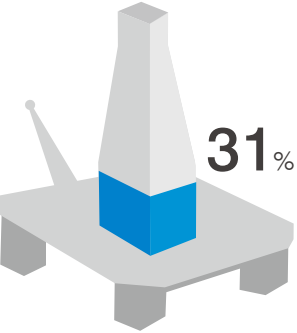
Above all, we signed a contract to supply three submarines to the Indonesian Navy in December 2011. This 1400-ton submarine export contract is worth around USD 1.1 billion. It is the highest value single contract in the company’s history of exporting defense industry products. DSME became the first Korean shipbuilder to export a submarine, proving that the company’s technologies and skills in building special ships are among the world’s top shipbuilders. The signing of the contract is extremely significant in that DSME bested companies from France, Russia, and Germany, which are known to lead the field of submarines. We will further develop our global competitiveness and increase our market share.

Offshore Business

With continually growing numbers of offshore project orders, DSME is paving the way to solidify our leadership in this highly competitive sector through active pursuit of new and developing markets and a focus on excellence.

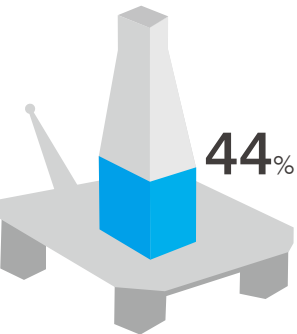
Sales
(KRW Trillion, %)

3.85 KRW Trillion



New Orders
(USD Billion, %)

6.29 USD Billion



DSME obtained orders for 11 offshore projects in 2011 which included a drillship drilling rig, fixed platforms and pipe-laying vessels, demonstrating our ability to build a wide array of offshore products. In 2007, we signed a USD 2.1 billion contract with Total to build the Pazflor FPSO in Angola, one of the world's largest offshore plants. In September 2011, it successfully produced crude oil for the first time and, more importantly, it did so one month earlier than originally planned due to the incredible efficiency and quality of DSME and our partner's work.

The receipt of an order to build a pipe-laying vessel from Odebrecht, the largest construction plant group in Brazil, has proven our advanced competencies in various offshore products and facilities. The contract with Odebrecht is significant in that it serves to publicize DSME's excellent building capabilities across the globe. Furthermore,

it is with a Brazilian company, an emerging market in the offshore business where several offshore development projects are underway. The signing of the 2011 contract with Odebrecht is expected to lead to additional contracts for various offshore structures.

We also received orders from Chevron, a world-leading oil company. A contract worth around USD 1.4 billion was signed to build a fixed platform for the production of natural gas, which was an addition to contracts to build three drilling rigs and five drillships.

Our success in signing these many contracts is proof of our competitiveness in the offshore business and our endless potential for growth. Our repeat business in the offshore sector offers proof of the trust and satisfaction that our clients have in us. This bodes well for us as the expansion

of the offshore business sector is forecasted to steadily continue. Furthermore, we have also signed contracts for newly developed offshore products. DSME's building capabilities continue to develop in line with trends in the offshore product market, where we are striving to provide a range of products to meet the diversified needs of our clients.

The offshore business is continually growing. It has steadily expanded and become one of DSME's major business areas. Considering the current conditions, where oil prices are expected to rise and demand for various energy sources is on an upward trend, 2012 will likely see orders placed for new products in all of our business areas, bringing us that much closer to our goal of becoming a global heavy industries group.

New Growth Engines

To ensure DSME remains one of the world’s leading heavy industries groups, we are actively developing new and innovative growth engines that will power the company into the sustainable future.



Wind Power Business

Wind power, one of the fastest growing energy sectors in the world, grew largely out of uncertainty resulting from climate change, environmental degradation, and dwindling fossil fuel stocks. In the 21st century, wind power development is no longer a new business and, as such, expertise in wind energy technology is in great demand internationally. Performance, experience, reliability, and innovative power are the main criteria being brought to bear in the wind energy sector.

DSME has been strongly promoting the wind power business through its subsidiaries DeWind Co. and DSME Trenton. In 2009, DSME acquired DeWind Inc., an American wind turbine engineering and manufacturing company, and began integrating DSME’s world-class business capabilities in the overall marine sphere with DeWind’s technology and experience. The establishment of DSME Trenton in 2010, a new plant in Canada for wind turbine blades and towers manufacturing, allowed DSME to steadily expand its portfolio through the synergy created from DSME’s international business skills and DeWind’s expertise in wind power sector.

As a Korean player, DSME is breaking a new ground in the wind power field through its successful collaboration with one of the most prominent

Korean electricity companies. Their joint wind farm development project in the USA will become a significant leap forward in achieving DSME’s goal of becoming top-class player in the wind power sector. DSME’s Seoul headquarter is a strategic foothold in the wind power business, and serves to ensure the smooth and effective integration of its subsidiaries’ expertise, directed towards harmonizing and optimizing their capability to meet wind market demand.

Onshore/Barge-Mounted Modular Plant

Based on our proven integrated offshore technologies, DSME offers proper business solutions for the near-shore. DSME is taking the leading in developing cutting-edge new designs closely related to Barge-Mounted Modular Plants. More specifically, we constructed a BMPP (barge-mounted power plant) as an oil-fired power plant at Khanom, Thailand, as well as a barge mounted seawater treatment plant at Alaska’s Prudhoe Bay.

Furthermore, DSME completed construction of Total’s Pazflor – the world’s largest offshore oil production facility – which will be installed in offshore Angola by the second half of 2011.

Designing and building the equipment required to develop Pazflor required the expertise of hundreds of people at dozens of industrial sites around the world. Having the necessary experience in conducting plant business, DSME is able to provide a range of modularized options; At-Shore Barge-mounted Modular Power Plants in Harbor Areas, Floating Barge-mounted Modular Power Plants, and Onshore Skid-mounted (Truss-based) Modular Power Plants. Compared to conventional stick-built plants, the Barge Mounted Power Plant has definite advantages – high productivity, maintenance of original integrity, and the shortest possible delivery periods. By using the Barge-Mounted Modular plant process, we expect to achieve cost reductions, particularly in indirect costs, temporary buildings/facilities costs, field labor costs, and field subcontracting costs.

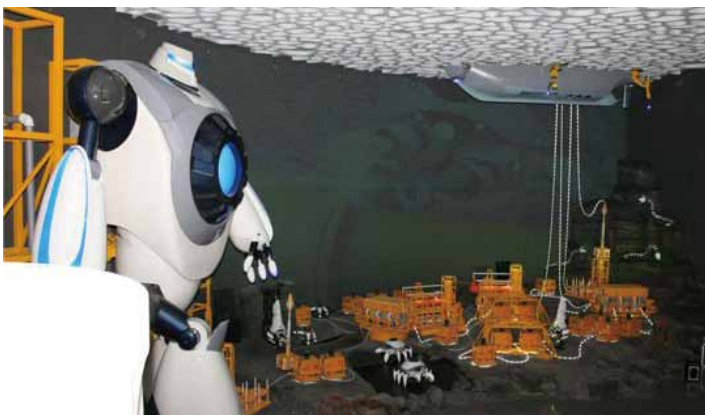
DSME is also looking toward the developing green energy field, exploring such areas as a Coal-Fired Power Plant with CCS (Carbon Capture Storage) – a CO2 power plant integrated with a capture plant using commercially proven components such as carbon dioxide absorption that use harmless inorganic chemicals, in a capture technology that could be widely employed in the petrochemical industry.

Vision Roadmap

Vision 2020 World’s No.1 Integrated Heavy Industries Group	
2020 World’s No.1 Integrated Heavy Industries Group	<ul style="list-style-type: none">• Obtain leading positions in business domains (Shipbuilding/Offshore/Near-shore plant / New renewable energy)• Establish a self-continuous cycle of sustainable growth
2013-2015 Entering the Top-tier	<ul style="list-style-type: none">• No.1 in shipbuilding & offshore business• Enter the top-tier in energy plant industry• Balance business portfolio with growth and relevance
2011-2012 Preparing for Take-off	<ul style="list-style-type: none">• Build a foundation for reshaping• Launch new business and products (Modular plants, FLNG, Wind Power, etc.)• More creative culture

Research & Development

Research and development is the key to DSME’s future success. Through the active pursuit of new and innovative technologies, DSME will drive the development of the shipbuilding and marine industries.



DSME operates the Central Research Institute, consisting of the New Business Research Team which develops futuristic products that lead the market, engages in R&D efforts in new eco-friendly, human-focused business areas, and intelligent robotics; the Ship & Ocean Research Team which researches the fundamental technologies and design governing ship models, structures, fluid dynamics, vibration, and noise, as well as ship and plant automation; and the Information Technology Team which researches design and production systems, IT convergence, and the establishment of ICT policies and strategies. DSME also operates the Industrial Application R&D Institute which researches production automation in the field of hull assembly, welding, and painting; welding methods, device, welding deformation control, and correction technology; measurement device, technology, and measuring; anti-corrosion for products; eco-friendliness and low energy consumption; and the early stabilization of new business areas. Around 400 world-class researchers are working hard to develop new growth drivers, products, and technologies, as well as improving the performance of key products and boosting productivity.

The Research Institute had several major R&D achievements in 2011. The Ship & Ocean Research Team developed an LNG fueled ship for market promotion; carried out research on the application of ducted PSS (Pre-Swirl Stator), a fuel reduction

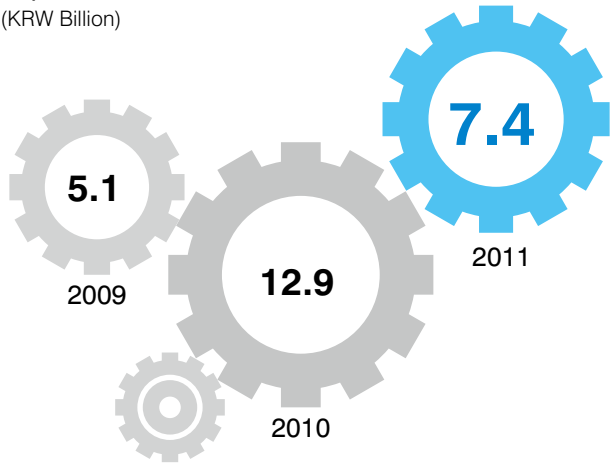
device; developed an eco-friendly ship system that reduces VOC (Volatile Organic Compounds); developed a technology for evaluating CCS (Cargo Containment System) intensity; completed localization of the bulk handling system; developed DP (Dynamic Positioning System) simulation technology; and developed cryogenic FGS system technology. The Information Technology Team developed a drilling simulator; built an integrated, corporate-wide ERP system; established a smart shipbuilding environment; built an in-house DACOS-based system; and developed a CAD support system in the production field. The New Business Research Team developed products and established a business foundation for modular plant products by developing organizational competencies that allow it to generate future growth drivers; discovered new and renewable energy initiatives; created futuristic offshore and ship products; developed sea power and nuclear power system technologies to achieve the goals of different projects including a project to develop intelligent robotic systems; developed floating gas-fired combined cycle power plant technologies; developed design technologies for fuel cell systems for ships; developed mini robots for welding; and developed robots for exhibition at the EXPO 2012 in Yeosu, Korea. This team is also developing a wide range of new products, technologies, and key element technologies, as well as developing and implementing new business areas.

The Industrial Application R&D Institute focuses on the establishment of shipbuilding and offshore equipment production systems that allow for safe and easy work. It completed the localization of CTOD welding materials for Hae Yang Checkers Co., Ltd.; developed a hybrid-laser arc welding technology; a drilling system operating simulator; FLNG/LNGC CCS maintenance equipment; a launching barge monitoring system; large propeller production technologies; and conducted research for the establishment of painting work standards.

DSME is directing its focus toward project engineering and basic technologies to build high value-added offshore structures, and develop design and production technologies that are aimed at increasing productivity, quality, and efficiency in our core products.

We are taking the lead in developing cutting-edge products such as LNG-fueled ships, LNG FPSOs, LNG FSRUs, arctic ships (B/Cs, tankers), arctic drillships, and cruise ships that will serve as future growth engines. Furthermore, we are developing new business areas that are orientated toward the environment and people, including new energy facilities, equipment related to the environment and climate, and innovative plants. By doing so, we are contributing to increased revenues and the development of base technologies to lead the second phase of the F1 ongoing development strategy.

Expenditures in R&D
(KRW Billion)



HSE

Human resources are our most important assets. Recognizing this, DSME engages in a wide range of activities to ensure the health and safety of all our employees, their families, and the environment as a whole.



To become the world's No.1 heavy industries group, DSME prioritizes the protection of HSE (Health, Safety, and Environment) as the highest value of corporate management. Equipped with the nation's best HSE facilities, equipment, and personnel, we are striving to create a safe, healthy, and pleasant workplace.

DSME conducts consolidated HSE management through its safety and health management (OHSAS 18001) and environmental management (ISO 14001) systems. DSME also acquired KOSHA18001 (Industrial Safety & Health Management System) certification in 2011. Implementation of our integrated HSE system is evaluated through a quarterly monitoring system in addition to both internal and external audits. The results are reported to the CEO and are used for continuous improvements.

Health

DSME carries out preemptive health management for employees and executives through a comprehensive health management system. By operating various health-promotion programs (anti-smoking programs, body fat reduction programs, before and after-work programs, open lectures, etc.),

DSME assists its employees' health management by promoting healthier lifestyles and habits. DSME also assesses health risks by providing general, specialized, and comprehensive health checkups. For employees categorized as belonging to an 'at risk' group, DSME actively provides treatment and engages in disease prevention activities through its internal Health Management Center.

Above all, MRA (Magnetic Resonance Angiogram) and MDCT (Multi-Detector Computed Tomography) scans are carried out as part of the comprehensive health checkups to prevent cerebrovascular disease and cardiovascular disease, which have been identified as the top two major causes of deaths in the nation over the last ten years. To help prevent cerebro-cardiovascular disease, prevention programs have been initiated. In addition to managing employees' physical health, DSME also operates the Maeumnuri Happiness Center for active stress management, which has become a major social issue of late.

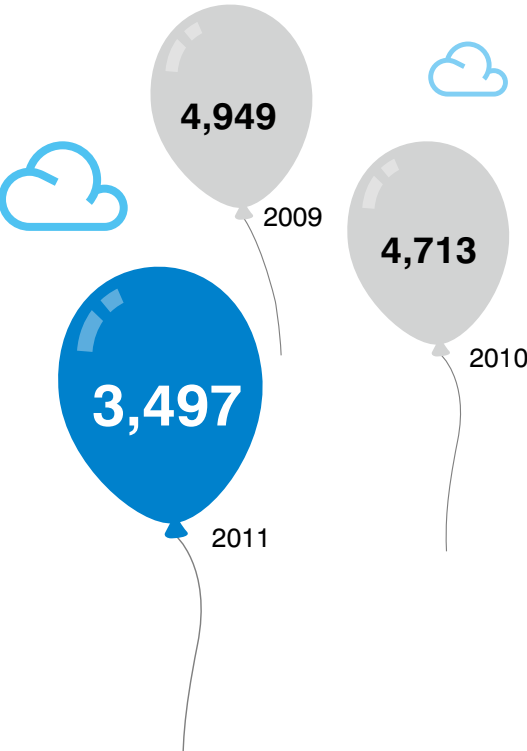
In addition, comprehensive health checkups are provided to employees' spouses to help employees manage their family's health. Counseling centers have been set up outside the company premises to strengthen emotional ties among family members.

As part of its social contribution activities, DSME held a ceremony to sign an agreement with a blood bank in 2009 to ensure the smooth supply of blood. Labor and management come together every quarter to conduct a blood donation campaign. Through 2011, around 4,300 employees participated in the campaign, donating approximately 1,749 thousand cc of blood. Blood donor cards donated by employees are managed like a fund, with approximately 1,600 blood donor cards used for colleagues and neighbors in emergency situations.

Safety

Regarding safety as a top priority in corporate management, DSME conducts multifaceted and systematic programs to achieve IIF (Incident Injury Free). DSME operates an HSE management performance system for each division that engages in a system-based management of safety checks, safety training, prevention of accidents, implementation of the HSE management program, and an ergonomics program. By indexing each item in real time, DSME has strengthened its programs to prevent accidents and has established daily safety management activities.

Volatile Organic Compounds (VOC) Emissions (Ton/GT)



As a model corporate citizen, we believe it is our responsibility to conduct business in a way that benefits the environment and protects the health and safety of our employees and the communities in which we live and work.



Vision of Environmental Management

Vision
Environmentally Friendly
Global Leader DSME

Green Shipyard	<ul style="list-style-type: none">• No violation of environmental policy & Zero environmental accident• Stronger mindset for environmental protection• ISO 14001
Global Green Management	<ul style="list-style-type: none">• Less GHG emissions & More energy saving• Leading resource recycle• Solidifying green partnership with partner companies
Green Competitiveness	<ul style="list-style-type: none">• Designing, purchasing and building environmentally friendly products• Expanding new and renewable energy business including wind power

DSME has also introduced a safety mileage system that awards divisions and individuals who excel in safe practices. This system is motivating employees to prevent accidents. DSME has set aside 2 billion won, the largest amount among companies in Korea, as its annual budget for rewarding divisions and individuals according to the mileage system. Continued efforts are being made to create an incident-free workplace.

DSME operates a three-stage safety-training program for all new employees, with effective hands-on training also provided at the HSE experience zone. In addition, simulation training is provided to each division for practical safety training.

DSME engages in other various safety management efforts based on employee participation. They include the creation of a DSME safety song and the holding of safety quiz contests and safety experience events for employees’ spouses. All these efforts and others are aimed at establishing a corporate culture that emphasizes safety.

Environment

DSME is realizing its vision of becoming a global leader in eco-friendliness by executing three strategies – creating a pollution-free workplace, taking the lead in global green management, and securing competitiveness in eco-friendliness.

To create a pollution-free workplace, DSME evaluates the company’s environmental management quality based on performance indexes. In addition to complying with environmental standards, DSME manages its workplace through internal standards that are 30% stricter than legal standards. Training programs and campaigns have been implemented to reduce reliance on greenhouse gas-generating energy sources, preserve air and water quality, and protect the ocean. By doing so, DSME is engaging in activities to prevent environmental pollution.

After receiving ISO14001 certification, the international certification on environmental management, DSME created an advanced environmental system. It is working together with environmental organizations to enable eco-friendly work practices across all its manufacturing processes. It also received ISO50001 certification

thanks to its energy management processes and its energy management IT system (EMS: Energy Management System), thus remaining ahead of the curve in eco-friendly energy management.

DSME has continued its efforts to develop green ships to ensure eco-friendliness and high efficiency, which have become important factors in the shipbuilding industry. As a result of this endeavor, the company developed an LNG-fueled ship in 2011 that emits lower amounts of environmental pollutants and is competitive in complying with greenhouse gas regulations. The ship has already received major classification certificates. By developing a highly efficient ship navigation program called NAPA-DSME Power, the software for green ships, DSME has secured its competitiveness in eco-friendliness.

Thanks to the DSME’s strong determination toward realizing the company’s vision of becoming a global leader in eco-friendliness, and its continued efforts to protect the environment, DSME ranked 13th among the top 100 companies on Korea’s ‘green list’ in 2011. It received the top grade in the sustainable management category, and was chosen as an excellent example of a sustainable company in Korea.

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Management's Discussion & Analysis

1. Overview

In 2011, DSME posted sales of KRW 13,903 billion, a 7% or KRW 914 billion increase year-on-year. Our operating income reached KRW 1,104 billion with an income before tax of KRW 998 billion and a net income of KRW 648 billion. We achieved sound profitability and financial stability through these results. Our even growth performance across all sectors is all the more meaningful because it was an accomplishment made by taking preemptive, efficient measures against external risks. These risks included reduced export and import traffic alongside the steady decrease in the global economic growth rate, uncertainties in the internal and external business environment including rising oil prices due to geo-political instability, and the continuing fallout from the European fiscal crisis.

To strengthen DSME's stature as a global leader and to implement transparent management, we began applying K-IFRS (Korean International Financial Reporting Standards) to our financial statements in 2011. This change is expected to lead to increased transparency and clarity in the reporting of the company's performance and enhanced financial stability. It is also expected to substantially contribute to greater benefits and value to stakeholders.

2. Performance Analysis

Summary of Income Statements (based on consolidated financial statements)			
(KRW Billion)	2011	2010	2009
Sales	13,903.3	12,989.5	13,238.7
Gross Profit	1,650.2	1,807.3	1,110.7
Operating Income	1,103.8	1,203.2	667.5
Income before Income Taxes	997.6	1,040.2	739.5
Net Income	648.3	776.0	546.9

* DSME adopted K-IFRS in 2011 and has applied it to 2011 figures. Information for 2010 was recreated based on K-IFRS. Information for 2009 was created based on K-GAAP.

SALES

DSME remained a member of the '10-1 trillion club' in 2011 with over KRW 10 trillion in revenue and KRW 1 trillion in operating profit for the second consecutive year. This reflects DSME continued steady growth in corporate size and profitability despite the ongoing global economic turmoil and the aggressive strategies of market rivals, and was made possible through the great passion and conviction of all our employees.

Orders received in 2011 amounted to USD 14.3 billion – the second highest amount since the company's founding. Our steady increase in order volume was driven by a greater focus on shipbuilding and specialized vessels, and the strengthening of our competencies within these fields. We will bolster our competitiveness in the shipbuilding sector, with a focus on high added-value vessels, and will gain a competitive advantage in the offshore business by developing technological competencies and enhancing cost competitiveness. By doing so, we will reinforce our leadership position in the global market. In particular, our new plant business is expected to continue expanding against the backdrop of fierce global competition for natural resources. Our plan is to strengthen growth by focusing on turning our resource systems into total solutions. We also plan to develop future growth drivers by entering the wind power, subsea, and plant markets.

PROFITABILITY

DSME's gross profit stood at 11.87% in 2011, representing a slight decrease from the 13.91% recorded in 2010. This is attributable to a rise in raw material prices in the first half of 2011 and a continued drop in new ship prices since 2008. An additional factor can be seen in the increased competition within the industry that grew out of the recent global financial crisis, with the global shipping building industry suffering a significant reduction in orders placed by advanced countries, including the US and European countries, in tandem with a rise in economic uncertainty. Despite the onset of the global recovery, the shipbuilding market has yet to fully recover and competition within the industry has grown fiercer.

To overcome such external unfavorable conditions, DSME is working to establish a diversified business portfolio by receiving orders for mainly high value-added products and engaging in activities that reduce costs. Through these activities, DSME's expects to see its gross profit to improve in the future. Our operating income reached KRW 1,103.8 billion, indicating high year-on-year growth of 7% and reflecting the company's steadily improving profitability.

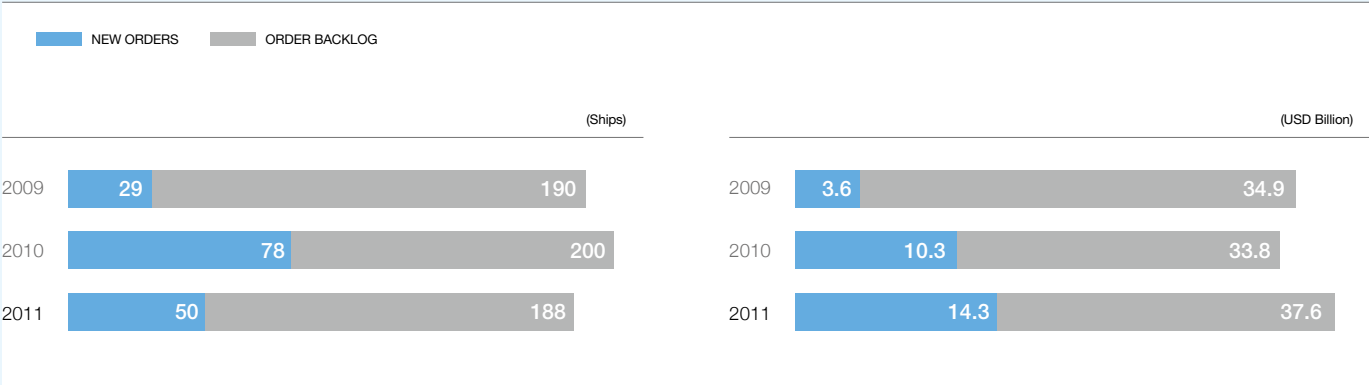
In terms of non-operating income, we recorded a net profit of KRW 48.6 billion from derivatives held to hedge against volatile risks such as fluctuations in exchange rates. This contributed to the achievement of a stable performance despite a difficult business environment. Our net income somewhat decreased from the previous year to stand at KRW 648 billion, but this can be regarded as a remarkable achievement in consideration of the external unfavorable conditions. This surplus in resources is being used for various investments and research activities aimed at enhancing corporate value.

STATUS OF ORDERS

In the shipbuilding business, we received orders for a total of 39 vessels, including an order for twenty 18,000 TEU container ships – the world's largest – which we received orders in the first half of 2011. We also received orders for eight LNG ships, one FSRU, and three submarines. We, therefore, succeeded in receiving orders for mainly high added-value products. In the offshore business, we received a total 11 orders, including five drillships, three semi-rigs, one fixed platform, and two other orders, proving that we have the building capabilities for a wide array of offshore products.

Commercial ships accounted for 48% of the total value of orders, while the offshore and other business areas accounted for 44% and 8%, respectively. The shipbuilding and offshore businesses currently make up similar shares of DSME's order volume, but the offshore business is expected to steadily increase its share in the short- to mid-term. This is the result of increased interest in the development of offshore resources as a result of depleted land resources.

