Coway Co., Ltd.
(Formerly Woongjin Coway Co., Ltd.)
Separate Financial Statements
December 31, 2012 and 2011

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Report of Independent Auditors

To the Board of Directors and Shareholders of
Coway Co., Ltd. (formerly “Woongjin Coway Co., Ltd.”)

We have audited the accompanying separate statements of financial position of Coway Co., Ltd. (“the Company”) as of December 31, 2012 and 2011, and the related separate statements of comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the separate financial statements, referred to above, present fairly, in all material respects, the financial position of Coway Co., Ltd. as of December 31, 2012 and 2011, and its financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea(“Korean IFRS”).

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

Seoul, Korea
March 14, 2013

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

Coway Co., Ltd. (formerly Woongjin Coway Co., Ltd.)
Separate Statements of Financial Position
December 31, 2012 and 2011

(In thousands of Korean won)

	Notes	2012	2011
Assets			
Current assets			
Cash and cash equivalents	6, 7	118,881,952	64,910,268
Trade receivables	6, 8	278,406,995	240,071,271
Other short-term financial assets	6, 9	12,397,503	18,926,509
Other current assets	10	106,935,017	114,609,971
Inventories	11	41,346,542	72,981,132
Assets held for sale	14	133,308,647	-
Total current assets		691,276,656	511,499,151
Non-current assets			
Other long-term financial assets	6, 9	55,054,637	47,973,452
Other non-current assets	10	76,198,744	60,959,419
Available-for-sale financial assets	6, 12	1,537,411	1,703,210
Investments in subsidiaries	13	101,703,255	101,577,042
Investments in associates	13	-	135,308,637
Property, plant and equipment	15	594,204,833	534,734,380
Intangible assets	16	157,516,062	155,965,386
Investment property	17	24,015,948	23,824,044
Derivative assets	6, 31	-	1,825,713
Deferred tax assets	38	-	1,088,595
Total non-current assets		1,010,230,890	1,064,959,878
Total assets		1,701,507,546	1,576,459,029

Coway Co., Ltd. (formerly Woongjin Coway Co., Ltd.)
Separate Statements of Financial Position
December 31, 2012 and 2011

(In thousands of Korean won)

	Notes	2012	2011
Liabilities			
Current liabilities			
Trade payables	6	28,901,007	28,657,314
Other short-term financial liabilities	6, 18	197,618,403	149,085,706
Other current liabilities	18	63,283,698	59,255,667
Short-term borrowings	6, 19	295,686,105	164,818,432
Current portion of long-term borrowings	6, 20	60,000,000	110,000,000
Current portion of debentures	6, 21	49,939,127	-
Income tax payable		18,177,816	15,827,455
Provisions	23	5,973,147	6,634,987
Total current liabilities		719,579,303	534,279,561
Non-current liabilities			
Other long-term financial liabilities	6, 18	8,514,033	7,759,736
Other non-current liabilities	18	3,294,583	6,168,049
Long-term borrowings	6, 20	30,000,000	90,000,000
Debentures	6, 21	117,821,000	176,716,799
Retirement benefit obligations	22	10,533,637	12,371,434
Derivative liabilities(non-current)	6, 31	5,867,616	307,202
Provisions	23	164,683	453,886
Deferred tax liabilities	38	3,003,258	-
Total non-current liabilities		179,198,810	293,777,106
Total liabilities		898,778,113	828,056,667
Equity			
Capital stock	26	40,662,398	40,662,398
Capital surplus		97,773,449	97,773,449
Retained earnings	27	716,802,061	677,684,183
Other components of equity	28,29,30	(52,508,475)	(67,717,668)
Total equity		802,729,433	748,402,362
Total liabilities and equity		1,701,507,546	1,576,459,029

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

Coway Co., Ltd. (formerly Woongjin Coway Co., Ltd.)
Separate Statements of Comprehensive Income
Years Ended December 31, 2012 and 2011