Status of Orders



3. Financial Structure

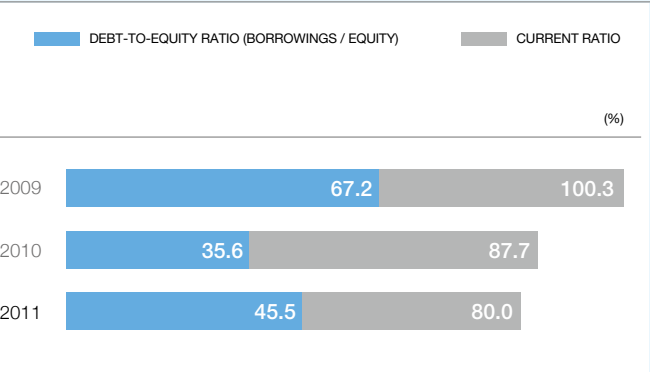
ASSETS & LIABILITIES

As of the end of 2011, DSME's total assets amounted to KRW 16,660 billion, up 5% from the previous year. This was mostly driven by a KRW 225 billion increase in non-current trade and other receivables and a KRW 89 billion rise in other non-current assets. In contrast, liabilities went up KRW 361.9 billion to reach KRW 12,158 billion.

SHAREHOLDERS' EQUITY

As of the end of 2011, shareholders' equity amounted to KRW 4,502 billion, up 12% from 2010. Shareholders' equity indicates a steady growth in combination with increases in net income. As a result, DSME's profitability improved and its debt-to-equity ratio went down. This shows that the company's financial stability is substantially improving.

Asset Soundness



Summary of Consolidated Financial Statements			
(KRW Billion)	2011	2010	2009
Current Assets	7,618.0	8,103.1	9,883.9
Property, Plant and Equipment	752.1	728.5	1,206.1
Other Assets	8,289.6	6,991.0	5,397.80
Total Assets	16,659.7	15,822.6	16,487.8
Advances from Customers	4,648.0	4,752.7	5,139.2
Other Current Liabilities	4,871.61	4,483.60	4,710.8
Other Liabilities	2,638.1	2,559.5	3,588.30
Total Liabilities	12,157.7	11,795.8	13,438.3
Total Shareholders' Equity	4,502.0	4,026.8	3,049.5

* DSME adopted K-IFRS in 2011 and has applied it to 2011 figures. Information for 2010 was recreated based on K-IFRS. Information for 2009 was created based on K-GAAP.

4. Future Outlook

The global economic growth rate in 2012 is expected to continue on a downward trend due to several factors: the efforts made by advanced countries to secure fiscal soundness; continued belt-tightening measures implemented by developing nations; and greater uncertainty in market recovery. The level of growth recorded by the Korean economy is also expected to exhibit negative growth. These will serve as unfavorable factors in DSME's business environment, along with a shortage in orders for commercial ships, stagnation in new ship prices, and a slowdown in profitability resulting from the increased sales of low-priced vessels since 2009. However, there will be a likely increase in orders for drilling rigs and energy production facilities due to the recent rise in oil prices and increased investments in deep-sea development made by international oil majors and national oil companies. We expect orders mostly for high value-added vessels including LNG carriers and offshore plants.

DSME will grow into a stronger and more efficient organization by bolstering its global competitiveness in the shipbuilding and offshore business, developing core competencies in new growth engine businesses, increasing R&D investments, and enhancing its operational processes. In addition to changes in the external environment, this year is also expected to bring about many internal changes, including changes in corporate governance. No matter what the future holds, all the employees at DSME will strive to enhance corporate value based on a strong sense of ownership. Though our entrepreneurship, efforts will be made to increase the economic, social, and environmental value that only DSME can generate as the world's No. 1 integrated heavy industries group.

Independent Auditors’ Report

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of
Daewoo Shipbuilding & Marine Engineering Co., Ltd.

We have audited the accompanying separate financial statements of Daewoo Shipbuilding & Marine Engineering Co.,Ltd. (the “Company”). The financial statements consist of separate statements of financial position as of December 31, 2011 and December 31, 2010, respectively, and the related separate statements of income, separate statements of comprehensive income, separate statements of changes in stockholders’ equity and separate statements of cash flows, all expressed in Korean won, for the years ended December 31, 2011 and December 31, 2010, respectively. The Company’s management is responsible for the preparation and fair presentation of the separate financial statements and our responsibility is to express an opinion on these separate financial statements based on our audits.

In addition, the separate financial statement of the Company as of and the for year ended December 31, 2009, were audited by other auditors whose report dated February 5, 2010, expressed an unqualified opinion on those financial statements. Such financial statements do not reflect the transition effects of Korean International Financial Reporting Standards (“K-IFRS”) as described in Note 43 in the accompanying financial statements. However, the financial statements of the Company presented herein for comparative purposes, reflect transition adjustments of K-IFRS.

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 financia statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011, December 31, 2010, respectively, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010, respectively, in conformity with Korean International Financial Reporting Standards (“K-IFRS”).

Deloitte Anjin LLC

March 19, 2012

Notice to Readers

This report is effective as of March 19, 2012, the auditor’s report date. Certain subsequent events or circumstances may have occurred between the auditor’s report date and the time the auditor’s report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditor’s report.

Separate Statements of
Financial Position

As of December 31, 2011, December 31, 2010 and January 1, 2010

(KRW million)	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	₩ 319,547	₩ 478,177	₩ 805,660
Short-term financial assets	25,903	30,000	101,091
Financial assets designated at fair value through profit or loss	1,129	4,753	4,705
Short-term financial assets held-to-maturity	76	185	5,886
Short-term financial assets available-for-sale	5,900	-	-
Trade and other receivables	536,258	407,212	208,420
Amounts due from customers under construction contracts	4,144,441	4,253,817	4,305,496
Current firm commitment assets	258,916	711,747	1,111,184
Current portion of currency forward assets	52,356	62,936	8,347
Inventories	517,081	454,824	989,217
Other current assets	888,256	986,699	1,358,080
Total current assets	6,749,863	7,390,350	8,898,086
NON-CURRENT ASSETS:			
Non-current financial assets	30	35	35
Non-current financial assets designated at fair value through profit or loss	33,072	-	32,884
Financial assets held-to-maturity	6,061	6,075	1,610
Financial assets available-for-sale	154,076	226,273	94,747
Investment in subsidiaries	676,943	454,624	400,703
Investments in associates and joint ventures	6,664	103,820	100,218
Non-current trade and other receivables	2,391,232	1,782,646	442,401
Firm commitment assets	208,501	73,734	983,175
Currency forward assets	26,101	119,549	18,585
Property, plant and equipment	4,092,583	4,017,035	3,963,527
Investment property	26,023	76,533	77,181
Intangible assets	47,508	34,104	12,799
Other non-current assets	131,922	19,499	21,922
Total non-current assets	7,800,716	6,913,927	6,149,787
Total Assets	₩ 14,550,579	₩ 14,304,277	₩ 15,047,873

(KRW million)	December 31, 2011		December 31, 2010		January 1, 2010	
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES:						
Short-term borrowings	₩	1,353,513	₩	1,036,968	₩	996,493
Financial liabilities designated at fair value through profit or loss		30,040		10,124		10,454
Trade and other payables		1,291,703		1,605,770		1,451,351
Income tax payable		153,219		129,198		102,368
Current portion of debentures		499,809		-		-
Current portion of long-term borrowings		206,240		176,665		163,735
Current Financial guarantee liabilities		1,122		-		-
Current portion of finance lease liabilities		3,068		5,792		83,031
Current firm commitment liabilities		50,880		67,375		27,874
Current portion of currency forward liabilities		115,504		737,651		1,582,878
Amounts due to customers under construction contracts		4,452,544		4,475,358		4,909,742
Other current liabilities		72,778		76,059		64,898
Total current liabilities		8,230,420		8,320,960		9,392,824
NON-CURRENT LIABILITIES:						
Debentures		471,772		669,909		498,385
Long-term borrowings		400,240		582,460		442,910
Non-current trade and other payables		108,459		122,935		143,183
Retirement benefit obligation		118,536		78,070		94,721
Provisions		116,272		74,591		72,012
Financial guarantee liabilities		24,033		24,214		10,806
Finance lease liabilities		-		3,030		9,044
Firm commitment liabilities		26,101		122,122		21,881
Currency forward liabilities		208,501		76,770		985,805
Deferred tax liabilities		319,216		259,431		172,393
Total non-current liabilities		1,793,130		2,013,532		2,451,140
Total liabilities	₩	10,023,550	₩	10,334,492	₩	11,843,964

(KRW million)	December 31, 2011		December 31, 2010		January 1, 2010	
EQUITY:						
Equity attributable to owners of the Company						
Share capital	₩	961,954	₩	961,954	₩	961,954
Share premium		(30,000)		(30,000)		(30,000)
Reserves		46,832		114,001		3,941
Retained earnings		3,548,243		2,923,830		2,268,014
Total equity		4,527,029		3,969,785		3,203,909
Total liabilities and equity	₩	14,550,579	₩	14,304,277	₩	15,047,873

Separate Statements of Income

For the years ended December 31, 2011 and December 31, 2010

(KRW million, except for earnings per share data)	2011		2010	
Sales	₩	12,257,626	₩	12,056,357
Cost of sales		10,746,959		10,518,171
Gross profit		1,510,667		1,538,186
Selling expenses		241,169		214,628
Maintenance expenses		182,350		253,168
Research and development expenses		74,499		62,122
Other operating income		748,241		677,813
Other operating expense		642,232		656,069
Profit from operating activities		1,118,658		1,030,012
Finance income		162,557		109,027
Finance costs		61,482		112,886
Gain from investments in associates and joint ventures		125,297		-
Foreign exchange gains		267,453		289,447
Foreign exchange losses		299,912		340,635
Profit before income tax		1,061,977		974,965
Income tax expense		318,800		231,333
Profit from the period	₩	743,177	₩	743,632
Earnings per share		3,931		3,934

Separate Statements of Comprehensive Income

For the years ended December 31, 2011 and December 31, 2010

(KRW million)	2011		2010	
Profit from the period	₩	743,177	₩	743,632
Other comprehensive income (loss):				
Net change in fair value of financial assets available-for-sale		(84,825)		144,134
Effective portion of changes in fair value of cash flow hedges		541		(3,119)
Actuarial losses on retirement benefit obligations		(31,729)		8,599
Income tax on other comprehensive income (loss)		24,604		(32,847)
		(91,409)		116,767
Comprehensive income for the period	₩	651,768	₩	860,399

Separate Statements of Changes in Shareholder’s Equity

For the years ended December 31, 2011 and December 31, 2010

(KRW million)	Share capital		Share premium		Reserves		Retained earnings		Total
Balance at January 1, 2010	₩	961,954	₩	(30,000)	₩	3,941	₩	2,268,014	₩ 3,203,909
Dividends paid		-		-		-		(94,523)	(94,523)
Profit for the period		-		-		-		743,632	743,632
Other comprehensive income		-		-		110,060		6,707	116,767
Balance at December 31, 2010		961,954		(30,000)		114,001		2,923,830	3,969,785
Balance at January 1, 2011		961,954		(30,000)		114,001		2,923,830	3,969,785
Dividends paid		-		-		-		(94,524)	(94,524)
Profit for the period		-		-		-		743,177	743,177
Other comprehensive income		-		-		(67,169)		(24,240)	(91,409)
Balance at December 31, 2011	₩	961,954	₩	(30,000)	₩	46,832	₩	3,548,243	₩ 4,527,029

Separate Statements of Cash Flows

For the years ended December 31, 2011 and December 31, 2010

	2011		2010	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash generated from operating activities:				
Profit for the period	₩	743,177	₩	743,632
Adjustments		861,628		665,575
Change in working capital		(1,423,100)		(1,346,749)
		181,705		62,458
Dividends received		1,163		2,177
Interest received		121,156		59,955
Interest paid		(124,676)		(107,840)
Income tax paid		(210,303)		(150,310)
Net cash used in operating activities		(30,955)		(133,560)
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash inflows from investing activities:				
Acceptance of governments grants		1,693		1,304
Net decrease in short-term financial assets		4,097		71,090
Net decrease in short-term loans receivables		-		12,808
Disposal of financial assets designated at fair value through profit or loss		-		38,100
Disposal of financial assets held-to-maturity		185		5,886
Decrease in long-term financial assets		6		-
Disposal of financial assets available-for-sale		41,787		-
Decrease in short-term loans receivables		3,563		-
Disposal of properties		2,738		2,074
Disposal of intangible assets		-		600
		54,069		131,862
Cash outflows from investing activities:				
Redemption of governments grants		2,122		1,599
Net increase in short-term loans receivables		2,468		-
Acquisition of financial assets designated at fair value through profit or loss		3,000		-
Acquisition of financial assets available-for-sale		58,274		13,680
Acquisition of financial assets held-to-maturity		63		4,649
Investments in subsidiaries		60,859		53,920
Investments in associates and joint ventures		-		10

Independent Accountant’s Review Report on Internal Accounting Control System (“IACS”)

English Translation of a Report Originally Issued in Korean

To the Representative Director of
Daewoo Shipbuilding & Marine Engineering Co., Ltd.:

We have reviewed the accompanying Report on the Management’s Assessment of IACS (the “Management’s Report”) of Daewoo Shipbuilding & Marine Engineering Co., Ltd. (the “Company”) as of December 31, 2011. The Management’s Report, and the design and operation of IACS are the responsibility of the Company’s management. Our responsibility is to review the Management’s Report and issue a review report based on our procedures. The Company’s management stated in the accompanying Management’s Report that “based on the assessment of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2011, in all material respects, in accordance with the IACS standards.”

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management’s Report in all material respects. A review includes obtaining an understanding of a company’s IACS and making inquiries regarding the Management’s Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

A company’s IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management’s Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company’s IACS as of December 31, 2011 and we did not review its IACS subsequent to December 31, 2011. This report has been prepared pursuant to the Act on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

Deloitte Anjin LLC

March 19, 2012

(KRW million)	2011		2010	
Net increase in long-term loans receivables	₩	135,550	₩	223,644
Acquisition of properties		219,064		206,946
Acquisition of intangible assets		24,468		22,360
Acquisition of other investment assets		396		1,705
		506,264		528,513
Net cash used in investing activities		(452,195)		(396,651)
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash inflows from financing activities:				
Proceeds from short-term borrowings		281,082		50,752
Proceeds from issue of debentures		300,000		167,835
Proceeds from long-term borrowings		20,313		368,294
		601,395		586,881
Cash outflows from financing activities:				
Redemption of current portion of long-term debts		176,613		206,592
Redemption of finance lease liabilities		5,792		83,031
Payment of dividends		94,524		94,524
		276,929		384,147
Net cash provided by financing activities		324,466		202,734
Net decrease in cash and cash equivalents		(158,684)		(327,477)
Cash and cash equivalents:				
Beginning of the period		478,177		805,660
Effects of foreign exchange rate changes on the balance of cash held in foreign currencies		54		(6)
End of the period	₩	319,547	₩	478,177

Notice to Readers

This report is annexed in relation to the audit of the financial statements as of December 31, 2011 and the review of management report on the assessment of the operations of IACS pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Report on the Assessment of Internal Accounting Control System (“IACS”)

English Translation of a Report Originally Issued in Korean

To the Board of Directors and Audit Committee of
Daewoo Shipping & Marine Engineering Co., Ltd.

I, as the Internal Accounting Control Officer (“IACO”) of Daewoo Shipping & Marine Engineering Co., Ltd. (“the Company”), assessed the status of the design and operation of the Company’s IACS for the year ended December 31, 2011.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been appropriately designed and is effectively operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of preparing and disclosing reliable financial statements. I, as the IACO, applied the IACS Framework established by the Korea Listed Companies Association for the assessment of design and operation of the IACS.

Based on the assessment of the IACS, the Company’s IACS has been appropriately designed and is operating effectively as of December 31, 2011, in all material respects, in accordance with the IACS Framework.

January 27, 2012

Yoo Hoon Kim
Internal Accounting Control Officer



SangTae Nam
Chief Executive officer



Independent Auditors’ Report

English Translation of a Report Originally Issued in Korean

To the Shareholders and Board of Directors of
Daewoo Shipbuilding & Marine Engineering Co., Ltd.

We have audited the accompanying consolidated financial statements of Daewoo Shipbuilding & Marine Engineering Co., Ltd. and its subsidiaries (the “Company”). The financial statements consist of the consolidated statements of financial position as of December 31, 2011 and December 31, 2010, respectively, and the related consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in stockholders’ equity and consolidated statements of cash flows, all expressed in Korean won, for the years ended December 31, 2011 and December 31, 2010, respectively. The Company’s management is responsible for the preparation and fair presentation of the consolidated financial statements and our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We did not audit the financial statements of DW Mangalia Heavy Industries S.A. and certain other consolidated subsidiaries, which statements reflect total assets (before eliminating intra-group transactions) constituting 12.8% and 15.5% of consolidated total assets as of December 31, 2011 and 2010, respectively, and total revenues (before eliminating intra-group transactions) constituting 12.5% and 14.1% of consolidated total revenues for the years then ended, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the Company, is based solely on the reports of the other auditors.

In addition, the consolidated financial statements of the Company as of and the for year ended December 31, 2009, were audited by other auditors whose report dated March 19, 2010, expressed an unqualified opinion on those financial statements. Such financial statements do not reflect the transition effects of Korean International Financial Reporting Standards (“K-IFRS”) as described in Note 45 in the accompanying financial statements. However, the financial statements of the Company presented herein for comparative purposes, reflect transition adjustments of K-IFRS.

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, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and December 31, 2010, respectively, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010, respectively, in conformity with K-IFRS.

Deloitte Anjin LLC

March 19, 2012

Notice to Readers

This report is effective as of March 19, 2012, the auditor’s report date. Certain subsequent events or circumstances may have occurred between the auditor’s report date and the time the auditor’s report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditor’s report.

Consolidated Statements of Financial Position

As of December 31, 2011, December 31, 2010 and January 1, 2010

(KRW million)	December 31, 2011		December 31, 2010		January 1, 2010	
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents (Notes 3, 5, 6, 7 and 46)	₩	541,671	₩	614,331	₩	923,952
Short-term financial assets (Notes 3, 5 and 7)		70,433		66,678		116,732
Financial assets designated at fair value through profit or loss (Notes 3, 5 and 28)		1,639		7,131		6,258
Short-term financial assets held-to-maturity (Notes 3, 5 and 9)		90		193		6,357
Short-term financial assets available-for-sale (Notes 3, 5, 9 and 16)		6,202		504		429
Trade and other receivables (Notes 3, 5, 8, 16, 40 and 46)		694,936		403,392		448,576
Amounts due from customers under construction contracts (Note 40)		4,287,964		4,497,045		4,493,797
Current firm commitment assets (Note 28)		259,500		711,747		1,111,184
Current portion of currency forward assets (Notes 3, 5 and 28)		52,356		62,936		8,347
Inventories (Notes 10 and 38)		752,127		728,532		1,231,826
Current tax assets (Note 27)		142		63		28
Other current assets (Notes 11 and 46)		950,916		1,010,537		1,451,852
Total current assets		7,617,976		8,103,089		9,799,338
NON-CURRENT ASSETS:						
Non-current financial assets (Notes 3, 5, 7 and 16)		1,223		2,556		387
Non-current financial assets designated at fair value through profit or loss (Notes 3, 5 and 28)		5,463		949		32,884
Financial assets held-to-maturity (Notes 3, 5 and 9)		7,335		6,362		1,902
Financial assets available-for-sale (Notes 3, 5, 9 and 16)		193,837		234,191		112,407
Investments in associates and joint ventures (Note 13)		19,037		103,370		105,271
Non-current trade and other receivables (Notes 3, 5 and 8)		1,748,371		1,523,375		279,988
Firm commitment assets (Note 28)		208,585		73,734		983,175
Currency forward assets (Notes 3, 5 and 28)		26,101		119,549		18,585
Property, plant and equipment (Notes 14,15,16, 20, 23, 41 and 46)		6,503,690		5,361,698		5,033,062
Investment property (Note 17)		26,833		77,341		78,227
Intangible assets (Notes 16, 18 and 41)		123,383		145,492		128,530
Deferred tax assets (Note 27)		33,456		45,583		42,603
Other non-current assets (Note 19)		144,437		25,295		28,934
Total non-current assets		9,041,751		7,719,495		6,845,955
Total Assets	₩	16,659,727	₩	15,822,584	₩	16,645,293

(KRW million)	December 31, 2011		December 31, 2010		January 1, 2010	
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES:						
Short-term borrowings (Notes 3, 5, 16 and 23)	₩	1,682,022	₩	932,651	₩	1,289,597
Financial liabilities designated at fair value through profit or loss (Notes 3, 5 and 28)		32,433		10,248		10,490
Trade and other payables (Notes 3, 5, 21 and 46)		1,608,748		2,174,237		1,340,167
Income tax payable (Note 27)		163,519		138,134		107,674
Current portion of debentures (Notes 3, 5 and 22)		504,809		5,000		-
Current portion of long-term borrowings (Notes 3, 5, 16 and 23)		586,201		314,596		202,784
Current provisions (Note 26)		298		1,185		10,971
Current Financial guarantee liabilities (Notes 3 and 5)		929		-		-
Current portion of finance lease liabilities (Notes 5 and 20)		3,068		5,792		83,031
Current firm commitment liabilities (Note 28)		50,880		67,375		27,874
Current portion of currency forward liabilities (Notes 3, 5 and 28)		116,088		737,651		1,582,878
Amounts due to customers under construction contracts (Notes 28 and 40)		4,647,964		4,752,739		5,762,026
Other current liabilities (Notes 15, 24 and 46)		122,649		96,698		94,912
Total current liabilities		9,519,608		9,236,306		10,512,404
NON-CURRENT LIABILITIES:						
Debentures (Notes 3, 5 and 22)		471,772		669,909		498,385
Long-term borrowings (Notes 3, 5, 16, 23 and 46)		1,128,132		984,168		724,473
Long-term financial liabilities designated at fair value through profit or loss (Notes 3, 5 and 28)		1,360		6,231		8,161
Non-current trade and other payables (Notes 3, 5, 21 and 46)		96,890		147,664		170,398
Retirement benefit obligation (Notes 4 and 25)		130,219		89,837		104,279
Provisions (Note 26)		165,765		101,460		150,758
Financial guarantee liabilities (Notes 3 and 5)		19,136		24,213		10,806
Finance lease liabilities (Notes 5 and 20)		10,456		15,843		24,534
Firm commitment liabilities (Note 28)		26,101		122,122		21,881
Forward liabilities (Notes 3, 5 and 28)		208,585		76,770		985,805
Deferred tax liabilities (Note 27)		378,145		321,017		203,900
Other non-current liabilities (Note 29)		1,516		223		411
Total non-current liabilities		2,638,077		2,559,457		2,903,791
Total liabilities	₩	12,157,685	₩	11,795,763	₩	13,416,195

Consolidated Statements of Income

For the years ended December 31, 2011 and December 31, 2010

(KRW million)	December 31, 2011		December 31, 2010		January 1, 2010	
EQUITY:						
Equity attributable to owners of the Company						
Share capital (Note 30)	₩	961,954	₩	961,954	₩	961,954
Share premium (Notes 16 and 32)		(43,276)		(31,399)		(31,443)
Reserves (Notes 9, 27, 28 and 32)		60,214		111,143		14,716
Retained earnings (Note 31)		3,602,822		3,034,830		2,361,137
Total equity attributable to owners of the Company		4,581,714		4,076,528		3,306,364
Non-controlling interests		(79,672)		(49,707)		(77,266)
Total equity		4,502,042		4,026,821		3,229,098
Total liabilities and equity	₩	16,659,727	₩	15,822,584	₩	16,645,293

See accompanying notes to consolidated financial statements.

(KRW million, except for earnings per share data)	2011		2010	
Sales (Notes 2, 28, 40 and 41)	₩	13,903,268	₩	12,989,486
Cost of sales (Notes 28, 38, 40 and 41)		12,253,019		11,182,207
Gross profit		1,650,249		1,807,279
Selling expenses (Notes 34 and 38)		259,996		233,870
Maintenance expenses (Notes 34 and 38)		253,702		342,196
Research and development expenses		75,285		62,717
Other operating income (Notes 28 and 35)		834,796		773,273
Other operating expense (Notes 28 and 35)		792,230		738,611
Profit from operating activities		1,103,832		1,203,158
Finance income (Notes 2, 5 and 36)		141,264		84,65
Finance costs (Notes 5 and 36)		119,120		145,528
Gain (Loss) from investments in associates and joint ventures (Note 13)		(70,901)		(4,667)
Foreign exchange gains (Notes 3, 5 and 37)		432,482		490,456
Foreign exchange losses (Notes 3, 5 and 37)		489,977		587,910
Profit before income tax		997,580		1,040,167
Income tax expense (Note 27)		349,325		264,131
Profit from the period	₩	648,255	₩	776,036
Net income attributable to :				
Owners of the Company		686,441		766,912
Non-controlling interests		(38,186)		9,124
Earnings per share (Note 33)		3,631		4,057

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2011 and December 31, 2010

(KRW million)	2011		2010	
Profit from the period	₩	648,255	₩	776,036
Other comprehensive income (loss):				
Net change in fair value of financial assets available-for-sale		(81,119)		144,642
Effective portion of changes in fair value of cash flow hedges		541		(3,119)
Actuarial gain (loss) on retirement benefit obligations		(32,533)		5,765
Net change in non-controlling interests of associates		(8,542)		(2,635)
Foreign currency translation differences of foreign operations		31,038		(23,812)
Income tax on other comprehensive income (loss)		25,976		(31,865)
		(64,639)		88,976
Comprehensive income for the period	₩	583,616	₩	865,012
Comprehensive income attributable to:				
Owners of the Company		610,847		868,169
Non-controlling interests		(27,231)		(3,157)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholder’s Equity

For the years ended December 31, 2011 and December 31, 2010

(KRW million)	Share capital		Share premium		Reserves		Retained earnings	Owners of the Company	Non-controlling interests		Total
Balance at January 1, 2010	₩	961,954	₩	(31,443)	₩	14,716	₩ 2,361,137	₩ 3,306,364	₩	(77,266)	₩ 3,229,098
Dividends paid		-		-		-	(94,523)	(94,523)		(613)	(95,136)
Capital fluctuation of associates		-		44		-	(2,044)	(2,000)		-	(2,000)
Acquisition of subsidiaries		-		-		-	-	-		10,055	10,055
Changes in consolidated scope		-		-		-	(1,482)	(1,482)		21,274	19,792
Profit for the period		-		-		-	766,912	766,912		9,124	776,036
Other comprehensive income		-		-		96,427	4,830	101,257		(12,281)	88,976
Balance at December 31, 2010		961,954		(31,399)		111,143	3,034,830	4,076,528		(49,707)	4,026,821
Balance at January 1, 2011		961,954		(31,399)		111,143	3,034,830	4,076,528		(49,707)	4,026,821
Dividends paid		-		-		-	(94,523)	(94,523)		(274)	(94,797)
Capital fluctuation of associates		-		(345)		-	2,494	2,149		530	2,679
Increase in paid-in capital of subsidiaries		-		(11,532)		-	-	(11,532)		(2,927)	(14,459)
Changes in consolidated scope		-		-		-	(1,755)	(1,755)		(63)	(1,818)
Profit (Loss) for the period		-		-		-	686,441	686,441		(38,186)	648,255
Other comprehensive income		-		-		(50,929)	(24,665)	(75,594)		10,955	(64,639)
Balance at December 31, 2011	₩	961,954	₩	(43,276)	₩	60,214	₩ 3,602,822	₩ 4,581,714	₩	(79,672)	₩ 4,502,042

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and December 31, 2010

(KRW million)	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operating activities (Note 43):		
Profit for the period	₩ 648,255	₩ 776,036
Adjustments	1,175,832	807,316
Change in working capital	(1,531,366)	(1,544,205)
	292,721	39,147
Dividends received	703	1,682
Interest received	125,975	62,824
Interest paid	(188,309)	(149,114)
Income tax paid	(228,831)	(164,291)
Net cash provided by (used in) operating activities	2,259	(209,752)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities:		
Acceptance of governments grants	17,571	1,304
Net decrease in short-term financial assets	-	78,648
Decrease in non-current financial assets	2,101	777
Disposal of financial assets held-to-maturity	191	6,365
Disposal of financial assets available-for-sale	56,760	40,384
Net decrease in short-term loans receivables	-	12,402
Decrease in long-term loans receivables	7,269	1,733
Disposal of property, plant and equipment	7,113	15,799
Disposal of investment property	-	494
Disposal of intangible assets	-	2,473
	91,005	160,379
Cash outflows from investing activities:		
Redemption of governments grants	2,122	1,599
Net increase in short-term financial assets	4,169	-
Increase in non-current financial assets	882	2,832
Acquisition of financial assets held-to-maturity	1,063	4,658
Acquisition of financial assets available-for-sale	70,733	21,502
Investments in associates and joint ventures	2,400	10
Net increase in short-term loans receivables	32,311	-

(KRW million)	2011	2010
Increase in long-term loans receivables	₩ 120,293	₩ 227,800
Acquisition of subsidiaries	(12,275)	25,667
Acquisition of property, plant and equipment	452,746	303,865
Acquisition of intangible assets	27,928	22,640
Acquisition of other investment assets	396	1,705
	702,768	612,278
Net cash used in investing activities	(611,763)	(451,899)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from financing activities:		
Proceeds from short-term borrowings	343,001	112,772
Proceeds from long-term borrowings	212,359	497,076
Proceeds from issue of debentures	300,000	167,835
Increase in paid-in capital of subsidiaries	7,034	-
Changes in consolidated scope	7,064	10,033
	869,458	787,716
Cash outflows from financing activities:		
Redemption of current portion of long-term debts	204,038	248,031
Redemption of finance lease liabilities	9,407	85,811
Payment of dividends	95,844	95,136
Acquisition of investments in subsidiaries	22,624	2,000
	331,913	430,978
Net cash provided by financing activities	537,545	356,738
Net decrease in cash and cash equivalents	(71,959)	(304,913)
Cash and cash equivalents:		
Beginning of the period	614,331	923,952
Effects of foreign exchange rate changes on the balance of cash held in foreign currencies	(701)	(4,708)
End of the period (Note 6)	₩ 541,671	₩ 614,331

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

1. GENERAL:

Daewoo ShiApbuilding & Marine Engineering Co., Ltd. (the “Parent”) was established on October 1, 2000 as part of Daewoo Heavy Industry Co., Ltd.’s spin-off into two separate entities. The Parent’s major businesses are building and selling various ships, including special purpose ships and construction of plants. The Parent’s shares have been listed on the Korea Exchange since February 2, 2001, and its global depository receipts (GDR) were listed on the Luxembourg Stock Exchange on June 10, 2003. As of December 31, 2011, the Parent’s major stockholders consist of the Korea Development Bank (“KDB”) (31.26%) and Korea Asset Management Corporation (“KAMCO”) (19.11%).

2. SIGNIFICANT ACCOUNTING POLICIES:

The Parent and its subsidiaries (the “Company”) have adopted the Korean International Financial Reporting Standards (“K-IFRS”) for the annual period beginning on January 1, 2011. In accordance with K-IFRS 1101 *First-time adoption of International Financial Reporting Standards*, the transition date to K-IFRS is January 1, 2010.

With respect to the Company’s statements of changes in stockholders’ equity as of January 1, 2010, December 31, 2010 and the statement of comprehensive income for the period ended December 31, 2010 that were prepared in accordance with the accounting principles prior to K-IFRS, the transition adjustments from previous GAAP (Korean GAAP) to K-IFRS are stated in Note 45.

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

The accompanying consolidated financial statements were approved by the Board of Directors on March 5, 2012.

The significant accounting policies followed by the Company in the preparation of its financial statements are summarized below:

(1) Basis of Preparation

1) Principle of measurement The consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2) Functional currency and presentation currency 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, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

3) Significant accounting estimates and judgments Under K-IFRS, the management is required to make judgments, estimates and assumptions in the preparation of financial statements and application of the Company’s accounting policies. The areas where significant accounting estimate and judgment applies are described in Note 4.

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

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

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

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

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

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

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

K-IFRS 1113 Fair Value Measurement

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

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

(2) Basis of Consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests’ share of subsequent changes in equity. Total comprehensive income is attributed to 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 by the Parent.

All intra-the Company transactions, balances, income and expenses are eliminated in full on consolidation.

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

When the Parent 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 Parent 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 associates or joint ventures.

(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 acquisition-date 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:

- 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;
- 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 the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Company'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, net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Company'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 which the Company has significant influence on and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Generally, an ownership of 20% to 50% of voting stock is regarded as having significant influence.

The results and assets and liabilities of associates are incorporated in these 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, investments in associates are carried in the consolidated statements of financial position at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of 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) 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 the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that 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.

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

Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases. When an entity in the Company transacts with an associate of the Company, unrealized gains are eliminated to the extent of the Company’s interest in the relevant associate. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred in which case appropriate provision for impairment is made. Affiliates’ financial statements are partly adjusted before equity method is applied when it is necessary for a consistent application of the Company’s accounting policies.

(5) Interests in joint ventures

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

When the Company directly undertakes its activities under joint venture arrangements, the Company’s share of jointlycontrolled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly-controlled assets are accounted for on an accrual basis. Income from the sale or use of the Company’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 Company and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly-controlled entities. The Company reports its interests in jointly-controlled entities using equity method, except when the investment is classified as held for sale, in which case, it is accounted for in accordance with KIFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations*.

When the Company transacts with a jointly-controlled entity of the Company, unrealized profits and losses are eliminated to the extent of the Company’s interest in the joint venture. When the Company sells assets to a joint venture, the Company only recognizes the portion of the gain or loss attributable to the interests of the other venturers. When the Company purchases assets from the joint venture, it does not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. Losses are accounted for in a similar manner unless they represent a decrease in the net realizable value of the assets or an impairment loss, in which case they are recognised immediately.

(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 impairment testing, goodwill is allocated to cash-generating units (or groups of cash-generating units) of the Company that were expected, at the date of acquisition, to benefit from the synergies of the combination giving rise to the goodwill.

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 income. An impairment loss recognized for goodwill is not reversed in subsequent periods. On disposal of the relevant cashgenerating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Company’s accounting policies with respect to the goodwill arising from acquisition of an affiliate are stated in the Note 2 (4).

(7) Cash and cash equivalents

Cash and cash equivalents includes cash, savings and checking accounts, and short-term investment highly liquidated (maturities of three months or less from acquisition).

(8) 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. Cost of goods sold is recognized as a carrying amount of the inventories in the period they are sold, and the amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as expenses when occurred. In addition, the amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs. Net realizable value represents the estimated selling price for in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

(9) Financial assets

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value and for which transaction costs are recognized as expense in the period of occurrence. 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 alloca ting 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 a financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

2) Financial assets at fair value through profit or loss (FVTPL) Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- it is a derivative that is not designated and effective as a hedging instrument.

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.

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

Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

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

6) Impairment of financial assets Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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

For 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 observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account.

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

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

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

(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.

Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Useful lives (years)
Buildings and buildings on finance lease	12 ~ 51
Structures	10 ~ 51
Machinery	5 ~ 34
Vessels and aircrafts	12 ~ 40
Others	3 ~ 30

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. Gains and losses arising from abolition or disposal of property, plant and equipment reflect the difference between net selling price and the carrying amount at the date of disposal and are recognized in profit or loss.

(11) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and accumulated impairment losses. 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. The carrying amount of components replaced by subsequent expenditure is removed and costs related to ordinary repairs and maintenance are expensed as incurred.

The depreciation method, residual value and useful lives of investment properties are reassessed or reviewed at the end of each annual reporting period, and any changes from them are treated as change in accounting estimates.

While land is not depreciated, all other investment property is depreciated based on the respective assets estimated useful lives ranging from 25 ~ 50 years using the straight-line method.

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(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:

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

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

3) Intangible assets acquired in a business combination Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost)

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

4) 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, are recognized in profit or loss when the asset is derecognized.

Intangible assets with definite useful lives are amortized based on the following estimated useful lives;

	Useful lives (years)
Industrial rights	3 ~ 10
Computer software	5
Exclusive right to use facilities	20 ~ 40
Other intangible assets	2 ~ 50

Amongst the Company's intangible assets, useful life of a membership is estimated to be indefinite since the usable period is not limited in accordance with the terms of the contract and the economic benefits are expected to be continuously generated from the asset during the holding period. Intangible assets that have indefinite useful lives are not amortized and are tested for impairment at the end of every fiscal year.

(13) 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. 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.

(14) 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.

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(15) Foreign currencies

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:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.
- exchange differences on 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 noncontrolling 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.

(16) 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.

The Borrowing costs which are added to the cost of qualifying assets of the Company are ₩70,464 million and ₩12,064 million for the years ended December 31, 2011 and 2010, respectively and the capitalized interest rate used in calculating borrowing costs is 2.65% and 5.39%.

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

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

1) 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.

2) Financial guarantee contract liabilities Financial guarantee contract liabilities recognized by the Company are the Company’s obligation to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contract liabilities are initially measured at their fair values less transaction costs directly attributable to the issuance of the guarantee and subsequently measured at the higher of:

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

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

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

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

5) Derecognition of financial liabilities The Company derecognizes financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or they expire.

(18) Derivative financial instruments

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

A derivative 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) Hedge accounting 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.

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

2) Fair value hedge 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 income statement(statement of comprehensive income/income statement) relating to the hedged item.

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

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

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

(19) Retirement benefit costs

The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation less fair value of plan assets. Defined benefit obligation is determined at the end of each reporting period by an independent actuary using the Projected Unit Credit Method. Present value of the defined benefit obligation is presented in a currency in which the benefit payments will be made and is computed by discounting the future expected cash outflows by market yield of high-quality corporate bonds with a maturity that matches the estimated maturity of all the benefit payments. Actuarial gains and losses arising from a change in actuarial assumptions or experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) are recognized as other comprehensive income in the statement of consolidated comprehensive income for the period incurred. Actuarial gains and losses are reported in retained earnings in the period that they are recognized as other comprehensive income and are not reclassified to profit or loss in subsequent periods. Past service cost is immediately recognized in profit or loss.

(20) 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 Company discloses contingent liabilities when

- there is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

- there is a present obligation that arises from past events but it is not recognized because:
 - i. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - ii. the amount of the obligation cannot be measured with sufficient reliability.

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.

(21) 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 which require the Company to 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.

(22) Revenue recognition

The Company recognizes revenue when the amount of revenue can be measured reliably, when it is probable that the economic benefits associated with the transaction will flow to the Company and when the following criteria specific to each of the Company’s activities are met.

1) Sale of goods, rendering of services and construction contracts The Company recognizes revenue from sale of goods at the time of transfer, in principle, but when there are terms that require final sales decision after the transfer, it recognizes the revenue when all of the relevant terms are satisfied. Revenues from contracts to render services and construction contracts (contracts for the rendering of services which are directly related to the construction of the asset, contracts for the destruction or restoration of assets, and the restoration of the environment following the demolition of assets, etc.) are recognized by reference to the stage of completion of the contracts.

When a loss is expected with respect to contracts to render services and construction contracts, the Company immediately accounts for the expected loss as a provision for estimated losses on uncompleted contracts and includes it in the cost of goods sold or construction cost in the current operation.

2) Dividend income Dividend income from investments is recognized when the Company’s right to receive payment has been established.

3) Rental income The Company’s policy for recognition of revenue from operating leases is described in Note 2. (14).

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

4) Interest income Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. When an impairment of a receivable occurs, the Company reduces the carrying value of the receivable to the recoverable amount (present value of the estimated future cash flows, discounted at the original effective interest rate) and recognizes subsequent increase in the recoverable amount as an interest income.

5) Revenue recognized for the years ended December 31, 2011 and 2010 by major revenue item (Won in millions).

	2011		2010	
Service contracts and construction contracts	₩	13,903,268	₩	12,989,486
Dividend income		728		1,522
Rental income		1,009		2,805
Interest income		134,104		83,136
Total	₩	14,039,109	₩	13,076,949

6) Major customer information There are no customers who account for more than 10% of the Company's revenue during the year ended December 31, 2011.

(23) Construction contract

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

(24) Income tax

Income tax consists of current tax 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 income statement 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.

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.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and the Company has intent to settle current tax liabilities and assets on a net basis.

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.

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

3. FINANCIAL RISK MANAGEMENT:

(1) Financial risk factors

In the course of its business, the Company is exposed to a number of financial risks: market risk (including foreign currency, equity price and interest rate), credit risk, liquidity risk and other risks. The purpose of managing financial risk is to identify the potential risk factors that may affects the Company's financial performance, and minimize it to the extent that is acceptable.

Risk management is carried out by relevant departments based on the risk management policies approved by the Board of Directors, and the risk management department identifies, assesses and hedges financial risks through close cooperation with other relevant departments.

1) Market risk management

a) Foreign currency risk The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

a-1) Foreign currency sensitivity analysis The Company is exposed to foreign exchange arising from currency exposures primarily with respect to the currencies of the United States, Europe. The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities as of December 31, 2011and 2010 and January 1, 2010 are as follows (Won in millions):

December 31, 2011										
	USD		EUR		JPY		Others		Total	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Functional Currency										
KRW	₩ 7,288,647	₩ 2,058,400	₩ 16,000	₩ 127,736	₩ 9	₩ 8,814	₩ 180	₩ 4,476	₩ 7,304,836	₩ 2,199,426
RON	218,201	802,373	4,265	160,873	-	2	126	4	222,592	963,252
CNY	21,838	141,641	-	-	-	-	-	-	21,838	141,641
Others	5,233	53,798	-	2,524	-	-	-	1,826	5,233	58,148
Total	₩ 7,533,919	₩ 3,056,212	₩ 20,265	₩ 291,133	₩ 9	₩ 8,816	₩ 306	₩ 6,306	₩ 7,554,499	₩ 3,362,467

December 31, 2010										
	USD		EUR		JPY		Others		Total	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Functional Currency										
KRW	₩ 6,681,666	₩ 2,295,724	₩ 84,917	₩ 132,037	₩ -	₩ 22,879	₩ -	₩ 16,081	₩ 6,766,583	₩ 2,466,721
RON	54,245	474,096	9,198	11,019	-	22	164	139	63,607	485,276
CNY	19,914	179,032	-	-	-	-	-	-	19,914	179,032
Total	₩ 6,755,825	₩ 2,948,852	₩ 94,115	₩ 143,056	₩ -	₩ 22,901	₩ 164	₩ 16,220	₩ 6,850,104	₩ 3,131,029

January 1, 2010										
	USD		EUR		JPY		Others		Total	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Functional Currency										
KRW	₩ 5,027,111	₩ 1,748,058	₩ 77,032	₩ 78,594	₩ -	₩ 8,629	₩ -	₩ 13,872	₩ 5,104,143	₩ 1,849,153
RON	43,296	325,566	38,665	9,337	-	19	220	238	82,181	335,160
CNY	37,522	230,505	-	-	-	-	-	-	37,522	230,505
Total	₩ 5,107,929	₩ 2,304,129	₩ 115,697	₩ 87,931	₩ -	₩ 8,648	₩ 220	₩ 14,110	₩ 5,223,846	₩ 2,414,818

The Company's sensitivity to a 10% increase and decrease in the KRW (functional currency of the Company) against the major foreign currencies as of December 31, 2011 is presented in the table below (Won in millions). The sensitivity rate used in reporting foreign currency risk internally to key management personnel is 10% and it represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the KRW weakens 10% against the relevant currency. For a 10% strengthening of the KRW against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

December 31, 2011									
	USD		EUR		JPY		Others		
	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Equity
10% increase (weakening)	₩ 447,771	₩ 13,312	₩ (27,087)	₩ 403	₩ (881)	₩ -	₩ (600)	₩ 6,344	

December 31, 2010									
	USD		EUR		JPY		Others		
	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Equity
10% increase (weakening)	₩ 380,697	₩ 4,285	₩ (4,894)	₩ 342	₩ (2,290)	₩ -	₩ (1,606)	₩ (531)	

January 1, 2010									
	USD		EUR		JPY		Others		
	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Equity
10% increase (weakening)	₩ 280,380	₩ 4,365	₩ 2,777	₩ 188	₩ (865)	₩ -	₩ (1,389)	₩ (4,912)	

(*) The above amounts are gross amounts (before tax).

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For the years ended December 31, 2011, December 2010 and January 1, 2010

a-2) Forward foreign exchange contracts

It is the policy of the Company to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within 70% to 100% of the exposure generated. The following table details the forward foreign currency contracts outstanding as of December 31, 2011 (Won in millions and foreign currency in thousands).

Description		Average exchange rate	Sell amounts		Buy amounts		Fair value assets (liabilities)
(For fair value hedging)							
Sell USD	Less than 1 year	1,144.80	USD	3,575,943	KRW	4,093,732	(56,088)
	1 to 2 years	1,147.56	USD	3,280,548	KRW	3,764,633	(60,746)
	Over 2 years	1,119.84	USD	2,684,000	KRW	3,005,650	(119,125)
Sell EUR	Less than 1 year	1,509.96	EUR	171,000	KRW	258,203	(736)
	1 to 2 years	1,510.79	EUR	135,000	KRW	203,956	(2,354)
Sell JPY	Less than 1 year	14.05	EUR	602,139	KRW	8,462	(583)
	1 to 2 years	14.17	JPY	80,285	KRW	1,138	(84)
Buy EUR/	Less than 1 year	1.35	USD	79,447	EUR	58,995	(3,426)
Sell USD	1 to 2 years	1.33	USD	3,607	EUR	2,720	(88)
	Over 2 years	1.38	USD	1,205	EUR	876	(76)
Buy GBP/	Less than 1 year	1.60	USD	6,993	GBP	4,364	(320)
Sell USD	1 to 2 years	1.62	USD	192	GBP	118	(12)
(For trading)							
Sell USD	Less than 1 year	1,090.09	USD	14,000	KRW	15,261	(1,043)
	1 to 2 years	1,128.05	USD	720,600	KRW	812,870	(26,986)
FX SWAP	Less than 1 year	1,156.13	USD	365,000	KRW	421,987	(1,925)
			KRW	-	KRW	12,585,892	(273,592)
			USD	10,731,535	USD	-	
			EUR	306,000	EUR	62,591	
			JPY	682,424	JPY	-	
			GBP	-	GBP	4,482	

b) Price risk

The Company's investment in marketable equity securities is made upon management's decision and it does not have specific investment policies for equity securities. As of December 31, 2011, the Company has equity securities that are classified as available-for-sale financial assets in the consolidated statement of financial position, and when the price of the equity securities changes by 10%, the effect to equity will be ₩19,075 million (before tax).

c) Cash flow interest rate risk

As the Company has no significant interest-bearing assets, its income and operating cash flows are substantially independent of changes in market interest rates. The primary source of the Company's interest rate risk relates to borrowings. The Company is exposed to cash flow interest rate risk since it has borrowings issued at floating rates. The borrowings exposed to interest rate fluctuation risk amount to USD 206,800 thousand (KRW 238,503 million), and in order to hedge the risk, the Company enters into interest rate swap contracts to receive a floating rate and pay a fixed rate. Details of the interest swap contracts as of December 31, 2011 are as follows (Won in millions and USD in thousands):

	Contrac Price Contract Date	Contract Price Start Date	Floating Rate End Date	Fixed Rate (USD)	(KRW)	(%)	(%)
(For fair value hedging)							
Goldman Sachs	2010.01.21	2010.01.21	2014.09.10	50,000	57,665	6ML(*)+4.5	6.79
	2010.01.21	2010.01.21	2012.12.01	60,000	69,198	6ML(*)+5.0	6.82
(For trading)							
Standard Chartered							
Bank (China)Ltd.	2008.06.12	2008.06.23	2013.06.21	22,800	26,295	3ML(*)+1.3~2.5	4.43
QingDao Branch	2008.06.12	2008.06.30	2012.12.28	25,000	28,833	3ML(*)+2.5	4.48
	2011.08.11	2011.08.11	2012.08.13	49,000	56,512	3ML(*)+2.0	3.60
Total				206,800	238,503		

(*) ML:Month Libor

The Company performs various analyses to manage interest rate risk. In order to minimize the interest rate fluctuation risk, the Company reviews various means including refinancing, renewal of existing financing and hedging and makes decisions on the optimal financing method.

The Company's exposures to interest rates on financial assets and financial liabilities as of December 31, 2011 and 2010 are as follows (Won in millions):

	December 31, 2011		December 31, 2010	
Fixed interest rate:				
Financial assets	₩	2,093,187	₩	1,809,208
Financial liabilities		(1,583,976)		(873,658)
Total	₩	509,211	₩	935,550
Floating interest rate:				
Financial assets		911,255		762,895
Financial liabilities		(3,464,784)		(2,732,958)
Total	₩	(2,553,529)	₩	(1,970,063)

As of December 31, 2011 and 2010, the effect of 100 basis point (bp) strengthening or weakening of interest rates on profit are as follows (Won in millions):

	2011		2010	
Financial assets and liabilities (applying Floating interest rate):				
100bp increase	₩	(23,096)	₩	(17,239)
100bp decrease		23,096		17,239

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For the years ended December 31, 2011, December 2010 and January 1, 2010

2) Credit risk management Credit risk is being managed at the corporate level. Credit risk arises from cash and cash equivalents, bank and financial institution deposits, derivatives, as well as credit risks of customers including receivables and firm commitments. As for banks and financial institutions, the Company transacts only with institutions that are rated “A” grade and above. This information is supplied by independent rating agencies. For other customers, customer’s financial status, credit history and other factors are considered to evaluate their credit status. Maximum exposure to credit risk of loans and receivables and derivatives is represented by the carrying amount and for financial guarantee liabilities, it is represented by the maximum amount to be paid at the debtor’s request, which amounts to ₩889,355 million (Notes 16).

The Company reviews the carrying amounts of its financial 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 the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense.

3) Liquidity risk management The Company manages liquidity risk by maintaining sufficient cash and marketable securities, the availability of funding through an adequate level of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the Company maintains flexibility in funding by maintaining availability under committed credit lines.

a) The table below analyses the Company’s financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date (Won in millions).

	Within a year		1 - 2 years		Over 2 years		Total
Borrowings and others (*1)	₩	2,861,591	₩	693,348	₩	1,142,044	₩ 4,696,983
Trade and other payables(*1)		1,610,537		118,131		14,464	1,743,132
Finance lease liabilities(*1)		3,138		-		10,456	13,594
Financial guarantee contract (*2)		889,355		-		-	889,355
Total	₩	5,364,621	₩	811,479	₩	1,166,964	₩ 7,343,064

(*1) These amounts include all cash inflows such as interests.
(*2) Amount of financial guarantee contract represents a limit of payment guarantee, which is the maximum amount payable by the Company in case the debtor claims for the full guaranteed amount.

b) The table below analyses the Company’s financial assets into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date (Won in millions).