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

	Notes	2012	2011
Sales	5	1,806,832,626	1,709,867,513
Cost of sales	5, 36	(605,383,221)	(552,005,592)
Gross profit	5	1,201,449,405	1,157,861,921
Selling and administrative expenses	32,36	(973,637,125)	(914,518,437)
Operating income		227,812,280	243,343,484
Other income	33	23,432,632	19,932,577
Other expenses	33	(28,466,241)	(14,403,412)
Financial income	34	3,551,547	2,243,894
Financial expense	34	(61,677,412)	(25,764,876)
Investment income(loss) of subsidiaries and associates	35	(3,187,533)	-
Profit before income tax		161,465,273	225,351,667
Income tax expense	38	(41,716,699)	(48,246,024)
Profit for the year		119,748,574	177,105,643
Other comprehensive income(loss)			
Change in value of available-for-sale financial assets	12	(190)	(3,960)
Actuarial losses	22	(2,789,160)	(2,398,682)
Income(Loss) on valuation of derivatives	31	1,255,151	(2,012,103)
Other comprehensive income(loss), net of tax		(1,534,199)	(4,414,745)
Total comprehensive income for the year		118,214,375	172,690,898
Earnings per share			
Basic earnings per share	39	1,614	2,370
Diluted earnings per share	39	1,603	2,362

The accompanying notes are an integral part of these separate financial statements

Coway Co., Ltd. (formerly Woongjin Coway Co., Ltd.)
Separate Statements of Changes in Equity
Years Ended December 31, 2012 and 2011

(In thousands of Korean won)	**Capital stock**	**Capital surplus**	**Retained earnings**	**Other components of equity**	**Total equity**
Balances as of Jan. 1, 2011	40,662,398	97,773,449	582,918,759	5,802,698	727,157,304
Comprehensive income					
Profit for the year	-	-	177,105,643	-	177,105,643
Change in value of available-for-sale financial assets	-	-	-	(3,960)	(3,960)
Actuarial losses	-	-	(2,398,683)	-	(2,398,683)
Losses on valuation of derivatives	-	-	-	(2,012,103)	(2,012,103)
Total comprehensive income	-	-	174,706,960	(2,016,063)	172,690,897
Transactions with owners					-
Dividends	-	-	(79,941,536)	-	(79,941,536)
Share-based compensation	-	-	-	1,990,149	1,990,149
Treasury stock	-	-	-	(73,494,452)	(73,494,452)
Total transactions with owners	-	-	(79,941,536)	(71,504,303)	(151,445,839)
Balance at Dec. 31, 2011	40,662,398	97,773,449	677,684,183	(67,717,668)	748,402,362

Coway Co., Ltd. (formerly Woongjin Coway Co., Ltd.)
Separate Statements of Changes in Equity
Years Ended December 31, 2012 and 2011

(In thousands of Korean won)	**Capital stock**	**Capital surplus**	**Retained earnings**	**Other components of equity**	**Total equity**
Balances as of Jan. 1, 2012	40,662,398	97,773,449	677,684,183	(67,717,668)	748,402,362
Comprehensive income					
Profit for the year	-	-	119,748,574	-	119,748,574
Change in value of available-for-sale financial assets	-	-	-	(190)	(190)
Actuarial losses	-	-	(2,789,160)	-	(2,789,160)
Losses on valuation of derivatives	-	-	-	1,255,151	1,255,151
Total comprehensive income	-	-	116,959,414	1,254,961	118,214,375
Transactions with owners					
Dividends	-	-	(77,841,536)	-	(77,841,536)
Share-based compensation	-	-	-	1,643,240	1,643,240
Treasury stock	-	-	-	12,310,992	12,310,992
Total transactions with owners	-	-	(77,841,536)	13,954,232	(63,887,304)
Balance at Dec. 31, 2012	40,662,398	97,773,449	716,802,061	(52,508,475)	802,729,433

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

Coway Co., Ltd. (formerly Woongjin Coway Co., Ltd.)
Separate Statements of Cash Flows
Years Ended December 31, 2012 and 2011

(In thousands of Korean won)