	Within a year		1 - 2 years		Over 2 years		Total
Cash and cash equivalents	₩	541,671	₩	-	₩	-	₩ 541,671
Short and long-term financial assets		70,433		1,012		212	71,657
Financial assets at FVTPL		-		-		5,463	5,463
Financial assets held-to-maturity		90		770		6,565	7,425
Financial assets available-for-sale		6,202		3,082		3	9,287
Trade and other receivables		694,936		369,966		1,378,405	2,443,307
Total	₩	1,313,332	₩	374,830	₩	1,390,648	₩ 3,078,810

c) The table below analyses the Company’s derivative instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amount of the derivative instruments that are settled in net amounts is based on undiscounted net cash inflows and outflows in accordance with the terms of the contract, and that of the derivative instruments that are settled in gross amounts is based on undiscounted total cash inflows and outflows. In case the amounts to be received or paid are not settled, an interest rate estimated based on the yield curve at the end of the reporting period is used (Won in millions).

	Within a year		1 - 2 years		Over 2 years		Total
Net settlement:							
Interest rate swap contracts	₩	(1,800)	₩	(1,360)	₩	(1,880)	₩ (5,040)
Currency forward contracts		(66,274)		(81,264)		(155,286)	(302,824)
Subtotal		(68,074)		(82,624)		(157,166)	(307,864)
Gross settlement:							
Currency forward contracts							
Inflows		23,724		1,138		-	24,862
Outflows		(16,304)		-		-	(16,304)
Subtotal		7,420		1,138		-	8,558
Total	₩	(60,654)	₩	(81,486)	₩	(157,166)	₩ (299,306)

(2) Capital risk management

The Company manages its capital in order to maintain the ability to continuously provide profits to its shareholders and interest parties and optimum capital structure to reduce capital expenses. In order to maintain such optimum, the Company adjusts dividend payments, redeems paid-in capital to shareholders, and issues stocks to reduce liabilities or sell assets.

Like other entities in the field in which the Company operates in, the Company manages its capital based on the ratio of net debt to total equity. Net debt refers to total borrowings (as presented in the consolidated statement of financial position) less cash and cash equivalents and short-term financial assets, and total equity refers to capital presented in the statement of financial position plus net debt.

The Company’s net debt to total equity ratio as of December 31, 2011, 2010 and January 1, 2010 are as follows (Won in millions):

Classification	December 31, 2011		December 31, 2010		January 1, 2010	
Total borrowings (Notes 22 and 23)	₩	4,372,937	₩	2,906,324	₩	2,715,240
Less: cash and cash equivalents and short-term financial instruments		(612,104)		(681,010)		(1,040,684)
Net debt		3,760,833		2,225,314		1,674,556
Capital		4,502,042		4,026,820		3,229,098
Total equity	₩	8,262,875	₩	6,252,134	₩	4,903,654
Net debt to total equity ratio		45.51%		35.59%		34.15%

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

(3) Fair value of financial instruments

- 1) The management considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the consolidated financial statements approximate their fair values.
- 2) Fair values of the Company's financial assets and liabilities are decided as follows:
- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices
 - The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the weightedaverage maturity of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.
 - The fair values of other financial assets and financial liabilities (excluding above financial assets and liabilities) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- 3) The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable (Won in millions).
- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
 - Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
 - Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2011								
		Level 1		Level 2		Level 3		Total
Financial assets at FVTPL								
Derivatives held for trading	₩	-	₩	1,639	₩	-	₩	1,639
Callable convertible preferred stock (option value)		-		5,463		-		5,463
Derivative financial assets								
Derivative instruments for hedging		-		78,457		-		78,457
Financial assets available-for-sale								
Listed securities		109,494		-		-		109,494
Beneficiary certificates		8,249		-		-		8,249
Non-listed securities		-		18,128		-		18,128
Repurchase agreements		-		5,900		-		5,900
Total	₩	117,743	₩	109,587	₩	-	₩	227,330
Financial liabilities at FVTPL								
Derivatives held for trading	₩	-	₩	33,793	₩	-	₩	33,793
Derivative financial liabilities								
Derivative instruments for hedging		-		324,673		-		324,673
Total	₩	-	₩	358,466	₩	-	₩	358,466

(*) There was no replacement between Level 1 and Level 2 during the current period.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:

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

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

The following are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the Company's accounting policies and that affect the amounts recognized in the consolidated financial statements.

(1) Fair value of financial instruments

Equity instruments that are traded in an active market are classified as AFS financial assets and measured at fair value.

For non-marketable equity instruments, it is reasonable to discount the future expected cash flows at a current market rate applied to instruments with similar terms and risks. This valuation technique requires management's assumption on the expected future cash flows and discount rate and therefore is based on uncertainty.

(2) Retirement benefit plan

The Company operates defined benefit pension plan, and the service cost of the plan is determined using actuarial valuations. In order to apply actuarial valuations, it is necessary to assume a discount rate, an expected rate of return on plan assets, wage increase rate and others. The retirement benefit plan contains significant uncertainties on the estimation due to its long-term nature. The defined benefit obligations as of December 31, 2011, 2010 and January 1, 2010 are ₩130,219 million and ₩89,837 million and ₩104,279 million, respectively, and details are described in Note 25.

(3) Impairment of non-financial assets

At the end of the reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Other non-financial assets are tested for impairment whenever there is an indication that the carrying amount will not be recoverable. In assessing value in use, management estimates future expected cash flows derived from the relevant asset or cash generating unit and applies an appropriate discount rate to compute the present value.

(4) Impairment of AFS financial assets

In assessing whether an AFS financial asset is impaired, the Company evaluates, among other factors, the duration and extent to which the fair value of an asset is less than its cost and the financial health of and short-term business outlook for the investee, changes in technology and operational and financing cash flow.

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

5. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND FAIR VALUE:

Classification of the Company's financial instruments as of December 31, 2011 is as follows (Won in millions):

(1) Financial assets

Description	Loans and receivables	Financial assets at FVTPL	Financial assets held-to-maturity	Financial assets available-for-sale	Derivative financial assets	Total (Carrying amounts)	Total (Fair value)
Cash and cash equivalents	₩ 541,671	₩ -	₩ -	₩ -	₩ -	₩ 541,671	₩ 541,671
Short and long-term financial assets	71,657	-	-	-	-	71,657	71,657
Financial assets at FVTPL (*1)	-	7,102	-	-	-	7,102	7,102
Financial assets heldto-maturity (*2)	-	-	7,425	-	-	7,425	7,425
Financial assets available-for-sale (*2)	-	-	-	200,039	-	200,039	200,039
Trade and other receivables (*2)	2,443,307	-	-	-	-	2,443,307	2,443,307
Currency forward assets	-	-	-	-	78,457	78,457	78,457
	₩3,056,635	₩ 7,102	₩ 7,425	₩ 200,039	₩ 78,457	₩ 3,349,658	₩ 3,349,658

(*1) Financial assets at FVTPL consist of currency forward assets held for trading and put option.
(*2) Amount is net of allowances.

(2) Financial liabilities

Description	Financial liabilities at FVTPL	Other financial liabilities	Derivative financial liabilities	Total (Carrying amounts)	Total (Fair value)
Borrowings	₩ -	₩ 3,396,357	₩ -	₩ 3,396,357	₩ 3,119,836
Debentures	-	976,580	-	976,580	972,262
Financial liabilities at FVTPL (*)	33,793	-	-	33,793	33,793
Trade and other payables	-	1,705,638	-	1,705,638	1,705,638
Currency forward liabilities (*)	-	-	324,673	324,673	324,673
Financial guarantee liabilities	-	20,065	-	20,065	20,065
Finance lease liabilities	-	13,524	-	13,524	13,524
	₩ 33,793	₩ 6,112,164	₩ 324,673	₩ 6,470,630	₩ 6,189,791

(*) Liabilities at FVTPL consist of currency forward liabilities held for trading and Currency forward liabilities that is effective as a hedging instrument is classified as other financial liabilities.

(3) Profit or loss by category of financial instruments (before tax effect)

1) Financial assets

Description	Loans and Receivables	FVTPL	Financial assets held-to-maturity	Financial assets available-for-sale	Derivative financial assets	Total
Interest income	₩ 133,373	₩ -	₩ 214	₩ 517	₩ -	₩ 134,104
Dividend income	-	-	-	728	-	728
Bad debt expenses and other impairment losses	(4,610)	-	-	-	-	(4,610)
Gains(losses) on foreign exchange translation, net	50,785	-	-	-	-	50,785
Gains(losses) on foreign currencies transaction, net	(37,687)	-	-	-	-	(37,687)
Gains(losses) on valuation of foreign exchange forward contracts, net	-	828	-	-	2,315	3,143
Gains(losses) on foreign exchange forward transaction, net	-	44,221	-	-	221,922	266,143
Gains(losses) on valuation of FVTPL	-	5,463	-	-	-	5,463
Gains(losses) on valuation of financial assets available-forsale	-	-	-	(81,119)	-	(81,119)
Gains(losses) on disposal of financial assets available-forsale	-	-	-	19,838	-	19,838
Impairment loss(or reversal of impairment loss) of available-for-sale	-	-	-	(1,874)	-	(1,874)
	₩ 141,861	₩ 50,512	₩ 214	₩ (61,910)	₩ 224,237	₩ 354,914

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

2) Financial liabilities

Description	FVTPL	Other financial liabilities	Derivative financial liabilities	Total
Interest expenses	₩ -	₩ (116,374)	₩ (1,133)	₩ (117,507)
Gains(losses) on foreign exchange translation, net	-	(107,907)	-	(107,907)
Gains(losses) on foreign currencies transaction, net	-	37,314	-	37,314
Gains(losses) on valuation of foreign exchange forward contracts, net	(26,212)	-	(295,192)	(321,404)
Gains(losses) on foreign exchange forward transaction, net	(22,186)	-	(30,529)	(52,715)
Effective portion of changes in fair value of cash flow hedges	-	-	541	541
Reversal of financial guarantee liabilities	-	4,819	-	4,819
Capitalized financial expense	-	(70,464)	-	(70,464)
	₩ (48,398)	₩ (252,612)	₩ (326,313)	₩ (627,323)

6. CASH AND CASH EQUIVALENTS:

The Company’s cash and cash equivalents in the statements of financial position are the same as that in the statements of cash flows. Details of cash and cash equivalents as of December 31, 2011, 2010 and January 1, 2010 are as follows (Won in millions):

	December 31, 2011	December 31, 2010	January 1, 2010
Cash on hand	₩ 168	₩ 290	₩ 50,167
Financial institution deposits	541,503	614,041	873,785
	₩ 541,671	₩ 614,331	₩ 923,952

7. RESTRICTED FINANCIAL ASSETS:

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

Account	December 31, 2011	December 31, 2010	January 1, 2010	Description
Cash and cash equivalents	₩ 31,025	₩ 14,393	₩ 8,158	Deposits for contract performance and guarantee for borrowings
Short-term financial assets	43,984	30,692	96,732	Deposits for contract performance and guarantee for borrowings
Non-current financial assets	1,223	2,155	386	Guarantee deposits for checking accounts and guarantee for borrowings
	₩ 76,232	₩ 47,240	₩ 105,276	

8. TRADE AND OTHER RECEIVABLES:

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

	December 31, 2011		December 31, 2010		January 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Receivables from construction contracts and trade	₩ 540,129	₩ 1,577,991	₩ 253,803	₩ 1,487,435	₩ 241,531	₩ 234,227
Less: Allowances for doubtful accounts	(4,360)	(111,109)	(1,128)	(102,904)	(554)	(14,186)
Receivables from construction contracts and trade, net	535,769	1,466,882	252,675	1,384,531	240,977	220,041
Short-term loans	40,377	242,863	69,393	117,524	35,541	33,471
Less: Allowances for doubtful accounts	(124)	(3,165)	(228)	(1,965)	(483)	(83)
Short-term loans, net	40,253	239,698	69,165	115,559	35,058	33,388
Other accounts receivable	101,550	1,416	71,593	1,165	170,054	1,946
Less: Allowances for doubtful accounts	(6,120)	-	(5,797)	-	(2,057)	-
Other accounts receivable, net	95,430	1,416	65,796	1,165	168,447	1,946
Accrued income	23,322	2,247	15,756	743	4,112	1,036
Less: Allowances for doubtful accounts	-	-	-	-	(18)	-
Accrued income, net	23,322	2,247	15,756	743	4,094	1,036
Deposit	162	38,128	1,500	21,377	-	23,577
Less: Allowances for doubtful accounts	-	-	(1,500)	-	-	-
Deposit, net	162	38,128	-	21,377	-	23,577
	₩ 694,936	₩ 1,748,371	₩ 403,392	₩ 1,523,375	₩ 448,576	₩ 279,988

As the discount effect of trade and other receivables is considered not significant, the fair value is considered the same as the book value.

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

2) Aging analysis of the trade and other receivables that are overdue but are not impaired as of December 31, 2011, 2010 and January 1, 2010 are as follows (Won in millions):

December 31, 2011									
	30days or less		30~60days		60~90days		Exceed 90 days		Total
Receivables from construction contracts and trade	₩	37,567	₩	1,930	₩	569	₩	116,469	₩ 156,535
Loans		-		-		-		102	102
Other accounts receivables		427		2,306		211		12,233	15,177
Accrued income		-		-		-		5,302	5,302
	₩	37,994	₩	4,236	₩	780	₩	134,106	₩ 177,116

December 31, 2010									
	30days or less		30~60days		60~90days		Exceed 90 days		Total
Receivables from construction contracts and trade	₩	34,178	₩	3,415	₩	2,376	₩	58,529	₩ 98,498
Loans		-		-		-		588	588
Other accounts receivables		703		807		880		7,948	10,338
	₩	34,881	₩	4,222	₩	3,256	₩	67,065	₩ 109,424

January 1, 2010									
	30days or less		30~60days		60~90days		Exceed 90 days		Total
Receivables from construction contracts and trade	₩	7,631	₩	220	₩	55	₩	590	₩ 8,496
Loans		-		-		-		1,336	1,336
Other accounts receivables		224		80		84		1,155	1,543
	₩	7,855	₩	300	₩	139	₩	3,081	₩ 11,375

(3) Aging analysis of the trade and other receivables that are impaired of December 31, 2011, 2010 and January 1, 2010 are as follows (Won in millions):

December 31, 2011									
	30days or less		30~60days		60~90days		Exceed 90 days		Total
Receivables from construction contracts and trade	₩	7,473	₩	213,682	₩	147,138	₩	1,594,138	₩ 1,962,431
Loans		-		-		-		3,289	3,289
Other accounts receivables		-		-		-		206,294	206,294
Accrued income		-		-		-		36,590	36,590
	₩	7,473	₩	213,682	₩	147,138	₩	1,840,311	₩ 2,208,604

December 31, 2010									
	30days or less		30~60days		60~90days		Exceed 90 days		Total
Receivables from construction contracts and trade	₩	163,318	₩	120,769	₩	94,722	₩	1,146,840	₩ 1,525,649
Loans		-		-		-		2,185	2,185
Other accounts receivables		-		-		-		221,642	221,642
Deposit		-		-		-		1,500	1,500
	₩	163,318	₩	120,769	₩	94,722	₩	1,372,167	₩ 1,750,976

January 1, 2010									
	30days or less		30~60days		60~90days		Exceed 90 days		Total
Receivables from construction contracts and trade	₩	28,951	₩	28,335	₩	69,317	₩	99,780	₩ 226,383
Loans		-		-		-		443	443
Other accounts receivables		-		-		-		206,547	206,547
Accrued income		-		-		-		18	18
	₩	28,951	₩	28,335	₩	69,317	₩	306,788	₩ 433,391

Impaired trade and other receivables do not include normal receivables of which rate of allowance is 1% or below based on the collective assessment. Among the trade and other receivables, receivables from construction contracts are delayed receivables related to a transferred vessel and the principal and the accrued interest are being collected in accordance with the contract.

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

(4) Changes in allowance for trade and other receivables for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

2011									
	Receivables from construction contracts and trade		Loans		Other accounts receivables		Deposit		Total
Beginning balance	₩	104,032	₩	2,193	₩	5,797	₩	1,500	₩ 113,522
Bad debt expense		26,637		1,205		3,929		-	31,771
Reversal of allowance for bad debts		(12,741)		(102)		(2,618)		-	(15,461)
Other (*)		(2,459)		(7)		(988)		(1,500)	(4,954)
	₩	115,469	₩	3,289	₩	6,120	₩	-	₩ 124,878

2010									
	Receivables from construction contracts and trade		Loans		Other accounts receivables		Accrued income	Deposit	Total
Beginning balance	₩	14,740	₩	567	₩	2,057	₩	18	₩ 17,382
Bad debt expense		96,107		1,960		2,476		-	102,148
Reversal of allowance for bad debts		(951)		(217)		(1,713)		-	(2,881)
Other (*)		(5,864)		(117)		2,977		(18)	(3,127)
	₩	104,032	₩	2,193	₩	5,797	₩	-	₩ 113,522

(*) Other consists of reversal of allowance, exchange rates fluctuations and others.

Allowance for impaired receivables is included in other operating expenses in the statement of income and reversal of allowance is included in other operating income in the statement of income. When a trade receivable is considered uncollectible, it is written off against the allowance account.

(5) Maximum exposure to credit risk of receivables is represented by the aforementioned fair value for each classification and there are no collaterals pledged against trade and other receivables.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS AND HELD-TO-MATURITY FINANCIAL ASSETS:

(1) Available-for-sale (AFS) financial assets

1) Changes in the carrying value of the Company's AFS financial assets during the year ended December 31, 2011 and 2010 are as follows (Won in millions):

	2011		2010	
Beginning balance	₩	234,695	₩	112,836
Purchase and disposal		22,336		20,215
Valuation		(81,118)		144,642
Impairment		(1,873)		(27,222)
Other		25,999		(15,776)
Ending balance		200,039		234,695
Less: Current portion of accounts		(6,202)		(504)
Non-current accounts	₩	193,837	₩	234,191

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

December 31, 2011												
		Acquisition cost	Unrealized gain (loss)				Accumulated impairment(*)	Carrying amounts (Fair value)				
			Beginning balance	Increase and Decrease	Ending balance							
Equity securities	₩	149,654	₩	152,009	₩	(81,038)	₩	70,971	₩	(29,873)	₩	190,752
Debt securities		9,321		46		(80)		(34)		-		9,287
	₩	158,975	₩	152,055	₩	(81,118)	₩	70,937	₩	(29,873)	₩	200,039

(*) The Company recognized an impairment loss of ₩1,873 million on equity securities during the current period.

December 31, 2010											
		Acquisition cost	Unrealized gain (loss)					Accumulated impairment(*)	Carrying amounts (Fair value)		
			Beginning balance	Increase and Decrease		Ending balance					
Equity securities	₩	108,061	₩	7,505	₩	144,504	₩	152,009	₩ (28,000)	₩	232,070
Debt securities		2,579		(92)		138		46	-		2,625
	₩	110,640	₩	7,413	₩	144,642	₩	152,055	₩ (28,000)	₩	234,695

(*) The Company recognized an impairment loss of ₩27,222 million on equity securities during prior period.

January 1, 2010							
		Acquisition cost		Unrealized gain (loss)		Accumulated impairment	Carrying amounts (Fair value)
Equity securities	₩	89,071	₩	7,505	₩	(778)	₩ 95,798
Debt securities		17,130		(92)		-	17,038
	₩	106,201	₩	7,413	₩	(778)	₩ 112,836

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

3) Maturities of the debt securities among the AFS financial assets as of December 31, 2011, 2010 and January 1, 2010 are as follows (Won in millions):

	December 31, 2011		December 31, 2010		January 1, 2010
Within 1 year	₩	6,202	₩	504	₩ 429
1 to 5 years		3,085		2,121	16,609
	₩	9,287	₩	2,625	₩ 17,038

(2) Held-to-maturity (HTM) financial assets

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

	December 31, 2011		December 31, 2010		January 1, 2010
Government and public bonds	₩	7,425	₩	6,554	₩ 8,260

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

	December 31, 2011		December 31, 2010		January 1, 2010
Within 1 year	₩	90	₩	192	₩ 6,358
1 to 5 years		7,335		6,362	1,902
	₩	7,425	₩	6,554	₩ 8,260

10. INVENTORIES:

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

	December 31, 2011			December 31, 2010			January 1, 2010		
	Acquisition cost	Valuation allowance	Carrying amount	Acquisition cost	Valuation allowance	Carrying amount	Acquisition cost	Valuation allowance	Carrying amount
Merchandise	₩ 28,151	₩ -	₩ 28,151	₩ 2,783	₩ -	₩ 2,783	₩ 5,324	₩ -	₩ 5,324
Products	849	-	849	1,449	-	1,449	2,362	-	2,362
Unfinished housing	29,369	-	29,369	1	-	1	-	-	-
Work in process	9,154	(351)	8,803	1,925	(109)	1,816	956	(122)	834
Raw materials	486,227	(1,040)	485,187	439,378	(4,176)	435,202	912,953	(8,238)	904,715
Supplies	18,560	-	18,560	8,115	-	8,115	7,140	-	7,140
Goods in transit	135,749	-	135,749	244,726	-	244,726	298,188	-	298,188
Temporary materials	449	(1)	448	536	(1)	535	201	(1)	200
Other	45,011	-	45,011	33,905	-	33,905	13,063	-	13,063
	₩ 753,519	₩ (1,392)	₩ 752,127	₩ 732,818	₩ (4,286)	₩ 728,532	₩ 1,240,187	₩ (8,361)	₩ 1,231,826

Inventories are stated at the lower of cost or net realizable value in case that the market value is lower than the acquisition cost. In subsequent periods, if the market value of an impaired inventory recovers, the Company reverses the valuation loss up to the previously write-down amount.

(2) Changes in allowance for loss on valuation of inventories during the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	2011	2010
Beginning balance	₩ 4,286	₩ 8,361
Loss on valuation of inventories	679	162
Reversal of allowance for inventories	(3,454)	(4,024)
Others (*)	(119)	(213)
Ending balance	₩ 1,392	₩ 4,286

(*) Others include increases or decreases resulting from a change in the scope of consolidation and foreign exchange fluctuation.

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

11. OTHER CURRENT ASSETS:

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

	December 31, 2011		December 31, 2010		January 1, 2010	
Advance payments	₩	769,665	₩	631,572	₩	1,125,114
Less: Allowances for doubtful accounts		(928)		(9,341)		(14,983)
Advance payments, net		768,737		622,231		1,110,131
Prepaid construction costs		13,837		10,689		8,423
Prepaid expenses		157,344		367,411		317,132
Less: Allowances for doubtful accounts		-		(1,172)		-
Prepaid expenses, net		157,344		366,239		317,132
VAT receivables		10,842		10,516		16,104
Others		156		862		62
	₩	950,916	₩	1,010,537	₩	1,451,852

(2) Changes in allowance for loss on valuation of inventories during the years ended December 31, 2011 and 2010 are as follows (Won in millions):

2011			
	Advance payment		Prepaid expenses
Beginning balance	₩	9,341	₩ 1,172
Bad debt expenses		2,110	-
Reversal of allowance for bad debts		(7,551)	(3,975)
Others (*)		(2,972)	2,803
	₩	928	₩ -

2010			
	Advance payment		Prepaid expenses
Beginning balance	₩	14,983	₩ -
Bad debt expenses		9,994	1,202
Reversal of allowance for bad debts		(16,064)	-
Others (*)		428	(30)
	₩	9,341	₩ 1,172

(*) Others include increases or decreases resulting from recovery, write-offs, changes in consolidation scope and foreign exchange fluctuation.

12. SUBSIDIARIES:

(1) Details of the consolidated subsidiaries of the Company as of December 31, 2011, 2010 and January 1, 2010 are as follows:

Subsidiaries	Location	Primary business	Parent company	Ownership ratio (%)		
				December 31, 2011	December 31, 2010	January 1, 2010
DW Mangalia Heavy Industries S.A.	Romania	Shipbuilding	DSME Co., Ltd.	51.00	51.00	51.00
DSEC Co., Ltd.	Busan	Service and wholesale	DSME Co., Ltd.	70.07	70.07	70.07
Welliv Corp. (*1)	Geoje	Service	DSME Co., Ltd.	100.00	100.00	100.00
FLC Corp. (*1)	Yongin	Service	DSME Co., Ltd.	100.00	-	-
DSME Construction Co., Ltd.	Incheon	Construction	DSME Co., Ltd.	95.06	95.06	95.06
DSME Shandong Co., Ltd.	China	Manufacturing ship parts	DSME Co., Ltd.	100.00	100.00	100.00
Shinhan Machinery Co., Ltd.	Ulsan	Manufacturing ship parts	DSME Co., Ltd.	83.39	83.39	83.39
DSME E&R Co., Ltd.	Seoul	Development and distribution of natural resources	DSME Co., Ltd.	100.00	100.00	100.00
DeWind Co.	U.S.A.	Manufacturing wind power turbine	DSME Co., Ltd.	100.00	100.00	100.00
Samwoo Heavy Industry Co., Ltd.	Gwangyang	Manufacturing ship parts	DSME Co., Ltd.	100.00	76.57	-
DSME CANADA Holdings Ltd.	Canada	Holding Company	DSME Co., Ltd.	100.00	100.00	-
KLDS Maritime S.A(*2)	Panama	Shipping	DSME Co., Ltd.	100.00	-	-
DK Maritime S.A (*2)	Panama	Shipping	DSME Co., Ltd.	100.00	-	-
DSME Oman LLC(*3)	Oman	Development of real estate and related business activities	DSME Co., Ltd.	70.00	-	-
BIDC Co., Ltd.	Busan	Warehousing, Packager, Shipping	DSEC Co., Ltd.	62.38	80.20	80.20

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

Subsidiaries	Location	Primary business	Parent company	Ownership ratio (%)		
				December 31, 2011	December 31, 2010	January 1, 2010
DSME SMC Corp.	Seoul	Mining, Manufacturing, Trading	DSME E&R Co., Ltd.	100.00	80.00	60.00
DeWind Europe Gmbh	Germany	Manufacturing wind power turbine	DeWind Co.	100.00	-	-
DeWind Energy Development LLC (*4)	U.S.A.	Developing wind farm	DeWind Co.	100.00	-	-
NOVUS WIND I LLC (*4)	U.S.A.	Developing wind farm	DeWind Co.	100.00	-	-
DWS FRISCO LLC (*4)	U.S.A.	Developing wind farm	DeWind Co.	100.00	-	-
DeWind Engineering Gmbh (*5)	Germany	Researching wind power	DeWind Co.	-	-	-
DSME Trenton Ltd.	Canada	Manufacturing wind power turbine	DSME CANADA Holdings Ltd.	51.00	51.00	-

(*1) FLC Corp.was established during the year ended December 31, 2011 as a result of Welliv Corp.'s spin-off.
(*2) Company acquired additional 50% shares of KLDS Maritime S.A and DK Maritime S.A and they,previously jointly-controlled entities, were converted into consolidated subsidiaries(Note 46).
(*3) DSME Oman LLC,previously an AF5, was converted into a consolidated subsidiary because a change in the Company's share of equity interest became material.
(*4) Established by DeWind Co.and classified as a consolidated subsidiary during the current period.
(*5) Established by DeWind Co.and merged into the DeWind Europe Gmbh during the current period.

(1) The summarized financial information of the consolidated subsidiaries of the Company as of December 31, 2011 is as follows (Won in millions):

Subsidiaries	Assets	Liabilities	Net assets	Sales	Net income (loss)	Comprehensive income(loss)
DW Mangalia Heavy Industries S.A.	₩ 696,896	₩ 965,220	₩ (268,324)	₩ 603,341	₩ (77,956)	₩ (54,990)
DSEC Co., Ltd.	243,651	111,779	131,872	361,338	19,563	20,119
Welliv Corp.	49,185	17,829	31,356	143,218	6,287	6,574
FLC Corp.	149,994	61,326	88,668	4,630	(477)	(477)
DSME Construction Co., Ltd.	241,402	150,024	91,378	364,445	2,231	1,826
DSME Shandong Co., Ltd.	599,069	394,010	205,059	290,277	16,985	28,279
Shinhan Machinery Co., Ltd.	231,650	158,097	73,553	261,211	9,802	8,778
DSME E&R Co., Ltd.	97,918	43,724	54,194	585,684	5,236	5,825
DeWind Co.(*1)	300,485	240,630	59,855	2,198	(52,075)	(54,288)
Samwoo Heavy Industry Co., Ltd.	366,689	291,104	75,585	164,994	1,672	1,913
DSME CANADA Holdings Ltd.	23,048	-	23,048	-	-	(182)
KLDS Maritime S.A	218,272	212,313	5,959	5,225	(474)	(624)
DK Maritime S.A	575,766	566,024	9,742	18,697	(5,011)	(5,065)
DSME Oman LLC	60,186	60,395	(209)	-	-	-
BIDC Co., Ltd.	79,656	54,843	24,813	98,266	6,501	6,455
DSME SMC Corp.	17,234	10,092	7,142	14,465	4,553	4,496
DeWind Europe Gmbh(*2)	22,564	18,471	4,093	29,067	62	7
DSME Trenton Ltd.	54,605	32,795	1,810	5,163	(21,088)	(21,143)

(*1) It is based on the consolidated financial statements incorporating the financial statements of DeWind Energy Development LLC,Novus Wind I LLC and DWS Frisco LLC.
(*2) It is based on the financial information including the financial information of DeWind Engineering Gmbh which was merged into the DeWind Europe Gmbh during the current period.

(2) There are no companies which are classified as consolidated subsidiaries even though the Company holds less than 50 percent of the voting power in the companies. And the companies which are not classified as consolidated subsidiaries even though the Company holds more than 50 percent of the voting power in the companies are as follows (Won in millions):

Subsidiaries	Location	Primary business	Parent company	Ownership ratio (%)	Book value
DSME FAR EAST LLC(*1)	Russia	Local sales supporting	DSME Co., Ltd.	100.00	₩ 1
DSME BRAZIL LLC(*1)	Brazil	Shipbuilding and others	DSME Co., Ltd.	99.00	456
Haedong ENG Co.	Geoje	Ship design	DSME Co., Ltd.	100.00	100
PLDNC Co.(*2)	Seoul	Developer	DSME Construction Co., Ltd.	100.00	-
DSME Construction SRL (*2)	Romania	Constructions	DSME Construction Co., Ltd.	100.00	78
DSME Construction Yantai Co. Ltd.	China	Constructions	DSME Construction Co., Ltd.	100.00	773
DSME Construction RUS LLC	Russia	Constructions	DSME Construction Co., Ltd.	100.00	56
DSME Construction LLC	Oman	Constructions	DSME Construction Co., Ltd.	70.00	559
DSME mutual aid Corp.	Seoul	Services	DSME Construction Co., Ltd.	51.00	476
DSME E&R PNG PTE. Ltd.	Singapore	Development of natural resources and others	DSME E&R Co., Ltd.	100.00	871
DSME E&R Trading PTE. Ltd.	Singapore	Trades	DSME E&R Co., Ltd.	51.00	52
NAVAL TEST SERVICES PROVIDER SRL	Romania	Technical testing & Analysis	DW Mangalia Heavy Industries S.A.	95.00	5
Daewoo Mangalia Human Resources Management SRL	Romania	Event catering activities	DW Mangalia Heavy Industries S.A.	95.00	-
				₩	3,427

(*1) The Company could not obtain reliable financial statements of the Subsidiary and it is not classified as consolidated subsidiaries because change in the Company's share of equity interest is immaterial.
(*2) It is not classified as consolidated subsidiaries because it's in liquidation and change in the Company's share of equity interest was immaterial.

The Company could not obtain reliable financial statements of the above subsidiaries and change in the Company's share of equity interest in them is immaterial. So, they are not classified as consolidated subsidiaries. However management of the Company expects that there will not be significant differences on the consolidated financial statements.

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For the years ended December 31, 2011, December 2010 and January 1, 2010

13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES:

(1) The Company's affiliates and jointly-controlled entities as of December 31, 2011 are as follows:

Classification	Entities	Location	Primary business
Affiliates entities	NIDAS Marine Ltd.	Nigeria	Holding company
	Korea Marine Finance Corporation	Seoul	Service
	DSO N Co., Ltd.	Seoul	Service
Jointly-controlled entities	D&H Solutions AS	Norway	Development of natural resources
	PT. DSME ENR CEPU (formerly PT. Syabas Usaha Migas)	Indonesia	Development, sales and investment of natural resources

(2) The Company's investments in the securities of affiliates and jointly-controlled entities are as follows (Won in millions):

December 31, 2011						
	Ownership ratio (%)		Acquisition cost		Net asset value	
NIDAS Marine Ltd.	46.00	₩	1,285	₩	(343)	₩ -
Korea Marine Finance Corporation	23.53		2,000		2,521	2,521
DSO N Co., Ltd.	32.45		245		3,681	3,681
D&H Solutions AS (*1)	50.00		10		(2,822)	-
PT. DSME ENR CEPU (*2)	85.00		9,407		5,032	12,835
		₩	12,947	₩	8,069	₩ 19,037

(*1) Due to the accumulated loss of NIDAS Marine Ltd and D&H Solutions AS, an unrecognized loss of ₩343 million and ₩2,822 million are recognized as an allowance for doubtful accounts with respect to a loan provided to the respective equity-method investee.

(*2) DSME E&R Co.,Ltd.acquired an additional 5% share of PT.DSME ENR CEPU during the current period,increasing its total ownership to 85%.

KLDS Maritime S.A and DK Maritime S.A became consolidated subsidiaries due to the additional acquisition during the current period (Note 46).

December 31, 2010						
	Ownership ratio (%)		Acquisition cost		Net asset value	
NIDAS Marine Ltd.	46.00	₩	1,285	₩	697	₩ 697
Korea Marine Finance Corporation	23.53		2,000		2,799	2,799
DSO N Co., Ltd.	32.45		245		2,596	2,596
KLDS Maritime S.A.	50.00		20,666		25,819	25,819
DK Maritime S.A.	50.00		62,643		66,029	66,029
D&H Solutions AS	50.00		10		(1,960)	-
PT. DSME ENR CEPU	80.00		7,007		25	5,430
		₩	93,856	₩	96,005	₩ 103,370

January 1, 2010						
	Ownership ratio (%)		Acquisition cost		Net asset value	Book value
NIDAS Marine Ltd.	46.00	₩	1,285	₩	214	₩ 214
Korea Marine Finance Corporation	23.53		2,000		2,848	2,848
DSON Co., Ltd.	32.45		245		1,638	1,638
KLDS Maritime S.A.	50.00		20,666		27,361	27,361
DK Maritime S.A.	50.00		62,643		69,795	69,795
PT. DSME ENR CEPU	40.00		3,415		801	3,415
		₩	90,254	₩	102,657	₩ 105,271

(3) Changes in the investments in the securities of affiliates and jointly-controlled entities are as follows (Won in millions):

2011												
		Beginning balance		Acquisition (Disposal)		Gain(Loss) on valuation of equity method securities		Net change in interests of equity method securities		Other changes (*)	Ending balance	
NIDAS Marine Ltd.	₩	697	₩	-	₩	(1,063)	₩	23	₩	343	₩	-
Korea Marine Finance Corporation		2,799		-		(187)		9		(100)		2,521
DSO N Co., Ltd.		2,596		-		1,085		-		-		3,681
KLDS Maritime S.A.		25,819		-		(21,728)		(800)		(3,291)		-
DK Maritime S.A.		66,029		-		(59,788)		(2,216)		(4,025)		-
D&H Solution AS		-		-		(902)		40		862		-
PT. DSME ENR CEPU		5,430		2,400		3,660		1,345		-		12,835
	₩	103,370	₩	2,400	₩	(78,923)	₩	(1,599)	₩	(6,211)	₩	19,037

(*) Other changes consist of dividends of ₩100 million received from Korea Marine Finance Corporation during the current period,an allowance for loans of ₩343 million and ₩862 million, respectively,to NIDAS Marine Ltd. and D&H Solutions AS and equity securities in KLDS Maritime S.A. and D&H Solution AS reclassified to consolidated subsidiaries.

2010												
		Beginning balance		Acquisition (Disposal)		Gain(Loss) on valuation of equity method securities		Net change in interests of equity method securities		Other changes (*)	Ending balance	
NIDAS Marine Ltd.	₩	214	₩	-	₩	943	₩	(460)	₩	-	₩	697
Korea Marine Finance Corporation		2,848		-		105		6		(160)		2,799
DSON Co., Ltd.		1,638		-		950		8		-		2,596
KLDS Maritime S.A.		27,361		-		(1,012)		(530)		-		25,819
DK Maritime S.A.		69,795		-		(2,093)		(1,673)		-		66,029
D&H Solution AS		-		10		(1,936)		(34)		1,960		-
PT. DSME ENR CEPU		3,415		-		(1,623)		46		3,592		5,430
	₩	105,271	₩	10	₩	(4,666)	₩	(2,637)	₩	5,392	₩	103,370

(*) Other changes consist of dividends of ₩160 million received from Korea Marine Finance Corporation during prior period,an allowance of doubtful accounts of ₩1,960 million recognized with respect to the loan provided to D&H Solution AS. and equity securities in PT.DSME ENR CEPU (formerly PT. Syabas Usaha Migas) amounting to ₩3,592 million reclassified as investments in jointly-controlled entities.

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(4) Changes in the investment differences with respect to the investments in the securities of affiliates and jointlycontrolled entities for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

2011								
Beginning balance		Increase		Decrease		Ending balance		
PT. DSME ENR CEPU	₩	5,405	₩	2,398	₩	-	₩	7,803
2010								
Beginning balance		Increase		Decrease		Ending balance		
PT. DSME ENR CEPU	₩	2,614	₩	2,791	₩	-	₩	5,405

(5) The summarized financial information of affiliates and jointly-controlled entities as of and for the year ended December 31, 2011 are as follows (Won in millions):

	Assets		Liabilities		Net assets		Sales	Net income (loss)	
NIDAS Marine Ltd.	₩	16,189	₩	14,749	₩	1,440	₩	5,057	₩ (475)
Korea Marine Finance Corporation		10,806		95		10,711		1,168	(807)
DSO N Co., Ltd.		81,934		70,590		11,344		71,657	3,346
D&H Solutions AS		2,269		7,912		(5,643)		6,011	(1,804)
PT. DSME ENR CEPU		42,268		36,348		5,920		150	4,305

As audited (reviewed) financial statements of the Company's affiliates and jointly-controlled entities were not available at the date of the financial statements of the Parent, investment securities accounted for using the equity method as of December 31, 2011 were valued based on their provisional financial statements. Should the audited (reviewed) financial statements have been used, the valuation results may have been different, but management of the Company expects that there will not be significant differences between the aforementioned provisional financial statements and the financial statements subsequently audited (reviewed).

(6) Details of adjustments, for the purpose of applying the equity method of accounting, on the financial statements of affiliates and jointly-controlled entities are as follows (Won in millions):

Company	Net asset value before adjustment		Adjustment	Net asset value after adjustment		Reason
NIDAS Marine Ltd.	₩	1,440	₩ (2,186)	₩	(746)	Adjusted to reflect the Parent's accounting policies for the purpose of applying the equity method

(7) Details of investments in jointly-controlled entities as of December 31, 2011 are as follows (Won in millions, USD and NOK in thousands):

Type	Company	% of ownership	Cost	Description
Jointly controlled entities	D&H Solutions AS (*1)	50.00	NOK 54	Hemla II AS : 50%
	PT. DSME ENR CEPU (*2)	85.00	USD 5,000	GNG Holdings Inc.: 15%
			₩ 2,400	

(*1) The Company acquired shares of Hemla II AS for the purpose of utilization of its capabilities of manufacturing of marine products and operation of mining areas.
(*2) The Company has invested in overseas oil fields in Cepu, Indonesia in the form of a consortium consisting of the Company, DSME E&R Co., Ltd. and GNG Holdings Inc.(total ownership % of the Company and DSME E&R Co., Ltd.: 85%)

(8) Investments in associates for which the equity method has not been applied even though the Company holds 20 percent or more of the voting power of them are as follows (Won in millions):

Investments in associates	Location	Primary business	Parent company	Ownership ratio (%)	Book value
SBM ship yard ltd.	Angola	Shipbuilding and Services	DSME Co., Ltd.	33.33	₩ 7
Dominus, Neostar private equity fund	-	Technology fund	DSME Co., Ltd.	26.61	500
SDS constructions Co.	Russia	Constructions	DSME Construction Co., Ltd.	49.00	39
Daegu boramae Inc.	Seoul	Real estate industry	DSME Construction Co., Ltd.	44.60	695
Coregeo Inc.	Seoul	Constructions	DSME Construction Co., Ltd.	20.00	2,000
Duqum Development Co.(*)	Oman	Real estate industry and services	DSME Oman LLC	50.00	5
					₩ 3,246

(*) The Company's investment in Duqum Development is not accounted for under the equity method since the Company does not have significant influence over Duqum Development, although the Company holds more than 50 percent of the voting power.

The Company's investment in above associates is not accounted for under the equity method given that the Company could not obtain reliable financial statements and change in the Company's share of equity interest in associates is immaterial. And management of the Company expects that there will not be significant differences on the consolidated financial statements.

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14. PROPERTY, PLANT AND EQUIPMENT:

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

December 31, 2011						
	Land	Buildings and structures	Machinery and Equipment	Others	Total	
Acquisition costs	₩ 1,844,092	₩ 2,660,923	₩ 1,196,975	₩ 2,565,253	₩	8,267,243
Accumulated depreciation	-	(583,916)	(503,902)	(517,401)		(1,605,219)
Government grants	-	(3,397)	(399)	(97)		(3,893)
Accumulated impairment losses (*)	-	-	-	(154,441)		(154,441)
Net balance	₩ 1,844,092	₩ 2,073,610	₩ 692,674	₩ 1,893,314	₩	6,503,690

(*) Impairment losses are recognized for ships, aircraft and construction in progress of KLD5 Maritime S.A. and DK Maritime S.A. (Note 46).

December 31, 2010						
	Land	Buildings and structures	Machinery and Equipment	Others	Total	
Acquisition costs	₩ 1,813,891	₩ 2,396,039	₩ 1,056,160	₩ 1,456,344	₩	6,722,434
Accumulated depreciation	-	(482,535)	(452,564)	(417,572)		(1,352,671)
Government grants	-	(3,488)	(447)	(241)		(4,176)
Accumulated impairment losses (*)	-	-	-	(3,889)		(3,889)
Net balance	₩ 1,813,891	₩ 1,910,016	₩ 603,149	₩ 1,034,642	₩	5,361,698

January 1, 2010						
	Land	Buildings and structures	Machinery and Equipment	Others	Total	
Acquisition costs	₩ 1,694,159	₩ 2,237,834	₩ 983,421	₩ 1,279,989	₩	6,195,403
Accumulated depreciation	-	(386,231)	(402,949)	(368,685)		(1,157,865)
Government grants	-	(3,579)	(503)	(394)		(4,476)
Net balance	₩ 1,694,159	₩ 1,848,024	₩ 579,969	₩ 910,910	₩	5,033,062

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

2011						
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*2)	Ending balance
Land	₩ 1,813,891	₩ 563	₩ (356)	₩ -	₩ 29,994	₩ 1,844,092
Building	1,010,195	12,249	(424)	(49,819)	222,425	1,194,626
Government grants	(3,488)	-	-	91	-	(3,397)
Structures	903,309	1,840	(3,024)	(43,385)	23,641	882,381
Machinery and equipment	603,596	40,792	(2,698)	(61,586)	112,969	693,073
Government grants	(447)	(9)	-	57	-	(399)
Vehicles	126,622	9,897	(289)	(16,227)	8,469	128,472
Ships and aircraft	141,647	2,253	-	(16,011)	767,590	895,479
Tools	86,637	10,448	(200)	(24,487)	5,277	77,675
Government grants	(14)	-	-	7	-	(7)
Furniture and fixtures	34,068	22,401	(208)	(12,323)	2,832	46,770
Government grants	(227)	-	-	137	-	(90)
Furniture and fixtures on finance lease (*1)	29,490	-	-	(6,705)	267	23,052
Construction-inprogress	616,419	352,312	(762)	-	(246,006)	721,963
	₩ 5,361,698	₩ 452,746	₩ (7,961)	₩ (230,251)	₩ 927,458	₩ 6,503,690

2010						
	Beginning balance	Acquisition	Disposal	Depreciation	Others (*2)	Ending balance
Land	₩ 1,589,481	₩ 5,071	₩ (1,449)	₩ -	₩ 220,788	₩ 1,813,891
Land on finance lease	104,678	-	-	-	(104,678)	-
Building	917,328	5,228	(138)	(49,436)	137,213	1,010,195
Government grants	(3,579)	-	-	91	-	(3,488)
Buildings on finance lease	56,271	-	-	-	(56,271)	-
Structures	878,004	2,537	(18)	(43,420)	66,206	903,309
Machinery and equipment	580,472	5,894	(1,688)	(53,527)	72,445	603,596
Government grants	(503)	-	-	56	-	(447)
Vehicles	104,659	5,477	(1,044)	(13,954)	31,484	126,622
Government grants	(1)	-	-	1	-	-
Ships and aircraft	141,299	322	-	(8,276)	8,302	141,647
Tools	89,453	6,053	(49)	(23,537)	14,717	86,637
Government grants	(22)	-	-	8	-	(14)
Furniture and fixtures	31,457	12,558	(223)	(11,211)	1,487	34,068
Government grants	(371)	-	-	144	-	(227)
Furniture and fixtures on finance lease (*1)	36,030	1	-	(6,840)	299	29,490
Construction-inprogress	508,406	260,724	-	-	(152,711)	616,419
	₩ 5,033,062	₩ 303,865	₩ (4,609)	₩ (209,901)	₩ 239,281	₩ 5,361,698

(*1) The Company has entered into a sale leaseback (finance lease) contract for its computer equipment and recognized the related assets as part of furniture and fixtures under finance lease. (Note 20)
(*2) Others consist of increases and decreases resulting from the change of the scope of consolidation and foreign currency exchange rates. As of December 31, 2010, others include finance lease land and finance lease building transferred to land and building.

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

15. GOVERNMENT GRANTS:

The Company received government grants from the Ministry of Labor’s Tongyeong Office and Human Resources Development Service of Korea for operating a job training consortium facility for small and medium-sized enterprises and acquisition of equipment. In addition, DeWind Co., the Company’s subsidiary, receives government grants from the US Ministry of Finance for wind farm development. Accordingly, changes in the Company’s government grants during the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	Year ended December 31, 2011		Year ended December 31, 2010	
Beginning balance	₩	3,524	₩	7,381
Receipt		17,571		1,304
Return		(2,122)		(1,599)
Offset with cost		(403)		(3,608)
Acquisition		(15,878)		-
Others		11		46
Ending balance (Unused balance) (*)	₩	2,703	₩	3,524

(*) Unused balance as of December 31, 2011 consist of unearned income of ₩1,492 million and withholdings of ₩1,211 million.

16. PLEDGED ASSETS AND GUARANTEES:

(1) As of December 31, 2011, the Company’s assets pledged as collateral for borrowings are summarized as follows (Won in millions and foreign currency in thousands):

Assets				Book value	Pledged amount	Guarantee for	Borrowings amount	Lender
Financial assets available-for-sale	₩	16,222	₩	16,222	Borrowings in local currencies	₩	9,690	Construction Guarantee and others
Property, plant and equipment and Investment property	2,901,620			966,423	Borrowings in local currencies		546,400	KDB and others
		USD	880,000	Borrowings in foreign currencies	USD	198,691	20,649	
		USD	455,507	Borrowings in foreign currencies	USD	324,338		
		RON	567,759	Borrowings in foreign currencies	RON	100,000	112,000	Transilvania Bank and others DSME
Intangible assets	30,479	CNY	223,000	Borrowings in foreign currencies	CNY	223,000	KDB and others	
		USD	29,600	Borrowings in foreign currencies	USD	29,600	KDB and others	
Treasury stock	10,239	(*)		Performance of contracts	(*)		Gyeongsangnam-do (Provincial government)	
		USD	1,365,107		USD	664,629		
		CNY	223,000		CNY	223,000		
		EUR	-		EUR	20,649		
		RON	567,759		RON	100,000		
	₩	2,958,560	₩	982,645	₩	556,090		

(*) 800,000 shares of the Parent’s treasury stock are pledged to guarantee performance of the contract executed with the provincial government of Gyeongsangnam-do.

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

(2) Significant guarantees provided to those other than the Company’s related parties as of December 31, 2011 are as follows (Won in millions and foreign currency in thousands):

Provided for	Guarantee Amount		Lender
Daewoo E&C and others	EUR	10,747	AKA
Korea Line Corp.	USD	285,633	KDB and others
Daewoo-Mangalia Ltd.		94,900	Samsung Fire & Marine Insurance Ltd. & others
KCK Panama	USD	5,050	WestLB, BOA, Mizuho
KLDS		192,600	Korea Finance Corp. and others
Blue Pearl Inc.	USD	84,583	Korea Finance Corp. and KDB
Blue Topaz Inc.	USD	84,583	Korea Finance Corp. and KDB
KEPCO Corp		233	Kwangju Bank
Seowon Inc and others		320	KDB
D&D city Inc.		40,000	Shinhan bank and others
Hyundai oilbank Inc.		5,767	Korea exchange bank
Samsung total petrochemical Ltd.		1,000	Korea exchange bank

(3) As of December 31, 2011, the Export-Import Bank of Korea provides performance guarantees amounting to ₩454,987 million, USD 9,919 million, EUR 138 million, RON 1 million to the Parent in relation to export of ships and others. In return, the Parent provides shipbuilding materials, ships under construction and certain receivables as collaterals.