	Notes	2012	2011
Cash flows from operating activities			
Profit for the year		119,748,574	177,105,643
Adjustments	41	381,783,163	294,006,004
Changes in operating assets and liabilities	41	(37,726,922)	(111,509,506)
Cash generated from operations		463,804,815	359,602,141
Income tax paid		(34,685,884)	(41,997,737)
Net cash generated from operating activities		429,118,931	317,604,404
Cash flows from investing activities			
Increase in other short-term financial assets		(90,000)	(16,744,524)
Decrease in other short-term financial assets		212,870	12,175,149
Increase in other long-term financial assets		(7,099,279)	(16,056,789)
Decrease in other long-term financial assets		5,387,292	21,732,423
Proceeds from disposal of available-for-sale financial assets		194,115	393,880
Acquisition of subsidiaries, net of cash acquired		(1,746,450)	(42,555,106)
Proceeds from disposal of subsidiaries		402,694	-
Acquisition of associates		-	(999,996)
Proceeds from disposal of associates		30,000	-
Acquisition of property, plant and equipment		(294,981,029)	(299,373,595)
Proceeds from disposal of property, plant and equipment		3,441,343	8,931,718
Acquisition of intangible assets		(8,257,832)	(7,048,260)
Proceeds from disposal of intangible assets		605,434	385,000
Acquisition of investment property		(523,683)	(8,511,563)
Proceeds from disposal of investment property		84,545	-
Interest received		1,406,450	3,438,691
Net cash used in investing activities		(300,933,530)	(344,232,972)

Coway Co., Ltd. (formerly Woongjin Coway Co., Ltd.)
Separate Statements of Cash Flows
Years Ended December 31, 2012 and 2011

Cash flows from financing activities		
Net proceeds from short-term borrowings	20,867,673	90,345,399
Decrease in current portion of long-term borrowings	-	(30,000,000)
Proceeds from long-term borrowings	-	60,000,000
Repayment of long-term borrowings	-	(30,000,000)
Increase in debentures	-	122,690,000
Payment of dividends	(77,841,536)	(79,941,536)
Purchase of treasury stock	-	(73,494,452)
Exercise of share options	12,212,200	-
Interest paid	(28,810,020)	(23,992,924)
Net cash generated from (used in) financing activities	(73,571,683)	35,606,487
Net increase in cash and cash equivalents	54,613,718	8,977,919
Cash and cash equivalents		
Beginning of the year	64,910,268	56,428,125
Exchange losses on cash and cash equivalents	(642,034)	(495,776)
End of the year	118,881,952	64,910,268

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

1. General Information

Coway Co., Ltd. (formerly “Woongjin Coway Co., Ltd. , “the Company”) was incorporated on May 2, 1989, under the laws of the Republic of Korea to engage in the manufacturing and sales or rental of water purifiers and home appliances, construction of waste disposal facilities and other related business. On December 14, 2012, the Company changed its name from Woongjin Coway Co., Ltd. to Coway Co., Ltd.

The Company’s operations are headquartered in Gong-ju City, South Chungcheong Province. As of December 31, 2012, the majority stockholder of the Company is Woongjin Holdings Co., Ltd. with a shareholding of 28.37%. However, the majority stockholder of the Company changed to Coway Holdings Co. Ltd. with a shareholding of 30.90% on January 2, 2013.

2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

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

2.1.1 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Company

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

The Company applies the accounting policy retroactively in accordance with the amended standards and the comparative consolidated statement of the comprehensive income is restated by reflecting adjustments resulting from the retrospective application. As a result of the changes in the accounting policy, other income and expenses of ₩1,477 million and ₩5,081 million, respectively, for the year ended December 31, 2012 (2011: ₩583 million and ₩1,454 million, respectively), which include loss on disposal of property, plant and equipment, impairment on property, plant and equipment, rental income and others, classified as operating income under the previous standard, were excluded from operating income. Consequently, operating income for the years ended December 31, 2012 and 2011, was higher by ₩3,604 million and higher by ₩871 million, respectively, as compared to the amounts under the previous standard. However, there is no impact on net income and earnings per share for the years ended December 31, 2012 and 2011.