17. INVESTMENT PROPERTIES:

(1) Carrying amounts of investment properties as of December 31, 2011, 2010 and January 1, 2010 are as follows (Won in millions):

December 31, 2011						
	Land		Building		Total	
Acquisition cost	₩	19,424	₩	10,932	₩	30,356
Accumulated depreciation		-		(3,524)		(3,524)
Carrying amount	₩	19,424	₩	7,408	₩	26,832

December 31, 2010						
	Land		Building		Total	
Acquisition cost	₩	51,318	₩	31,986	₩	83,304
Accumulated depreciation		-		(5,963)		(5,963)
Carrying amount	₩	51,318	₩	26,023	₩	77,341

January 1, 2010						
	Land		Building		Total	
Acquisition cost	₩	51,468	₩	32,080	₩	83,548
Accumulated depreciation		-		(5,321)		(5,321)
Carrying amount	₩	51,468	₩	26,759	₩	78,227

(2) Changes in the carrying amounts of investment properties during the years ended December 31, 2011 and 2010 are as follows (Won in millions):

2011						
	Land		Building		Total	
Beginning balance	₩	51,318	₩	26,023	₩	77,341
Depreciation		-		(674)		(674)
Transfer to other accounts		(31,894)		(17,941)		(49,835)
Ending balance	₩	19,424	₩	7,408	₩	26,832

2010						
	Land		Building		Total	
Beginning balance	₩	51,468	₩	26,759	₩	78,227
Depreciation		-		(649)		(649)
Disposal		(150)		(87)		(237)
Ending balance	₩	51,318	₩	26,023	₩	77,341

(3) Income generated from the investment properties for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	2011		2010	
Rental income	₩	594	₩	1,140

(4) Fair values of the investment properties as of December 31, 2011, 2010 and January 1, 2010 are as follows (Won in millions):

	December 31, 2011		December 31, 2010		January 1, 2010	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Land	₩ 19,424	₩ 19,424	₩ 51,318	₩ 51,318	₩ 51,468	₩ 51,468
Buildings	7,409	7,409	26,023	26,023	26,759	26,759
	₩ 26,833	₩ 26,833	₩ 77,341	₩ 77,341	₩ 78,227	₩ 78,227

The Company assessed the fair value of land through an independent appraiser on November 30, 2009, and the Company has not reassessed the fair value of land since such date, as it believes that the change in fair value between the revaluation date and December 31, 2011 will not be significant. As the difference between Buildings’ carrying amount and the fair value is not expected to be significant, the book value is considered the same as fair value and Buildings are recognized at book value.

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

18. INTANGIBLE ASSETS:

(1) Details of the carrying amount as of December 31, 2011, 2010 and January 1, 2010 are as follows (Won in millions):

	December 31, 2011		December 31, 2010		January 1, 2010
Acquisition cost	₩	168,581	₩	164,369	₩ 137,052
Accumulated amortization and accumulated impairment		(45,198)		(18,877)	(8,522)
Carrying amount	₩	123,383	₩	145,492	₩ 128,530

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

December 31, 2011					
	Beginning balance	Acquisition & disposal	Depreciation	Other changes (*)	Ending balance
Goodwill	₩ 63,314	₩ -	₩ -	₩ (15,716)	₩ 47,598
Intellectual property rights	1,977	1,101	(376)	-	2,702
Development costs	24,117	20,275	(141)	(14,725)	29,526
Computer software	5,099	1,607	(1,869)	359	5,196
Facility usage rights	31,057	-	(754)	1,700	32,003
Other intangible assets	19,928	4,945	(2,392)	(16,123)	6,358
	₩ 145,492	₩ 27,928	₩ (5,532)	₩ (44,505)	₩ 123,383

December 31, 2010					
	Beginning balance	Acquisition & disposal	Depreciation	Other changes (*)	Ending balance
Goodwill	₩ 64,066	₩ -	₩ (108)	₩ (644)	₩ 63,314
Intellectual property rights	1,512	741	(276)	-	1,977
Development costs	4,750	19,614	(152)	(95)	24,117
Computer software	4,378	415	(1,393)	1,699	5,099
Facility usage rights	31,558	(611)	(751)	861	31,057
Other intangible assets	22,266	1,701	(2,430)	(1,609)	19,928
	₩ 128,530	₩ 21,860	₩ (5,110)	₩ 212	₩ 145,492

(*) Other changes include impairment losses on intangible, increase and decrease resulting from changes in exchange rates and others.

19. OTHER NON-CURRENT ASSETS:

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

	December 31, 2011		December 31, 2010		January 1, 2010
Long-term prepaid expenses	₩	114,971	₩	2,735	₩ 2,823
Other investment assets		18,069		17,500	19,965
Others		11,397		5,060	6,146
	₩	144,437	₩	25,295	₩ 28,934

20. FINANCE LEASE:

(1) The Parent entered into a finance lease contract on March 1, 2006 with the 7th Kocref in relation to the lease of its new office premises, and the related assets and liabilities were transferred to property, plant and equipment owned by the Parent as they reached their maturities during 2010. In addition, the Parent entered into a finance lease contract in a form of a sale and leaseback on April 21, 2009 with the HP financial service in relation to the lease of its computer equipments and the related assets and liabilities are recognized as of December 31, 2011.

(2) The Company uses furniture and fixtures on finance lease and the details of the furniture and fixtures as of December 31, 2011 and 2010 are as follows (Won in millions):

	December 31, 2011		December 31, 2010		January 1, 2010	
	Furniture and fixtures		Furniture and fixtures		Land	Furniture and fixtures
Acquisition cost	₩ 41,705	₩	40,672	₩	104,678	₩ 60,730
Accumulated depreciation	(18,653)		(11,182)		-	(4,459)
Book value	₩ 23,052	₩	29,490	₩	104,678	₩ 56,271

(3) Present value of the future minimum lease payments under the lease contracts is as follows (Won in millions):

Description	Furniture and fixtures
Due within a year	₩ 3,138
Due after one year through five years	10,456
Total minimum lease payments	13,594
Unearned interests	(70)
Present value of net minimum finance lease payments	₩ 13,524

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For the years ended December 31, 2011, December 2010 and January 1, 2010

21. TRADE AND OTHER PAYABLES:

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

	December 31, 2011		December 31, 2010		January 1, 2010	
	Current	Non-current	Current	Non-current	Current	Non-current
Trade payables	₩ 852,244	₩ -	₩ 1,276,876	₩ -	₩ 1,011,444	₩ -
Other payables	446,372	88,472	681,552	133,866	248,176	147,778
Accrued expenses	258,336	258	199,655	740	72,405	9,608
Dividends payable	23	-	14	-	14	-
Current portion of long-term non trade payables	31,117	-	6,111	-	-	-
Deposits received	20,656	8,160	10,029	13,058	8,128	13,012
	₩1,608,748	₩ 96,890	₩ 2,174,237	₩ 147,664	₩ 1,340,167	₩ 170,398

22. DEBENTURES:

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

Type	Maturity date	Annual interest rate (%)	December 31, 2011		December 31, 2010		January 1, 2010	
			Foreign currency	Won equivalent	Foreign currency	Won equivalent	Foreign currency	Won equivalent
Unsecured debenture	2012.04.01	6.39	-	₩ 500,000	-	₩ 500,000	-	₩ 500,000
Unsecured debenture	2013.04.29	6ML + 3.10	USD 150,000	172,995	USD 150,000	170,835	-	-
Unsecured debenture	2014.11.03	4.41	-	300,000	-	-	-	-
Private debenture	2012.03.31	3M-CD+3.08	-	5,000	-	5,000	-	-
Less: Discount on debentures				(1,223)		(926)		(1,615)
Less: Discount on current portion of debentures				(191)		-		-
Less: Current portion of debentures				(504,809)		(5,000)		-
Book value				₩ 471,772		₩ 669,909		₩ 498,385

(2) Fair values of the Company’s debentures as of December 31, 2011, 2010 and January 1, 2010 are ₩972,262 million, ₩681,157 million and ₩514,396 million, respectively.

23. SHORT-TERM AND LONG-TERM BORROWINGS:

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

Lender	Annual interest rate (%)	December 31, 2011	December 31, 2010		January 1, 2010	
SC Bank	-	₩ 7,984	₩ 7,982	₩ 8,286		
Kyongnam Bank	CD+4.02	-	-	10,000		
Kwangju Bank	6.40~6.95	9,500	5,510	-		
Kookmin Bank	5.30~6.97	10,000	19,300	17,817		
Nonghyup	6.94	-	19,400	-		
Daewoo Logistics Corp.	9.00	63	63	63		
Busan Bank	6.00~6.49	18,400	8,400	-		
Shinhan Bank	5.14~5.34	22,898	15,000	15,000		
Woori Bank	CD+1.19~1.71	32,379	96,163	90,621		
Hana Savings Bank	CD+7.65	-	-	2,300		
Hana Bank	4.65~6.90	10,513	2,340	1,000		
Korea Development Bank (KDB)	1.80~6.47	199,799	10,116	-		
Korea Exchange Bank (KEB)	3MK+1.28~1.38	260,126	-	337,419		
Export-Import Bank of Korea (EXIM)	4.52~5.15	15,000	13,000	119,000		
		₩ 586,662	₩ 197,274	₩ 601,506		

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

Lender	Annual interest rate(%)	December 31, 2011		December 31, 2010		January 1, 2010	
		Foreign current	Won equivalent	Foreign currency	Won equivalent	Foreign currency	Won equivalent
KEB	6ML+0.77	USD 515,928	₩ 595,020	USD 250,418	₩ 285,201	USD 479,177	₩ 559,487
		EUR 52,316	78,166	EUR 50,498	76,434	-	-
		-	-	GBP 147	258	-	-
		-	-	NOK 5,633	1,090	-	-
EXIM	3ML+ 1.78~1.98	USD 227,363	262,218	USD 215,401	245,320	-	-
Shinhan Bank	3ML + 4.80	JPY 541,000	8,035	JPY 541,000	7,558	JPY 541,000	6,832
China Construction Bank and others	5.31~7.93	CNY 299,260	54,618	CNY 159,808	27,567	CNY 160,000	27,370
Banca Transilvania	9.00	RON 100,000	34,716	RON100,000	35,335	RON 91,795	36,318
Woori Bank	3ML + 4.30	USD 50,000	57,967	USD 50,000	56,614	USD 50,000	58,084
BMO Nesbitt Burns	Prime - 0.20	CAD 4,009	4,620	-	-	-	-
		₩ 1,095,360		₩ 735,377		₩ 688,091	

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

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

Lender	Annual interest rate (%)	December 31, 2011	December 31, 2010	January 1, 2010
KDB	1.00	₩ 1,900	₩ 2,500	₩ 3,300
Industrial financial debentures				
+ 3.03~3.22		444,599	290,607	23,750
7.30		-	2,000	-
KOFC	Industrial financial debentures +1.90	60,000	40,000	-
Korea Housing Guarantee	1.00	520	520	520
Woori Bank	2.00~2.50	2,998	2,998	2,998
Construction Guarantee	-	11,560	11,560	11,560
Kyongnam Bank	3MBP+ 2.00	-	1,179	2,649
Kookmin Bank	5.26~7.30	10,687	11,666	2,916
Busan Bank	6.00~6.49	22,800	142,800	-
Shinhan Bank	Bank debentures+ 1.48	-	7,898	-
Small and medium business corp.	Public fund management - 0.10	13	67	120
Korea resources corp.	3Y Government debentures - 0.20	2,690	1,255	-
Jeil Technos Co., Ltd.	5.57	3,000	-	-
SC Bank	12.80	-	-	25
Nonghyup	6MK + 5.40	-	-	3,400
Doosan Capital	1.00	-	-	9
Employees and individual applicants	4.50	3,150	-	-
		563,917	515,050	51,247
Less: Current portion of long-term borrowings		(84,465)	(10,142)	(6,633)
Less: Present value discounts		(2,390)	(3,393)	(4,286)
Long-term borrowings, net		₩ 477,062	₩ 501,515	₩ 40,328

(4) Long-term borrowings in foreign currencies as of December 31, 2011, 2010 and January 1, 2010 are as follows (Won in millions and foreign currency in thousands):

Lender	Annual interest rate(%)	December 31, 2011 Foreign current	December 31, 2011 Won equivalent	December 31, 2010 Foreign currency	December 31, 2010 Won equivalent	January 1, 2010 Foreign currency	January 1, 2010 Won equivalent
KDB	3ML+ 0.73~3.61	USD 231,082	₩ 266,785	USD 50,463	₩ 57,472	USD 101,465	₩ 118,471
	3ML+2.50	USD 30,000	34,499	USD 30,000	34,272	USD 34,100	39,830
	PBOC~PBOC*95	CNY 286,000	52,198	CNY 353,672	61,008	CNY 260,000	44,476
Hana Bank	7.55	USD 50,000	57,665	USD 50,000	56,945	USD 50,000	58,380
	PBOC	CNY 30,000	5,475	CNY 30,000	5,175	CNY 30,000	5,132
Korea National Oil Corp.	2.50	USD 9,748	10,819	USD 9,479	10,506	USD 9,235	10,783
EXIM	6ML+ 2.73~4.50	USD 128,000	147,622	USD 128,000	145,779	USD 50,000	58,380
Daewoo Yield-up Co., Ltd. and others (SPC)	6ML+4.90~5.00	USD 60,000	69,198	USD 180,000	205,002	USD180,000	210,168
China construction Bank and others	PBOC~PBOC*90	CNY 515,000	93,993	CNY 473,328	81,649	CNY 567,000	96,327
	3ML+1.30	USD 22,800	26,219	USD 25,800	29,474	USD 28,800	33,639
Woori Bank and others	3ML+3.30	USD 119,387	137,689	-	-	-	-
Province of Nova Scotia	4.50	CAD 11,213	13,274	CAD 3,717	4,232	-	-
Atlantic Canada Opportunity Agency	-	CAD 5,129	5,795	CAD 793	903	-	-
SC First Bank	3ML+2.00~4.50	USD 49,000	56,350	USD 50,000	57,123	USD175,250	204,643
Shinhan Bank	3.90~5.50	-	-	USD 50	57	USD 58	68
KLDS	6.51	USD155,172	178,960	-	-	-	-
Samsung Fire & Marine Insurance Co., Ltd.	4.78~4.95	-	-	USD 35,923	38,551	-	-
			1,156,541		788,148		880,297
Less: Current portion of accounts			(501,736)		(304,454)		(196,151)
Less: Present value discount			(3,734)		(1,041)		-
Long-term borrowings, net			₩ 651,071		₩ 482,653		₩ 684,146

The above long-term borrowings in local currency and foreign currencies are repaid in installments, and the Company's property, plant and equipment are pledged as collaterals for those borrowings.

(5) Fair value of the non-current borrowings as of December 31, 2011, 2010 and January 1, 2010 are ₩1,437,814million, ₩1,271,461 million and ₩948,532 million, respectively.

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24. OTHER CURRENT LIABILITIES:

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

	December 31, 2011	December 31, 2010	January 1, 2010
Advance received	₩ 23,609	₩ 10,625	₩ 19,778
Income in advance	15,479	2,215	3,159
Withholdings	83,269	83,597	71,882
Others	292	259	92
	₩ 122,649	₩ 96,696	₩ 94,911

25. RETIREMENT BENEFIT OBLIGATION:

(1) As of December 31, 2011, 2010 and January 1, 2010 amounts recognized in the statements of financial position in relation to retirement benefit obligation are as follows (Won in millions):

	December 31, 2011	December 31, 2010	January 1, 2010
Present value of defined benefit obligation	₩ 387,514	₩ 320,991	₩ 291,514
Other long-term employee benefit obligation	26,627	16,263	12,443
Fair value of plan assets	(283,922)	(247,417)	(199,678)
Retirement benefit obligation	₩ 130,219	₩ 89,837	₩ 104,279

(2) Changes in present value defined benefit obligation for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	2011	2010
Beginning balance	₩ 320,991	₩ 291,514
Current service cost	66,752	61,509
Interest cost	16,570	19,726
Actuarial gain (loss)	17,751	(8,957)
Transfer from affiliates	602	310
Benefits paid	(35,136)	(43,039)
Other (*)	(16)	(72)
Ending balance	₩ 387,514	₩ 320,991

(*) Other change consists of a change resulting from exchange rate fluctuations.

(3) Changes in other long-term employee benefit obligation for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	2011	2010
Beginning balance	₩ 16,263	₩ 12,443
Current service cost	816	559
Interest cost	553	653
Actuarial gain (loss)	13,345	(191)
Benefits paid	(4,389)	(1,675)
Other (*)	39	4,474
Ending balance	₩ 26,627	₩ 16,263

(*) Other change consists of a change resulting from exchange rate fluctuations.

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

	2011	2010
Beginning balance	₩ 247,417	₩ 199,678
Expected return on plan assets	10,738	9,464
Company contributions	45,582	61,829
Actuarial gain (loss)	(1,514)	(2,985)
Benefits paid (from asset management institution)	(18,309)	(20,975)
Other (*)	8	406
Ending balance	₩ 283,922	₩ 247,417

(*) Other change consists of a change resulting from exchange rate fluctuations.

(5) Amounts reflected in the statements of income related to defined benefit obligation for years ended December 31, 2011 and 2010 are as follows (Won in millions):

	Year ended December 31, 2011	Year ended December 31, 2010
Current service cost	₩ 67,568	₩ 62,068
Interest cost	17,123	20,379
Expected return on plan assets	(10,738)	(9,464)
Actuarial gain(loss) from other employee benefit costs	77	(191)
	₩ 74,030	₩ 72,792

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

(6) Actuarial assumptions used as of December 31, 2011, 2010 and January 1, 2010 is as follows:

1) Discount rates and others

	December 31, 2011	December 31, 2010	January 1, 2010
Discount rate (%)	3.90~4.70	4.95~5.77	4.95~5.77
Expected return on plan assets (%)	3.90~4.30	3.69~4.81	3.69~4.81
Expected rate of wage increase (%)	3.30~7.00	5.50~6.52	5.66~6.59

2) Mortality rate

The 6th Retirement Mortality Rate released by the Korea Insurance Development Institute was used as the Company's mortality rate.

26. PROVISIONS:

Changes in provisions for construction warranties and other provisions during the years ended December 31, 2011 and 2010 (Won in millions).

2011							
	Provision for construction warranties		Provision for contingencies		Other provisions		Total
Beginning balance	₩	78,868	₩	8,544	₩	15,234	₩ 102,646
Transfer-in		29,455		39,749		107,947	177,151
Reversal		(7,362)		-		(63,787)	(71,149)
Used		(13,922)		-		(304)	(14,226)
Others(*)		424		(57)		(28,726)	(28,359)
Ending balance		87,463		48,236		30,364	166,063
Less: Current portion of accounts		(66)		(20)		(212)	(298)
Provisions, net	₩	87,397	₩	48,216	₩	30,152	₩ 165,765

2010							
	Provision for construction warranties		Provision for contingencies		Other provisions		Total
Beginning balance	₩	75,686	₩	6,039	₩	80,004	₩ 161,729
Transfer-in		24,789		2,515		37,149	64,453
Reversal		(11,155)		-		(42,067)	(53,222)
Used		(10,402)		(10,872)		(452)	(21,726)
Others(*)		(50)		10,862		(59,400)	(48,588)
Ending balance		78,868		8,544		15,234	102,646
Less: Current portion of accounts		-		(17)		(1,168)	(1,185)
Provisions, net	₩	78,868	₩	8,527	₩	14,066	₩ 101,461

(*) Others include increases or decreases resulting from a change in the scope of consolidation and foreign exchange fluctuation.

27. INCOME TAXES:

(1) Income tax expense for the years ended December 31, 2011 and 2010 consists of the following (Won in millions):

Description	2011		2010	
Income tax payable	₩	254,096	₩	181,859
Changes in deferred income tax from temporary Differences		69,254		114,137
Total amount of income tax effect		323,350		295,996
Income tax directly reflected to shareholders' equity		25,975		(31,865)
Income tax expense		349,325		264,131
Deferred income tax assets (liabilities) from temporary differences, net at end of the period		(344,688)		(275,434)
Deferred income tax assets (liabilities) from temporary differences, net at beginning of the period		(275,434)		(161,297)
Changes in deferred income tax from temporary differences	₩	69,254	₩	114,137

(2) Reconciliation between income before income tax and income tax expense for the years ended December 31, 2011 and 2010 is as follows (Won in millions):

Description	2011		2010	
Income before income tax	₩	997,580	₩	1,040,167
Income tax expense by applying income tax rate (Current period: 24.2%, prior period: 24.2%)		241,388		251,694
Adjustments:				
Tax effect of permanent differences		11,991		11,571
Tax credits and others		(7,180)		(15,672)
Differences arising from changes in tax rate		32,760		(2,534)
Unrecognized deferred tax		30,322		345
Others		40,044		18,728
Income tax expense	₩	349,325	₩	264,131
Effective tax rate		35.0%		25.4%

The tax rate applied to the taxable income for the period ended December 31, 2011 and 2010 is 24.2% (including residence tax), which is the statutory income tax rate of Korea.

Notes to Consolidated Financial Statements

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(3) Changes in temporary differences and deferred income tax assets (liabilities) for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

2011					
Description	Beginning balance (*)		Increase (Decrease) (*)		Ending balance
Loss on revaluation of land	₩	937	₩	-	₩ 937
Reserve for research and manpower development		(165,000)		(55,000)	(220,000)
Provision for construction warranty costs		78,075		1,685	79,760
Provision for construction loss		10,335		38,836	49,171
Gain (Loss) on foreign currency translation, net		152,570		(51,304)	101,266
Gain (Loss) on valuation of foreign exchange forward contracts, net		(45,822)		(69,337)	(115,159)
Gain (Loss) on valuation of the equity method & others, net		82,050		111,316	193,366
Net change in fair value of financial assets availablefor-sale (accumulated other comprehensive income)		(152,055)		81,119	(70,936)
Loss on valuation of cash-flow-hedging derivatives (accumulated other comprehensive income)		3,119		(541)	2,578
Gain on revaluation of land (accumulated other comprehensive income), net		(1,147,565)		26,077	(1,121,488)
Allowance for advanced depreciation		(234,799)		30	(234,769)
Others		189,215		84,630	273,845
		(1,228,940)		167,511	(1,061,429)
Unrealizable temporary differences		157,334		154,012	311,346
Realizable temporary differences		(1,386,272)		13,497	(1,372,775)
Deferred income tax liabilities due to temporary differences	₩	(275,434)	₩	(69,254)	₩ (344,688)

2010					
Description	Beginning balance (*)		Increase (Decrease) (*)		Ending balance
Loss on revaluation of land	₩	937	₩	-	₩ 937
Reserve for research and manpower development		(115,000)		(50,000)	(165,000)
Provision for construction warranty costs		75,686		2,389	78,075
Provision for construction loss		2,195		8,140	10,335
Gain (Loss) on foreign currency translation, net		69,877		82,693	152,570
Gain (Loss) on valuation of foreign exchange forward contracts, net		340,108		(385,930)	(45,822)
Gain (Loss) on valuation of the equity method & others, net		104,547		(22,497)	82,050
Net change in fair value of financial assets availablefor-sale (accumulated other comprehensive income)		(7,414)		(144,641)	(152,055)
Loss on valuation of cash-flow-hedging derivatives (accumulated other comprehensive income)		-		3,119	3,119
Gain on revaluation of land (accumulated other comprehensive income), net		(1,090,832)		(56,733)	(1,147,565)
Allowance for advanced depreciation		(234,940)		141	(234,799)
Others		109,797		79,418	189,215
		(745,039)		(483,901)	(1,228,940)
Unrealizable temporary differences		39,708		117,626	157,334
Realizable temporary differences		(784,746)		(601,526)	(1,386,272)
Deferred income tax liabilities due to temporary differences	₩	(161,297)	₩	(114,137)	₩ (275,434)

(*) Beginning temporary differences include temporary differences recognized as deferred income tax assets (liabilities) as of December 31, 2010 and 2009; and has been partially adjusted during actual tax adjustments for the periods ended December 31, 2011 and 2010. Therefore, the Company reflected the aforementioned adjustment in the change in temporary differences for the periods ended December 31, 2011 and 2010.

Notes to Consolidated Financial Statements

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(4) Deductible temporary differences, not recognized due to uncertainty of its realization, are as follows (Won in millions):

Description	December 31, 2011		December 31, 2010		January 1, 2010	
Investments in subsidiaries	₩	311,346	₩	157,334	₩	39,708

(5) Deferred income tax expense directly adjusted to capital as of December 31, 2011, 2010 and January 1, 2010 are summarized as follows (Won in millions):

December 31, 2011 (Cumulated)					
	Before tax effect		Tax effect		After tax effect
Deferred income tax expense directly adjusted to capital:					
Gain on valuation of AFS financial assets	₩	70,937	₩	(17,104)	₩ 53,833
Loss on valuation of cash-flow-hedging derivatives		(2,578)		624	(1,954)
Net change in non-controlling interests of associates		1,512		(330)	1,182
Actuarial gain (loss)		(26,768)		6,557	(20,211)
	₩	43,103	₩	(10,253)	₩ 32,850

December 31, 2010(Cumulated)					
	Before tax effect		Tax effect		After tax effect
Deferred income tax expense directly adjusted to capital:					
Gain on valuation of AFS financial assets	₩	152,055	₩	(33,518)	₩ 118,537
Loss on valuation of cash-flow-hedging derivatives		(3,119)		755	(2,364)
Net change in non-controlling interests of associates		10,054		(2,197)	7,857
Actuarial gain (loss)		5,765		(1,268)	4,497
	₩	164,755	₩	(36,228)	₩ 128,527

January 1, 2010(Cumulated)					
	Before tax effect		Tax effect		After tax effect
Deferred income tax expense directly adjusted to capital:					
Gain on valuation of AFS financial assets	₩	7,413	₩	(1,685)	₩ 5,728
Loss on valuation of cash-flow-hedging derivatives		-		-	-
Net change in non-controlling interests of associates		12,689		(2,678)	10,011
Actuarial gain (loss)		-		-	-
	₩	20,102	₩	(4,363)	₩ 15,739

28. DERIVATIVE INSTRUMENTS:

(1) Details of the Company's derivative instruments held for hedging or trading purposes as of December 31, 2011, 2010 and January 1, 2010 are as follows (Won in millions and foreign currency in thousands):

December 31, 2011									
	Sales	Cost of Sales	Other operating income (expense)	Other capital components	Firm commitment assets (*1)	Firm commitment liabilities (*1)	Amounts due to customers under construction contracts	Currency forwards asset	Currency forwards liabilities
For fair value hedging (*1)	₩ (440,507)	₩ 271	₩ 51,929	₩ -	₩ 468,085	₩ 76,981			
For cash flow hedging (*2)	-	-	(1,133)	(2,578)	-	-	₩ (3,396)	₩ 80,097	₩ 358,466
For trading (*3)	-	-	(3,349)	-	-	-			
	₩ (440,507)	₩ 271	₩ 47,447	₩ (2,578)	₩ 468,085	₩ 76,981			

December 31, 2010									
	Sales	Cost of Sales	Other operating income (expense)	Other capital components	Firm commitment assets (*1)	Firm commitment liabilities (*1)	Amounts due to customers under construction contracts	Currency forwards asset	Currency forwards liabilities
For fair value hedging (*1)	₩(1,183,162)	₩ 4	₩ 1,019	₩ -	₩ 785,482	₩189,497			
For cash flow hedging (*2)	-	-	(1,880)	(3,119)	-	-	₩ (84,241)	₩ 190,566	₩ 830,901
For trading (*3)	-	-	32,000	-	-	-			
	₩(1,183,162)	₩ 4	₩ 31,139	₩ (3,119)	₩ 785,482	₩189,497			

January 31, 2010									
		Firm commitment assets (*1)		Firm commitment liabilities (*1)		Amounts due to customers under construction contracts		Currency forwards asset	Currency forwards liabilities
For fair value hedging (*1)	₩	2,094,358	₩	49,755					
For cash flow hedging (*2)		-		-	₩ (162,683)		₩ 33,295	₩	2,587,334
For trading (*3)		-		-					
	₩	2,094,358	₩	49,755					

(*1) The Company has entered into currency forward contracts (Won against USD and EUR) in order to hedge exchange rate fluctuation risk and applied fair value hedge accounting to the respective firm commitment.
(*2) The Company has entered into an interest rate swap contract with Goldman Sachs to hedge the exposure to changes in interest rates and recognized ₩2,578million as other capital component, which is equal to the loss on valuation of derivatives of ₩1,954 million, net of deferred income tax of ₩624 million. The loss on valuation of derivatives recognized as other capital component is expected to be recognized in profit or loss, in full amount, within twelve months. The fair value risk in relation to the aforementioned contracts is expected to exist until the September 10, 2014.
(*3) Currency forward assets and liabilities held for trading are recognized as financial assets (liabilities) at FVTPL. As of December 31, 2011, the Company recognized financial assets at FVTPL and financial liabilities at FVTPL amounting to ₩1,639 million and ₩33,793 million, respectively.

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Embedded derivatives such as put option and others held by Company as of December 31, 2011 are treated as separate derivatives because they meet all the criteria and the Company recognized Gain on fair value change of financial assets at FVTPL amounting to ₩5,463 million.

29. OTHER NON-CURRENT LIABILITIES:

Details of other non-current liabilities as of December 31, 2011, 2010 and January 1, 2010 are as follows (Won in millions):

Description	December 31, 2011	December 31, 2010	January 1, 2010
Others	₩ 1,516	₩ 223	₩ 411

30. CAPITAL:

On August 23, 2004, the Parent retired 1,000,000 shares of treasury stock acquired for ₩15,416 million upon the approval at the board of directors' meeting. Accordingly, the number of shares issued has been decreased. However, the amount of paid-in capital has not been reduced. The Parent has 400,000,000 authorized shares of common stock (₩5,000 par value), of which 192,390,758 shares are issued as of December 31, 2011.

31. RETAINED EARNINGS:

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

	December 31, 2011	December 31, 2010	January 1, 2010
Legal reserve (*)	₩ 58,240	₩ 48,740	₩ 39,240
Reserve for research and human resource development	165,000	115,000	10,000
Reserve for facility expansion	1,750,000	1,120,000	890,000
Reserve for dividend equalization	70,000	70,000	70,000
Reserve for loss on disposal of treasury stock	-	-	9,000
Consolidated retained earnings	1,559,582	1,681,090	1,342,897
	₩ 3,602,822	₩ 3,034,830	₩ 2,361,137

(*) The Korean Commercial Code requires the Parent to appropriate as legal reserve an amount equal to at least 10 percent of cash dividends paid for each accounting period, until the reserve equals 50 percent of stated capital. The legal reserve may be used to reduce a deficit or transferred to capital stock.

(2) Details of the calculation of dividends for the years ended December 31, 2011 and 2010 are as follows.

December 31, 2011						
Description of the stock	Number of shares issued	Retirement of share	Number of treasury shares	Number of dividends shares	Dividends per share	Total dividends
Common stock	₩ 192,390,758	₩ 1,000,000	₩ 2,343,870	₩ 189,046,888	₩ 500	₩ 94,523,444,000

December 31, 2010						
Description of the stock	Number of shares issued	Retirement of share	Number of treasury shares	Number of dividends shares	Dividends per share	Total dividends
Common stock	₩ 192,390,758	₩ 1,000,000	₩ 2,343,870	₩ 189,046,888	₩ 500	₩ 94,523,444,000

32. SHARE PREMIUM AND OTHER CAPITAL COMPONENTS:

Details of share premium and other capital components as of December 31, 2011, 2010 and January 1, 2010 are as follows (Won in millions):

		December 31, 2011	December 31, 2010	January 1, 2010
Share premium	Treasury shares (*1) Others (*2)	₩ (30,000) (13,276)	₩ (30,000) (1,400)	₩ (30,000) (1,444)
		₩ (43,276)	₩ (31,400)	₩ (31,444)
Other capital components	Gain on valuation of AFS securities	52,793	117,496	4,705
	Loss on valuation of cash flow hedging derivatives	(1,954)	(2,364)	-
	Negative change in non-controlling interests of associates	1,182	7,857	10,011
	Foreign currency translation differences of foreign operations	8,193	(11,846)	-
		60,214	111,143	14,716
		₩ 16,938	₩ 79,743	₩ (16,728)

(*1) The Parent has acquired 2,343,870 shares of treasury stock (acquisition cost: ₩30,000 million) for stabilization of its stock price and recognized the respective shares as share premium. It plans to sell the stocks subsequently depending on the market condition.
(*2) Consist of a difference arising from acquisition of additional shares of subsidiaries and others.

33. EARNINGS PER SHARE:

(1) Basic earnings per share is calculated by dividing net income allocated to common stock by the weighted average number of common shares outstanding (excluding the common shares held by the Parent as treasury shares) during the period. The basic earnings per share for the years ended December 31, 2011 and 2010 are as follows (Won except per share amounts):

Description	2011	2010
Profit for the period attributable to owners of the Company	₩ 686,441,432,354	₩ 766,912,041,427
Profit for the period applicable to common stock	686,441,432,354	766,912,041,427
Weighted average number of common shares outstanding	189,046,888	189,046,888
Basic and diluted earnings per share (*)	₩ 3,631	₩ 4,057

(*) Diluted earnings per share for the years ended December 31, 2011 and 2010 is the same as the basic earnings per share since there are no dilutive potential common shares and dilutive effect.

Weighted average number of common shares outstanding as of December 31, 2011 and 2010 is the same as a number of common shares outstanding.

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34. SELLING AND MAINTENANCE EXPENSES:

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

	2011		2010	
Advertising	₩	5,717	₩	3,333
Transportation expenses		2,425		1,908
Commission		236,012		224,326
Warranty expenses		15,530		3,948
Sales promotion expenses		312		355
Total	₩	259,996	₩	233,870

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

	2011		2010	
Salaries	₩	118,977	₩	100,776
Retirement and severance benefits		7,987		6,846
Other employee benefits		17,961		33,246
Event expenses		253		317
Rent		8,741		9,457
Entertainment		3,130		2,205
Depreciation		5,804		13,447
Amortization		4,601		4,301
Taxes and public dues		11,374		9,065
Bad debt expense		28,754		108,045
Supplies		3,103		3,734
Printings		1,504		1,432
Communications		2,165		1,875
Water, light and heating		2,494		781
Repairs and maintenance		3,983		2,379
Insurance		3,501		3,369
Vehicle maintenance		2,229		1,746
Ship & aircraft maintenance		407		325
Travel		14,269		11,442
Convention expenses		52		54
Trainings		1,163		4,785
Administrative service fees		1,737		14,268
Security expenses		393		255
Local operating expenses		2,371		1,759
Others		6,749		6,287
Total	₩	253,702	₩	342,196

35. OTHER OPERATING INCOME AND EXPENSES:

(1) Details of other operating income for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	2011		2010	
Gain on valuation of firm commitments	₩	324,856	₩	104,018
Gain on valuation of currency forward contracts		8,132		347,736
Gain on currency forward transactions		272,205		190,006
Rental income		1,009		2,805
Gain on fair value change of financial assets at FVTPL		5,463		-
Gain on disposal of financial assets AFS		20,501		5,322
Gain on disposal of property, plant and equipment		1,161		12,608
Reversal of allowance for bad debts		28,066		18,946
Reversal of provision for construction warranties		7,362		11,155
Reversal of other provisions		63,787		42,067
Miscellaneous gains and others		102,254		38,610
Total	₩	834,796	₩	773,273

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

	2011		2010	
Loss on valuation of firm commitment	₩	171,443	₩	439,061
Loss on valuation of currency forward contracts		326,393		13,122
Loss on currency forward transactions		58,776		156,558
Loss on disposal of financial assets AFS		664		-
Loss on disposal of property, plant and equipment		2,008		1,418
Loss on disposal of investment properties		1,174		-
Impairment cost of financial assets AFS		1,873		27,222
Impairment cost of property, plant and equipment		14		4,592
Impairment cost of intangible assets		24,288		327
Other provision for doubtful account		3,923		3,346
Transfer to provision for construction warranties		7,956		-
Transfer to provision for contingencies		60		2,515
Transfer to provision for others		107,919		37,123
Donations		5,651		2,121
Miscellaneous losses		80,088		51,206
Total	₩	792,230	₩	738,611

(3) Other operating income and expenses were classified as non-operating income (expenses) under the previous GAAP, while under K-IFRS, they are classified as operating income (expenses). Interest income, interest expense, dividend income, impairment cost of associates and jointly-controlled entities and foreign exchange gains (losses) are classified as non-operating income under K-IFRS.

Profit from operating activities in consolidated statements of income for year ended December 31, 2010 is ₩1,144,818 million under the previous GAAP, while it is ₩1,203,158 million under K-IFRS.

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36. FINANCIAL INCOME AND EXPENSES:

The Company classifies interest income (cost) as financial income (cost), and details of net financial cost for the years ended December 31, 2011and 2010 are as follows (Won in millions):

	2011		2010	
Interest income:				
Deposit	₩	18,897	₩	23,998
Loans and receivables		114,476		58,590
Other interest income		731		548
Subtotal		134,104		83,136
Dividend income		728		1,522
Reversal of financial guarantee liabilities		6,432		-
Total		141,264		84,658
Interest expense:				
Bank overdrafts and interests on loans		158,640		134,628
Other interest expense		8,605		9,601
Less: amount included in cost of qualifying assts		(49,738)		(12,109)
Subtotal		117,507		132,120
Transfer to financial guarantee liabilities		1,613		13,407
Total		119,120		145,527
Net financial income (cost)	₩	22,144	₩	(60,869)

37. FOREIGN EXCHANGE GAINS AND LOSSES:

Details of foreign exchange gains and losses for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	2011		2010	
Gain on foreign currency transactions	₩	352,362	₩	435,109
Gain on foreign exchange translation		80,120		55,346
Subtotal		432,482		490,455
Loss on foreign currency transactions		365,442		477,073
Less: amount included in cost of qualifying assets		(12,707)		-
Loss on foreign currency transactions, net		352,735		477,073
Loss on foreign exchange translation		145,261		110,836
Less: amount included in cost of qualifying assets		(8,019)		-
Loss on foreign exchange translation, net		137,242		110,836
Subtotal		489,977		587,909
Net foreign exchange gains and losses	₩	(57,495)	₩	(97,454)

38. EXPENSES CLASSIFICATION BY NATURE:

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

2011					
	Selling and maintenance and research and development expenses		Cost of sales		Total
Changes in inventories	₩	-	₩	(111,108)	₩ (111,108)
Raw materials		-		6,748,045	6,748,045
Payroll		157,445		1,347,823	1,505,268
Depreciation expense		10,326		220,599	230,925
Amortization expense		4,601		931	5,532
Commission expense		237,203		93,198	330,401
Travel		15,965		20,569	36,534
Administrative service fees		2,660		200,385	203,045
Rent expense		9,110		48,335	57,445
Others		151,673		3,684,242	3,835,915
Total	₩	588,983	₩	12,253,019	₩ 12,842,002

2010					
	Selling and maintenance and research and development expenses		Cost of sales		Total
Changes in inventories	₩	-	₩	471,985	₩ 471,985
Raw materials		-		6,034,327	6,034,327
Payroll		145,651		1,221,661	1,367,312
Depreciation expense		13,997		196,553	210,550
Amortization expense		4,301		809	5,110
Commission expense		222,028		90,557	312,585
Travel		12,586		15,812	28,398
Administrative service fees		15,086		116,195	131,281
Rent expense		9,681		33,312	42,993
Others		215,453		3,000,996	3,216,449
Total	₩	638,783	₩	11,182,207	₩ 11,820,990

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

	December 31, 2011		December 31, 2010	
Salaries	₩	1,209,842	₩	1,064,168
Student grants		18,548		19,046
Social security expenses (4 major public insurance)		119,100		101,688
Severance (Retirement) benefits		72,593		71,771
Others		85,185		110,639
Total	₩	1,505,268	₩	1,367,312

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39. RELATED PARTIES:

(1) Related parties of the Company as of December 31, 2011 are as follows:

Company	
Investor with significant influence over the Company	Korea Development Bank(“KDB”)
Associates	NIDAS Marine Ltd., Korea Marine Fund Corp., DSON Co., Ltd.
Jointly-controlled entities	D&H Solutions AS, PT. DSME ENR CEPU
Other related parties	DSME FAR EAST LLC, DSME BRAZIL LLC, SBM Shipyards Ltd., ZVEZDA-DSME LLC, DSME E&R Trading PTE Ltd., DSME ENR PNG PTE Ltd., Daehan Shipbuilding Co., Ltd. and others

(2) Transactions between the Parent and its subsidiaries were eliminated for consolidation and they are not presented in the Notes. Significant transactions with the related parties for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

Transaction		December 31, 2011		December 31, 2010	
<i>Investor with significant influence over the Company</i>					
KDB	Interest and other revenue	₩	19,729	₩	13,167
	Interest and other expense		40,238		33,045
<i>Subsidiaries(*)</i>					
KLDS Maritime S.A.	Interest and other revenue		1,329		1,873
DK Maritime S.A.	Sales		166,129		456,380
	Interest and other revenue		1,857		2,545
DSME Oman LLC	Interest and other revenue		2,196		-
<i>Associates</i>					
DSON Co., Ltd.	Purchases		50,745		36,090
	Interest and other expense		8,148		-
<i>Other related parties</i>					
SBM Shipyards Ltd.	Interest and other revenue		10,116		-
DSME E&R Trading PTE Ltd.	Sales		47,509		21,725
	Purchases and other expense		19,939		22,041
DSME ENR PNG Ltd.	Sales		6,182		-
Total	Sales	₩	219,820	₩	478,105
	Interest and other revenue		35,227		17,585
	Purchases		70,684		58,131
	Interest and other expense		48,386		33,045

(*) K LDS Maritime S.A. and DK Maritime S.A. previously recognized as jointly-controlled entities are reclassified to Subsidiaries as of September 30, 2011 and DSME Oman LLC previously recognized as other related parties is reclassified to subsidiaries as of December 31, 2011.

(3) Significant receivables from and payables to the related parties as of December 31, 2011, 2010 and January 1, 2010 are as follows (Won in millions):

December 31, 2011													
	Financial instruments and others			Trade receivables		Other account receivables		Loans and others		Borrowings		Other payables	
<i>Investor with significant influence over the Company</i>													
KDB	₩	223,671	₩	-	₩	-	₩	-	₩	1,076,399	₩	39,383	
<i>Associates</i>													
DSON Co., Ltd.			-		-		-	14,409		-		4,077	
NIDAS Marine Ltd.			-		-		-	3,891		-		-	
<i>Jointly-controlled entities</i>													
D&H Solutions AS			-		-		-	5,014		-		-	
PT. DSME ENR CEPU			-		-		2,245	21,689		-		-	
<i>Other related parties</i>													
SBM Shipyards Ltd.			-		-		-	150,492		-		-	
DSME E&R Tradin PTE Ltd.			-		3,783		-	-		-		2,307	
Daehan Shipbuilding Co., Ltd			-		-		-	50,027		-		-	
DSME ENR PNG Ltd.			-		6,182		-	-		-		-	
Total	₩	223,671	₩	9,965	₩	2,245	₩	245,522	₩	1,076,399	₩	45,767	

The above transactions include currency forward transactions with KDB for the purposes of hedging and others and the outstanding balance of the currency forward contracts as of December 31, 2011 is USD 1,068 million and EUR 2 million.

There are no significant collaterals, payment guarantees and allowances in relation to the above receivables and payables as of December 31, 2011.

December 31, 2010													
	Financial instruments and others			Trade receivables		Other account receivables		Loans and others		Borrowings		Other payables	
<i>Investor with significant influence over the Company</i>													
KDB	₩	245,317	₩	-	₩	-	₩	-	₩	620,721	₩	199,322	
<i>Associates</i>													
NIDAS Marine Ltd.		-		-		-		3,667		-		-	
DSON Co., Ltd.		-		-		-		5,661		-		-	
<i>Jointly-controlled entities</i>													
KLDS Maritime S.A.		-		22,778		-		1,931		-		-	
DK Maritime S.A.		-		204,849		-		-		-		22,600	
D&H Solutions AS		-		-		-		4,556		-		-	
PT. DSME ENR CEPU		-		-		2,216		10,873		-		-	

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For the years ended December 31, 2011, December 2010 and January 1, 2010

December 31, 2010														
			Financial instruments and others		Trade receivables		Other account receivables		Loans and others		Borrowings		Other payables	
<i>Other related parties</i>														
DSME Oman LLC.			-		-		-		9,414		-		-	
SBM Shipyards Ltd.			-		-		-		117,359		-		-	
Hadong Development Co., Ltd.			-		-		250		4,665		-		-	
<i>Investor with significant influence over the Company</i>														
DSME E&R Trading PTE Ltd.			-		2,024		-		-		-		4,039	
Total			₩	245,317	₩	229,651	₩	2,466	₩	158,126	₩	620,721	₩	225,961

The above transactions include currency forward transactions with KDB for the purposes of hedging and others and the outstanding balance of the currency forward contracts as of December 31, 2010 is USD 903 million.

Details of the significant collaterals and payment guarantees in relation to the above receivables and payables and the respective allowances as of December 31, 2010 are as follows (Won in millions):

			Accounts	Amount		Guaranteed amount	Allowance for bad debts
<i>Jointly-controlled entities</i>							
	KLDS Maritime S.A.	Trade receivable	₩	22,778	₩	- ₩	2,278
	DK Maritime S.A.	Trade receivable		204,849		-	1,549

January 1, 2010													
	Financial instruments and others			Trade receivables		Other account receivables		Loans and others		Borrowings		Other payables	
Investor with significant influence over the Company													
KDB	₩	282,981	₩	-	₩	-	₩	-	₩	371,220	₩	501,361	
Associates													
NIDAS Marine Ltd.		-		-		-		4,300		-		-	
DSO Co., Ltd.		-		2,062		-		-		-		-	
Jointly-controlled entities													
KLDS Maritime S.A.		-		25,112		-		-		-		-	
DK Maritime S.A.		-		-		-		-		-		101,303	
PT. DSME ENR CEPU		-		-		1,646		9,174		-		-	
Other related parties													
DSME Oman LLC.		-		-		-		1,318		-		-	
DSME E&R Trading PTE Ltd.		-		1,552		-		-		-		-	
Total	₩	282,981	₩	28,726	₩	1,646	₩	14,792	₩	371,220	₩	602,664	

The above transactions include currency forward transactions with KDB for the purposes of hedging and others and the outstanding balance of the currency forward contracts as of January 1, 2010 is USD 1,986 million.

There are no significant collaterals, payment guarantees and allowances in relation to the above receivables and payables as of December 31, 2011.

(4) Key management compensation for the years ended December 31, 2011 and 2010 is as follows (Won in millions):

	2011		2010	
Salaries	₩	6,798	₩	5,225
Severance and retirement benefits		1,226		795
Total	₩	8,024	₩	6,020

The Company’s key management includes directors (including outside directors) who are registered executives and members of the Audit Committee.

(5) Significant collaterals and guarantees provided for the related parties as of December 31, 2011, 2010 and January 1, 2010 are as follows (USD in thousands):

December 31, 2011				
Provided for		Guaranteed amount		Guarantor
<i>Jointly-controlled entities</i>				
PT. DSME ENR CEPU(*)		USD	10,635	Korea Finance Corporation
<i>Other related parties</i>				
DSME E&R Trading PTE Ltd.		USD	5,000	Korea Exchange Bank

(*) The Company provided guarantees for DSME ENR CEPU, jointly-controlled entities in Indonesia, to finance for development of CEPU oil field.

December 31, 2010				
Provided for		Guaranteed amount		Guarantor
<i>Other related parties</i>				
DSME E&R Trading PTE Ltd.		USD	2,440	Korea Exchange Bank

January 1, 2010			
Provided for	Guaranteed amount		Guarantor
<i>Other related parties</i>			
DSME E&R Trading PTE Ltd.	USD	2,000	Korea Exchange Bank

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For the years ended December 31, 2011, December 2010 and January 1, 2010

(6) The significant guarantees provided by related parties as of December 31, 2011, 2010 and January 1, 2010 are as follows (USD and EUR in thousands):

December 31, 2011					
Guarantor	Type of obligations guaranteed	Guaranteed amount		Related borrowings	
Investor with significant influence over the Company KDB	Usance bills	USD	389,000	USD	182,777
				EUR	20,649
	Advance payment bonds	USD	440,470	USD	-
		USD	829,470	USD	182,777
		EUR	-	EUR	20,649

December 31, 2010					
Guarantor	Type of obligations guaranteed	Guaranteed amount		Related borrowings	
Investor with significant influence over the Company KDB	Usance bills	USD	383,000	USD	205,563
				EUR	15,797
	Advance payment bonds	USD	993,455	USD	-
		USD	1,376,455	USD	205,563
		EUR	-	EUR	15,797

January 1, 2010					
Guarantor	Type of obligations guaranteed	Guaranteed amount		Related borrowings	
Investor with significant influence over the Company KDB	Usance bills	USD	383,000	USD	193,302
				USD	-
	Advance payment bonds	USD	1,259,783	USD	-
		USD	1,639,783	USD	193,302

40. CONSTRUCTION CONTRACTS:

(1) The changes in outstanding contracts for the year ended December 31, 2011 are summarized as follows (Won in millions):

2011							
	Beginning balance		New Contracts		Others (*1)		Revenue recognized (*2)
							Ending balance
Shipbuilding	₩	15,726,862	₩	7,455,947	₩	(30,646)	₩ (8,201,763)
Offshore plant		10,058,175		5,566,283		2,379,771	(4,375,713)
Construction		711,740		696,097		-	(252,205)
Other		80,837		47,786		95,581	(142,796)
Total	₩	26,577,614	₩	13,766,113	₩	2,444,706	₩ (12,972,477)

(*1) Others consist of increases or decreases due to fluctuations of foreign exchange rates and changes of contract amount.
(*2) Revenue recognized excludes increase or decrease of sales related to firm commitment assets (liabilities).

(2) Details of the significant elements of profits and losses on construction as of December 31, 2011 are as follows (Won in millions):

	Accumulated revenue of construction		Accumulated cost of construction		Accumulated profit(or loss) of construction		Delayed receivables (*)
Shipbuilding	₩	4,896,139	₩	(4,117,540)	₩	778,599	₩ 1,957,505
Offshore plant		9,457,680		(8,081,028)		1,376,652	-
Construction		343,830		(326,783)		17,047	-
Other		212,607		(96,628)		115,979	-
Total	₩	14,910,256	₩	(12,621,979)	₩	2,288,277	₩ 1,957,505

(*) Delayed receivables refer to the receivables related to a transferred vessel for which payment is delayed and the principal and the accrued interest are being collected in accordance with the contract.