(b) New standards and interpretations not yet adopted

- Amendment of Korean IFRS 1001, *Presentation of Financial Statements*

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

- Amendments to Korean IFRS 1019, *Employee Benefits*

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

- Amendments of Korean-IFRS 1113, Fair value measurement

Korean IFRS 1113, Fair value measurement, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean-IFRSs. Korean-IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within Korean-IFRSs. This amendment will be effective for the Company as of January 1, 2013, and the Company is assessing the impact of application of the amended Korean IFRS 1113 on its separate financial statements.

2.2 Subsidiaries and Associates

In accordance with Korean-IFRS 1027, as a controlling entity, the Company invested in Green Environment Technology Co., Ltd. and other six subsidiaries, and there are no associates.

In accordance with Korean-IFRS 1027, the Company accounts for investments to subsidiaries and associates using cost method (Note 13).

2.3 Segment

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker(Note 5). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.4 Foreign Currency Translation

(1) Functional and presentation currency

Items included in the financial statements of the Company's are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The seperate financial statements are presented in Korean won, which is the controlling entity's functional and presentation currency.

(2) Transactions and balances

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

2.5 Cash flow statements

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.6 Financial instruments

2.6.1 Classification

The Company classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets, and other financial liabilities at amortized cost. Management determines the classification of financial instruments at initial recognition.

(1) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

(2) Available-for-sale financial assets

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

(3) Financial liabilities measured at amortized cost

The Company classifies non-derivative financial liabilities as financial liabilities measured at amortized cost, except for financial liabilities at fair value through profit or loss or financial liabilities that arise when a transfer of a financial asset does not qualify for de-recognition. Financial liabilities measured at amortized cost are included in non-current liabilities, except for maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

2.6.2 Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of comprehensive income as financial income or financial expense.

Interest on available-for-sale calculated using the effective interest method is recognized in the statement of comprehensive income as part of ‘financial income’. Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive income as part of ‘financial income’ when the Company’s right to receive dividend payments is established.

2.6.3 Offsetting financial instruments

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

2.6.4 De-recognition

Financial assets are derecognized when the contractual rights to receive cash from the investments have expired or have been transferred, and the Company has substantially transferred all risks and rewards of ownership or when the risk and rewards of ownership of transferred assets have not been substantially retained or transferred and the Company has not retained control over these assets.

2.7 Impairment of Financial Assets

(a) Assets carried at amortized cost

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

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

- Significant financial difficulty of the issuer or obligor;
- Delinquency in interest or principal payments,
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties;
- Observable data suggesting that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, even though the decrease cannot be identified with respect to individual financial assets in the portfolio, such as:

  (i) adverse changes in the payment status of borrowers in the portfolio;
  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

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

(b) Assets classified as available-for-sale

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

2.8 Derivative Financial Instruments and Hedging Activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. the Company designates certain derivatives as below:

- Hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);
- Hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge);
- Hedges of a net investment in a foreign operation (net investment hedge).

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 30. Movements on the hedging reserve in other comprehensive income are shown in Note 30. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity.

(b) Cash flow hedge

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 the income statement within ‘other gains and losses, net’.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The Company applies cash flow hedge accounting to hedge the risk of cash flows translated into Korean won by fluctuation of interest rate and exchange rate of foreign debentures. The Company recognize the effective portion of the fair value of currency swap as other comprehensive income and the gain or loss relating to the ineffective portion is recognized immediately in the comprehensive income statement within ‘other gains and losses’. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the statement of income.

2.9 Trade Receivables

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

2.10 Non-current Assets (or Disposal Group) Held-for-sale

Non-current assets (or disposal group) are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.11 Inventories

The quantities of inventories are determined using the perpetual method and periodic inventory count, while the costs of inventories are determined by the moving-weighted average method.

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The Company considers expected demand of inventories which could affect the fluctuation in inventory valuation reserve. The valuation loss from obsolescence and an abrupt decline in the market value of the assets was recognized as inventory valuation reserve, and added up to cost of sales. If, however, the circumstances which caused the valuation loss cease to exist, the valuation loss is reversed up to the original carrying amount before valuation. The said reversal is deducted from cost of sales.

2.12 Property, Plant and Equipment

All property and equipment are stated at historical cost less depreciation and accumulated impairment loss. Historical cost includes expenditures directly attribute to the acquisition of the items. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Buildings	25 ~ 40 years
Structures	7 ~ 25 years
Machinery	2 ~ 12 years
Vehicles	5 ~ 10 years
Tools and equipment	2 ~ 6 years
Supplies	2 ~ 20 years
Research equipment	3 years
Rentals	3 ~ 5 years

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

2.13 Borrowing Costs

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

2.14 Government Grants

Grants from a government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants relating to property, plant and equipment are presented as a deduction of related assets and are credited to depreciation over the expected lives of the related assets. Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

2.15 Intangible Assets

(a) Goodwill

Goodwill represents the aggregate of the consideration that excess recognizable net asset of acquiring business. On the separate financial statement, the goodwill that derived from acquiring subsidiary is not be recognized separatly. However it is included in the investment stocks. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Any impairment of goodwill recognized is not subsequently reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs(Cash-generating units), or Company of CGUs, that is expected to benefit from the synergies of the combination. Goodwill is monitored at the operating segment level.

(b) Membership rights

Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to be utilized.

(c) Others

Other intangible assets include patent, licenses, software that use for internal purpose and usable and profitable donation assets are recognized at cost and amortized using the straight-line method over its estimated useful life (5 ~ 20 years). An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Industrial rights	5 ~ 10 years
Software	5 years
Service concession arrangement	20 years
Development Costs	5 years
Other intangible assets	5 years

2.16 Investment Property

Investment property is held to earn rentals or for capital appreciation or both. Investment property also includes property that is being constructed or developed for future use as investment property. Investment property is measured initially at its cost including transaction costs incurred in acquiring the asset. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses.

Subsequent costs are include in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land held for investment is not depreciated. Investment property, except for land, is depreciated using straight-line method over their useful lives (25~40 years).

The depreciation method, the residual value and the useful life of an asset are reviewed at the end of each financial year and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

2.17 Impairment of Non-financial Assets

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

2.18 Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.19 Financial Guarantee Contract

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the amounts below. Any increase in the liability relating to guarantees is reported as other financial liabilities.

- Amount calculated in accordance with Korean-IFRS 1037, Provisions, *Contingent Liabilities and Contingent Assets; or*
- The initial amount, less accumulated amortization recognized in accordance with Korean-IFRS1018, *Revenue.*

2.20 Borrowings

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

2.21 Provisions

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

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

2.22 Current and Deferred Income Tax

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

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

2.23 Employee Benefits

(a) Defined benefit liability

The Company has defined benefit plans. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

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

(b) Share-based Compensation

The Company operates equity-settled, share-based compensation plans, under which the Company receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

2.24 Capital Stock

Ordinary shares are classified as equity. Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company’s equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received is included in equity attributable to the Company’s equity holders.

2.25 Revenue Recognition

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

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

(a) Sales of goods

Sales of goods are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the purchaser has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Company has objective evidence that all criteria for acceptance have been satisfied.

(b) Rendering of services

If the revenue through rendering of services that estimated reliably, the revenue is recognized according to the percentage of completion. Unless, the revenue is recognized only in the range of incurred cost which has high possibility of recover.

(c) Lease contract

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of at the lease's agreement. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Costs, including depreciation, incurred in earning the lease income are recognized as an expense. Initial direct costs incurred by lessors in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. The depreciation policy for depreciable leased assets is consistent with the lessor's depreciation policy for similar assets.

(d) Construction contract

Construction contract is defined in Korean-IFRS 1011, *Construction contracts*, as a contract specifically negotiated for the construction of an asset

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The Company uses the 'percentage-of-completion method' to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

In cases where the aggregate amount of costs incurred and recognized profits (less recognized losses) exceeds progress billings, the total cost incurred plus recognized profits(less recognized losses and progress billings), represents an asset(unbilled amount). In cases where progress billing exceeds the aggregate amount of costs incurred and recognized profits (less recognized losses), the aggregate amount of recognized losses plus progress billing(less cost incurred and recognized profits) represents a liability (overbilled amount). However, the warranty for claims has not been adjusted to unbilled amount or overbilled amount and it recognized as separated account.