(3) Details of amounts due to and from customers under construction contracts as of December 31, 2011 are as follows (Won in millions):

Description	December 31, 2011	
Accumulated construction cost	₩	12,621,979
Add: accumulated revenue		2,441,919
Deduct: accumulated loss		(153,642)
Accumulated construction income		14,910,256
Deduct: progress billings		(15,180,752)
		(270,496)
Amounts due from customers under construction contracts		4,314,765
Deduct : provision for construction loss		(26,801)
Amounts due from customers under construction contracts, net		4,287,964
Amounts due to customers under construction contracts		4,585,260
Add : provision for construction loss		66,101
Amounts due to customers under construction contracts, net	₩	4,651,361

Notes to Consolidated Financial Statements

41. SEGMENT INFORMATION:

The Company classifies its segments by the type of goods and details of the goods and services that generate income and major customers for each segment are as follows:

Division	Goods or Service	Major customer	Ratio of sales (%)
Shipbuilding	LNGC and others	Naviera F LNG and others	59.84
Offshore plant	Marine steel structure and others	CABINDA GULF OIL COMPANY Ltd. and others	28.56
Construction	Apartments, Roads	Various customers	2.40
Other	Energy, Service	Various customers	9.20
			100.00

(1) Financial information by segment (Won in millions)

2011						
	Shipbuilding	Offshore plant	Construction	Other	Consolidation adjustment	Total
Sales	₩ 9,102,154	₩ 4,343,254	₩ 364,445	₩ 1,399,992	₩(1,306,577)	₩13,903,268
Gross profit	867,504	672,607	28,945	180,772	(99,580)	1,650,248
Profit (Loss) from operating activities (*)	1,132,616	-	875	(14,116)	(15,543)	1,103,832
Depreciation	214,563	4,214	190	16,902	(4,944)	230,925
Amortization	2,748	8	-	2,776	-	5,532
Net income (*)	684,773	-	2,231	(36,925)	(1,824)	648,255
Tangible and intangible assets	5,248,295	21,157	1,119	1,511,906	(155,403)	6,627,074
Total assets (*)	16,421,905	-	241,402	1,892,563	(1,896,142)	16,659,728
Total liabilities (*)	11,832,147	-	150,024	1,430,220	(1,254,705)	12,157,686

2010						
	Shipbuilding	Offshore plant	Construction	Other	Consolidation adjustment	Total
Sales	₩ 8,474,001	₩ 4,654,701	₩ 337,496	₩ 846,355	₩(1,323,067)	₩12,989,486
Gross profit	946,955	701,020	39,808	169,375	(49,879)	1,807,279
Profit (Loss) from operating activities (*)	1,189,896	-	1,298	37,639	(25,675)	1,203,158
Depreciation	206,692	4,192	149	3,716	(4,199)	210,550
Amortization	2,318	5	-	2,787	-	5,110
Net income (*)	789,473	-	2,438	21,958	(37,833)	776,036
Tangible and intangible assets	5,169,184	23,106	997	442,222	(128,319)	5,507,190
Total assets (*)	16,319,698	-	173,190	757,269	(1,427,573)	15,822,584
Total liabilities (*)	12,297,285	-	83,966	435,684	(1,021,172)	11,795,763

(*) As the Parent's net income, total assets and total liabilities cannot be divided into shipbuilding, offshore plant and other divisions, they are included in the shipbuilding division in the above segment information.

(2) Financial information by region (Won in millions)

2011										
	Domestic	Romania	China	USA	Germany	Canada	Others	Consolidation adjustment	Total after adjustment	
Sales	₩ 14,255,877	₩ 603,341	₩ 290,277	₩ 2,198	₩ 29,067	₩ 5,163	₩ 23,922	₩(1,306,577)	₩13,903,268	
Gross profit	1,689,486	23,563	51,282	(6,362)	5,979	(16,302)	2,182	(99,580)	1,650,248	
Profit (Loss) from operating activities (*)	1,182,102	(35,202)	36,026	(45,737)	899	(20,877)	2,164	(15,543)	1,103,832	
Depreciation	173,224	23,502	26,463	3,872	622	748	7,438	(4,944)	230,925	
Amortization	1,260	1,126	949	2,017	180	-	-	-	5,532	
Net income (loss)	789,632	(77,956)	16,986	(52,073)	62	(21,086)	(5,486)	(1,824)	648,255	
Tangible and intangible assets	4,847,170	406,301	490,051	208,683	2,495	28,966	798,811	(155,403)	6,627,074	
Total assets	16,004,979	696,896	599,069	300,485	22,564	77,653	854,224	(1,896,142)	16,659,728	
Total liabilities	10,922,534	965,219	394,010	240,630	18,471	32,795	838,732	(1,254,705)	12,157,686	

2010								
	Domestic	Romania	China	USA	Germany	Canada	Consolidation adjustment	Total after adjustment
Sales	₩13,374,791	₩ 596,100	₩ 317,686	₩ 189	₩ 23,787	₩ -	₩(1,323,067)	₩12,989,486
Gross profit	1,713,445	65,449	76,425	(95)	1,934	-	(49,879)	1,807,279
Profit (Loss) from operating activities (*)	1,125,726	56,845	62,399	(13,129)	(3,008)	-	(25,675)	1,203,158
Depreciation	165,189	24,550	24,091	165	754	-	(4,199)	210,550
Amortization	1,183	838	907	2,108	74	-	-	5,110
Net income (loss)	799,137	(8,881)	44,278	(18,161)	(2,504)	-	(37,833)	776,036
Tangible and intangible assets	4,654,571	428,650	473,505	69,247	751	8,785	(128,319)	5,507,190
Total assets	15,567,391	844,459	593,452	161,769	10,436	72,650	(1,427,573)	15,822,584
Total liabilities	11,189,870	1,057,792	416,673	137,078	9,518	6,004	(1,021,172)	11,795,763

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For the years ended December 31, 2011, December 2010 and January 1, 2010

42. COMMITMENTS AND CONTINGENCIES:

(1) As of December 31, 2011, the Company pledged 21 blank notes and 8 notes with an aggregate face value of ₩6,531 million to financial institutions as collateral for construction warranty and others.

(2) As of December 31, 2011, the Company is involved as a plaintiff in a lawsuit seeking an annulment of tax assessments and thirty-five other lawsuits in the aggregate claim amount of ₩49,909 million and RON 10,140 thousand and CNY 59,942 thousand.

(3) As of December 31, 2011, the Company is a defendant in 32 lawsuits claiming alleged damages aggregating ₩25,230 million, USD 47,387 thousand and RON 1,619 thousand. According to the first verdict of lawsuits claiming alleged damages due to delay in delivery of a ship(Seadrill Rig), the Company recognized other payables of ₩26,382 million and provisions for contingencies of ₩39,689 million for estimated losses, which are probable and reasonably estimable.

(4) Joint investments

1) The Company formed a consortium with Korea National Oil Corporation and others to invest in oil fields in Nigeria and the Company has a 9.75% ownership in the consortium. The Company recorded the amount of its investment as a component of other investments, and the performance guarantee provided by Seoul Guarantee Insurance Company as a back-to-back guarantee to Korea National Oil Corporation has been fully matured as of December 31, 2011.

2) The Company formed a consortium with Korea National Oil Corporation and others to invest in oil fields in Kazakhstan and the Company's shareholding in the consortium is 5%. The Consortium, with Kazmunay Gas, invested in Zhambyl region's mining lots in Kazakhstan, owning 27% of total shares with the Company's interest equaling 1.35%.

3) The Company formed a consortium with GNG Holdings Inc. to invest in oil fields in Indonesia and the Company, including DSME E&R Co., Ltd., has 85% ownership in the consortium.

4) The Company has invested in the "Exploration of Southwest Ocean Seafloor Hydrothermal Deposits Project" with Ministry of Land for the purpose of acquisition of exclusive development and mining rights.

(5) The Company has entered into agreements with financial institutions with the following credit lines (Won in millions and foreign currency in thousands):

Financial institution	Classification	Amounts	
KDB and others	Overdraft limit	₩	345,000
	B2B E-banking	₩	87,000
	L/C opening limit	USD	1,654,001
	Local L/C opening limit	USD	10,000
	Acceptances & guarantees	₩	4,000
	Acceptances & guarantees in foreign currency	USD	14,304,097
		EUR	15,501
	Loan	₩	1,559,283
	Loan	USD	10,000
	Loan	JPY	541,000
	Loan	RON	196,000
	Loan	CNY	2,305,000
	Others	USD	2,660

(6) The Company has purchased 1,500,000 shares of Hyundai Merchant Marine Co., Ltd.'s common stock and put option (strike price ₩23,650) from Hyundai elevator Co., Ltd., which are recognized as AFS and financial assets at FVTPL. Meanwhile, the Company is subject to disposal restriction on the shares until December 21, 2014, in accordance with the agreement.

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For the years ended December 31, 2011, December 2010 and January 1, 2010

43. CASH FLOWS FROM OPERATING ACTIVITIES:

	2011		2010	
Profit from the period	₩	648,255	₩	776,036
Adjustments to reconcile profit for the period to net cash provided by operating activities:				
Loss on valuation of inventories		679		162
Transfer to provision for construction losses		255,859		23,383
Transfer to provision for construction warranties		29,455		24,789
Retirement and severance benefits		72,593		71,771
Other employee benefits		1,437		1,021
Depreciation		230,925		210,550
Amortization of intangible assets		5,532		5,110
Bad debt expense		28,754		108,045
Loss on valuation of firm commitment		171,443		439,061
Loss on valuation of currency forward contracts		326,393		13,122
Loss on disposal of property, plant and equipment		2,008		1,418
Other provision for doubtful account		3,923		3,346
Transfer to other provisions		107,947		37,149
Interest expenses		117,507		132,121
Capitalized financial expense		70,464		12,109
Transfer to financial guarantee liabilities		1,613		13,407
Loss on foreign currency translation		137,242		110,836
Loss on valuation of securities using the equity method		83,668		6,664
Income taxes expenses		349,325		264,131
Others expense		98,156		35,607
Reversal of provision for construction losses		(213,042)		(15,184)
Gain on valuation of firm commitment		(324,856)		(104,018)
Gain on valuation of currency forward contracts		(8,132)		(347,736)
Gain on fair value change of financial assets at FVTPL		(5,463)		-
Gain on disposal of financial assets AFS		(20,501)		(5,322)
Gain on disposal of property, plant and equipment		(1,161)		(12,608)
Reversal of allowance for bad debts		(28,066)		(18,946)
Reversal of provision for construction warranties		(7,362)		(11,155)
Reversal of other provisions		(63,787)		(42,067)
Interest income		(134,104)		(83,136)
Dividend income		(728)		(1,522)
Reversal of financial guarantee liabilities		(6,433)		-
Gain on foreign currency translation		(80,120)		(55,346)
Gain on valuation using the equity method		(4,745)		(1,997)
Others		(20,591)		(7,449)
		1,175,832		807,316

	2011	2010
Changes in working capital:		
Increase in receivables from construction contracts and trade	(265,271)	(354,054)
Increase in amounts due from customers under construction contracts	(305,683)	(1,343,183)
Decrease (Increase) in other receivables	(233,839)	94,950
Decrease (Increase) in inventories	(44,085)	489,182
Decrease (Increase) in other current assets	(43,601)	405,182
Increase in long-term trade receivable	1,619	23,179
Decrease (Increase) in long-term other receivables	(172)	1,417
Decrease in firm commitment assets	358,346	1,113,714
Increase in currency forward assets	(680,266)	(1,582,213)
Increase in other non-current assets	(152,468)	(22,485)
Increase (Decrease) in trade payables	(426,164)	210,899
Decrease in amounts due to customers under construction contracts	(129,935)	(748,002)
Increase in other payables	297,645	267,994
Increase in accrued expenses	36,366	108,923
Increase in other current liabilities	58,949	24,769
Increase (Decrease) in long-term trade and other payables	395,994	(7,506)
Benefits paid	(35,136)	(43,039)
Increase in retirement pension assets	(27,273)	(40,854)
Decrease in other long-term employee benefits	(4,389)	(1,675)
Decrease in provision for construction warranties	(13,922)	(10,402)
Decrease in other provisions	(304)	(452)
Increase in other working capital	(317,777)	(130,549)
	(1,531,366)	(1,544,205)
Net cash provided by operating activities	₩ 292,721	₩ 39,147

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44. NON-CASH TRANSACTIONS:

Significant non-cash transactions from investment and financing activities that are not included in the statements of cash flows for the years ended December 31, 2011 and 2010 are as follows (Won in millions):

	2011		2010	
Transfer of long-term other payables to the respective current liabilities	₩	30,213	₩	7,026
Transfer of long-term borrowings to current portion of long-term borrowings		559,409		299,940
Transfer of investment property to property, plant and equipment		48,661		-
Transfer of debentures to the respective current debentures		500,000		-
Transfer of finance guarantee liabilities to the respective current liabilities		1,122		-
Transfer of finance lease liabilities to the respective current liabilities		3,068		5,792

The Company presented the cash inflows and outflows from short-term financial instruments, short-term loans and shortterm borrowings, which consist of frequent transactions totaling to a large amount and mature in short-term, in net change amounts.

45. TRANSITION TO K-IFRS:

The accompanying consolidated financial statements for the year ended December 31, 2011 have been prepared in accordance with K-IFRS.

Until the year ended December 31, 2010, the Company prepared its consolidated financial statements in accordance with Korean GAAP. Beginning the year ending December 31, 2011, the Company prepares its consolidated financial statements in accordance with K-IFRS.

The Company prepared its opening K-IFRS statement of financial position as of the date of transition, January 1, 2010, in accordance with the provisions of K-IFRS 1101, First-time adoption of International Financial Reporting Standards.

(1) Major differences in accounting policies

Major differences between the accounting policies under the K-IFRS adopted by the Company and those under the previous GAAP are as follows:

1) First time adoption of K-IFRS

The Company has taken the following exemptions as part of its adoption of K-IFRS.

- a) Business combination: business combinations prior to the date of transition have not been restated.
- b) Deemed cost: the Company measured the fair value of land at the date of transition and used it as a deemed cost. Fair value assessment was performed by an independent assessor based on recent market transactions.

c) Borrowing costs: Borrowing costs relating to all qualifying assets is capitalized, when the commencement date for capitalization is on or after the date of transition.

d) Cumulative translation differences: the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition.

2) Employee benefits

Under the previous GAAP, the Company recognized accrued severance indemnities in the amount payable assuming all employees with more than one year service were to resign. Under K-IFRS, the Company recognizes defined benefit obligation based on actuarial methods of calculation.

3) Construction contracts

Under Korean GAAP, there was no concept of recognizing the gross amount due from or due to customers as an asset or liability. Under K-IFRS, the due from or due to customers amount which is the net amount of cost incurred plus recognized profits, less the sum of the recognized losses and progress billing. If the costs incurred plus recognized profit (or losses) exceeds progress billings a due from customer amount is recognized as an asset, and if the progress billing exceeds the cost incurred plus recognized profit (or losses) a due to customer amount is recognized as a liability.

4) Income tax

Under Korean GAAP, deferred tax assets and liabilities were classified as either current or non-current based on the classification of their underlying assets and liabilities. If there are no corresponding assets or liabilities, deferred tax assets and liabilities were classified based on the periods the temporary differences were expected to reverse. Under KIFRS, deferred tax assets and liabilities are all classified as non-current on the statement of financial position.

5) Other reclassifications

- a) Memberships and guarantee deposits : Under Korean GAAP memberships and guarantee deposits were classified as other non-current assets. Under KIFRS facility-use memberships are recognized as intangible assets with an indefinite useful life and guarantee deposits that satisfy the definition of financial assets are classified as loans and receivables at amortized costs.
- b) Investment property and intangible assets : Under Korean GAAP, properties acquired for earn rental income and/or for capital appreciation (including property under construction for such purposes) were classified as property, plant and equipment. Under K-IFRS, such properties are reclassified separately as investment properties and for property under construction with intangible asset type items are classified separately within intangible assets.

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

(2) Change in the scope of consolidation

Changes in consolidated subsidiaries as a result of the adoption of K-IFRS as of the date of transition are as follows:

Increase/Decrease	Detail	Company
Increase	In accordance with the previous Act on External Audit of Stock Companies, the respective subsidiaries were excluded from consolidation since their assets did not exceed ₩10,000 million. However, under K-IFRS, they are included in consolidation.	DSME SMC, DeWind Europe Gmbh

(3) Goodwill acquired in a business combination or a gain from a bargain purchase

Under the previous GAAP, the Company amortized or reversed goodwill acquired in a business combination or a gain from a bargain purchase on a straight-line basis over 20 years from the year of occurrence. Under K-IFRS, however, the Company neither amortizes nor reverses goodwill or a gain from a bargain purchase; the Company performs an impairment test for goodwill at least once a year and recognizes a gain from a bargain purchase in profit or loss at the date of acquisition. Negative goodwill under the previous GAAP is equal to a gain from a bargain purchase under K-IFRS, and the existing negative goodwill at the date of transition is adjusted to retained earnings.

(4) Transition effects on the Company’s consolidated financial position, financial performance and cash flows

1) Adjustments to consolidated financial position as of January 1, 2010 (date of transition) (Won in millions)

	Assets		Liabilities		Equity
Previous GAAP	₩	16,487,829	₩	13,438,333	₩ 3,049,496
Adjustments:					
Change in scope of consolidation		13,003		13,451	(448)
Use of deemed cost for property, plant and equipment		224,319		-	224,319
Changes in depreciation method and useful lives of property, plant and equipment		(889)		(20,327)	19,438
Recognition of defined benefit obligation based on actuarial assumptions		-		19,195	(19,195)
Change in method of recognizing commissions		(21,564)		-	(21,564)
Adjustment resulting from application of standards on Construction Contract		39,552		-	39,552
Adjustment of transactions that do not satisfy de-recognition criteria for financial assets		23,235		23,235	-
Recognition of deferred income tax liabilities in relation to advanced depreciation provision		-		51,687	(51,687)
Recognition of financial guarantee liabilities		-		10,806	(10,806)
Other adjustment		(16,994)		(5,202)	(11,792)
Tax effect on net asset change		(103,198)		(114,983)	11,785
Total adjustments		157,464		(22,138)	179,602
K-IFRS	₩	16,645,293	₩	13,416,195	₩ 3,229,098

2) Adjustments to consolidated financial position and financial performance as of December 31, 2010 (Won in millions):

	Assets		Liabilities		Equity	Net income (loss)		Total comprehensive income (loss)
Previous GAAP	₩	15,280,765	₩	11,390,977	₩ 3,889,788	₩	757,771	₩ 900,952
Adjustments:								
Change in scope of consolidation		7,801		8,952	(1,151)		1,999	1,999
Use of deemed cost for property, plant and equipment		192,662		-	192,662		-	(31,657)
Changes in depreciation method and useful lives of property, plant and equipment		-		(48,053)	48,053		27,726	27,726
Recognition of defined benefit obligation based on actuarial assumptions		-		13,669	(13,669)		5,526	10,023
Change in method of recognizing commissions		(14,581)		-	(14,581)		6,983	6,983
Adjustment resulting from application of standards on Construction Contract		397,061		395,488	1,573		(5,013)	(5,013)
Adjustment of transactions that do not satisfy de-recognition criteria for financial assets		33,913		33,913	-		-	-
Recognition of deferred income tax liabilities in relation to advanced depreciation provision		-		54,640	(54,640)		(2,953)	(2,953)
Recognition of financial guarantee liabilities		-		24,213	(24,213)		(13,407)	(13,407)
Other adjustment		3,051		10,233	(7,182)		(994)	(28,037)
Tax effect on net asset change		(78,088)		(88,269)	10,181		(1,602)	(1,604)
Total adjustments		541,819		404,786	137,033		18,265	(35,940)
K-IFRS	₩	15,822,584	₩	11,795,763	₩ 4,026,821	₩	776,036	₩ 865,012

3) Cash flow adjustment for 2010 : In accordance with K-IFRS, in order to separately present interest received, interest paid, dividend income and income tax paid, which were not separately presented under the previous GAAP, in the statement of cash flows, the cash flows from relevant income (expense) and relevant assets (liabilities) have been adjusted. There are no other significant differences between the statement of cash flows under K-IFRS and that under the previous GAAP.

Notes to Consolidated Financial Statements

For the years ended December 31, 2011, December 2010 and January 1, 2010

46. BUSINESS COMBINATION:

(1) Details of business combination for the years ended December 31, 2011 are as follows:

	Location	Primary business	Date of acquisition	Additional acquisition of ownership ratio (%)	Ownership ratio (%)
KLDS Maritime S.A.	Panama	Shipping	September 30, 2011	50%	100%
DK Maritime S.A.	Panama	Shipping	September 30, 2011	50%	100%

(2) Fair values of the consideration transferred for the year ended December 31, 2011 are as follows(Won in millions):

	KLDS Maritime S.A.		DK Maritime S.A.		Total
Cash (*)	USD	1	USD	1	2
Fair value of the Company's previously held interest in the acquiree	₩	5,334	₩	3,061	₩ 8,395
Sum of the consideration transferred		5,334		3,061	8,395

(*) The Company and Korea Line Corp have joint control over KLDS Maritime S.A. and DK Maritime S.A. However, Korea Line Corp submitted rehabilitation plan, which was an event of a default under the joint agreement, and the Company has acquired KLDS Maritime S.A. and DK Maritime S.A. shares owned by Korea Line Corp for USD 1, which are reclassified to consolidated subsidiaries.

The Company's investments in the above subsidiaries are measured at fair value and the Company recognized a gain of ₩5,707 million and ₩2,315 million.

(3) At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value are as follows (Won in millions):

	KLDS Maritime S.A.		DK Maritime S.A.		Total
Fair value of identifiable assets					
Current assets					
Cash and cash equivalents	₩	9,419	₩	2,857	₩ 12,276
Trade and other receivables		49		4,323	4,372
Other current assets		5,337		3,160	8,497
Non-current assets					
Property, plant and equipment		211,947		567,276	779,223
Subtotal		226,752		577,616	804,368
Fair value of identifiable liabilities					
Current liabilities		13,553		17,964	31,517
Trade and other payables		12,083		4,065	16,148
Other current liabilities		1,470		13,899	15,369
Non-current liabilities		206,616		551,603	758,219
Borrowings		183,026		189,468	372,494
Trade and other payables		23,590		362,135	385,725
Subtotal		220,169		569,567	789,736
Fair value of identifiable assets, net	₩	6,583	₩	8,049	₩ 14,632

(4) Details of the gain from a bargain purchase for the year ended December 31, 2011 are as follows(Won in millions):

	KLDS Maritime S.A.		DK Maritime S.A.		Total
Consideration transferred	₩	5,334	₩	3,061	₩ 8,395
	USD	1	USD	1	2
Less : Fair value of identifiable assets, net		6,583		8,049	14,632
Gain from a bargain purchase	₩	1,249	₩	4,988	₩ 6,237

Corporate History

1973~1999 Legacy Begins

- 1973

Begins construction of the Okpo Shipyard
- 1978

Daewoo Shipbuilding & Heavy Machinery Co, Ltd (DSHM) takes ownership the Okpo Shipyard
- 1981

Holds the Okpo Shipyard dedication ceremony
- 1989

Korean government appoints DSHM an industrial rationalization company
- 1994

DSHM merges into Daewoo Heavy Industries Ltd. (DHI)
- 1997

Establishes Daewoo-Mangalia Heavy Industries Ltd. in Romania
- 1999

Announces Daewoo Conglomerate's restructuring plan Begins corporate workout program for DHI

2000~2008 Preparing for Take-off

- 2000

DHI's Shipbuilding and Heavy Machinery Division becomes an independent company, spun off from the former Daewoo Conglomerate
- 2001

Concludes corporate workout program, stocks listed on the Korea Stock Exchange
- 2002

Changes official corporate title to DSME
- 2003

Issues Global Depositary Receipts
- 2005

Establishes DSME Shandong Co., Ltd. (DSSC) in Shandong, China
- 2006

Establishes DSME Construction Co., Ltd.
- 2007

Wins \$6 billion Export Tower Award at the 44th Trade Day Ceremony
Hits a new record number of orders, surpassing \$20 billion
- 2008

Wins Korea IT Innovation Award
Achieves a safety result of 10 million man-hours with IIF in the Qatargas Project
Receives ISO 27001Certification

2009~2011 Soaring to New Hights

- 2009

Wins TOP Export Award
Establishes DeWind Corporation
World's largest floating dock debuts at the DSME yard
- 2010

Rejoins the 'KRW 10 trillion in revenue – KRW 1 trillion in operating profit club'
Signs an agreement with Russian United Shipbuilding Corporation (USC) to build a joint shipyard in Zvezda
- 2011

Remains in the 'KRW 10 trillion in revenue – KRW 1 trillion in operating profit club' for the second consecutive year
Establishes the Central Research Institute
Signs a contract to build 18,000 TEU containerships with Maersk
Signs a management contract with Daehan Shipbuilding
Wins a contract to build a submarine for Indonesia
Ten ships chosen as "Outstanding Vessels"

Global Network



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Mangalia
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Tel: +40-241-70-6200
Fax: +40-241-75-6060

Affiliates & Subsidiaries

- Korea**
- DSEC Co., Ltd.
 - DSME ENR
 - DSME Construction Co., Ltd.
 - FLC
 - Shinhan Machinery Co., Ltd.
 - Samwoo Heavy IND. Co., Ltd.
 - Welliv. Ltd.
 - DK Maritime S.A.
 - KLDS Maritime S.A.

China

- DSME Shandong Co., Ltd.

Canada

- DSME Canada Holding Ltd.

Romania

- Daewoo-Mangalia Heavy Industries S.A.

Oman

- DSME Oman LLC

Russia

- DSME Far East LLC

Brazil

- DSME Brazil LLC

USA

- DeWind Co. in California

Germany

- DeWind Co. in Lubeck

Overseas Offices

- Dubai**
Greece
Houston
Kazakhstan
London
Luanda
Moscow
Oslo
Perth
Rio de Janeiro
Shanghai
Singapore
Tokyo

Joint Ventures

D&H Solutions
NIDAS Shipping JV in Nigeria
PAENAL Yard in Angola
ZVEZDA-DSME Shipyard in Russia



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