(e) Interest income

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

(f) Dividend income

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

(g) Customer loyalty programme

The Company operates a customer loyalty programme in which customers are granted rewards to receive discounts on future purchases when purchasing products. The granted reward is recognized as a separately identifiable component of the sale transaction (initial sale transaction) that grants the reward. The fair value of consideration to give or given for the initial sale is allocated to the reward points and remaining of initial sale, and the consideration allocated to the reward points is measured based on the fair value of reward in exchange of reward points. Revenue from the award credits is recognized when it is redeemed, and the unredeemed proportion by customers is expected to be depleted within 24 months after the initial sale.

2.26 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2012 separate financial statements of the Company was approved by the Board of Directors on February 15, 2013.

3. Critical Accounting Estimates and Judgments

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

(a) Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.15. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Income taxes

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

(c) Impairment of Financial Assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. If, there is objective evidence of impairment on financial assets as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. In the case of quity investments, a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

(d) Provisions

As described in Note 23, the Company recognizes provisions for warranties and mileage programs as of the reporting date. The amounts are estimated based on historical data.

(e) Defined benefit obligations

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

(f) Construction Contract

The construction contract requires that the Company should estimate the ratio of actual cost incurred for total estimated cost.

4. Financial Risk Management

4.1 Financial Risk Factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Company treasury) under policies approved by the board of directors. The Company treasury department identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment exceeding liquidity.

4.1.1 Market risk

(a) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from exporting goods and services or importing raw materials that recognized as assets, liabilities and foreign debenture. Periodically the Company is evaluating, managing and reporting for foreign exchange risk. To avoid such fluctuations of foreign exchange risk, the Company uses particular derivatives.

At December 31, 2012, if the currency had weakened/strengthened by 5% against foreign currencies with all other variables held constant, pre-tax profit for the year would have been ₩ 535,034 thousand (2011: ₩1,263,190 thousand) higher / lower.

The Company's financial instruments denominated in major foreign currencies as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)

	2012			
	USD	**JPY**	**EUR**	**Total**
Cash & Cash equivalents	16,254,857	37,425	1,952,456	18,244,738
Trade receivables[1]	89,888,514	13,234,163	119,919	103,242,596
Other long-term financial assets[1]	7,394,182	2,120,750	-	9,514,932
Trade payables	779,406	1,701,191	-	2,480,597
Debentures	117,821,000	-	-	117,821,000

	2011			
	USD	**JPY**	**EUR**	**Total**
Cash & Cash equivalents	554,868	-	7,180,226	7,735,094
Trade receivables[1]	76,813,894	13,002,763	3,043,966	92,860,623
Other short-term financial assets[1]	8,179,116	465,963	-	8,645,079
Other long-term financial assets [1]	-	2,524,772	-	2,524,772
Trade payables	758,557	3,293,961	-	4,052,518
Debentures	126,863,000	-	-	126,863,000

[1] Before offsetting the impairment.

(b) Price risk

The Company is exposed to equity securities price risk because of investments held by the Company and classified on the separate statement of financial position as available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.

The table below summarizes the impact of increases/decreases of the KOSPI indexes on the Company’s equity. The analysis is based on the assumption that the equity indexes had increased/decreased by 30% with all other variables held constant and all the Company’s equity instruments moved according to the historical correlation with the index, and the Company's unlisted stocks are recognized as cost method (Note 12).

(In thousands of Korean won)

Index	Net effect to the equity	
	2012	**2011**
KOSPI	1,136	1,211

(c) Cash flow and fair value interest rate risk

The Company’s interest rate risk arises from long-term, short-term borrowings and debentures. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. Also, issued at fixed rate borrowings and debentures expose the Company to fair value interest rate risk (Notes 19, 20 and 21). And, fixed rate financial assets classified as available for sale expose the Company to fair value interest rate risk.

The Company analyzes its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

The Company's financial instruments exposed interest rate risk as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)

	2012		2011	
	Fixed rate	**Floating rate**	**Fixed rate**	**Floating rate**
Financial assets	356,576,072	109,702,426	322,375,328	53,035,094
Financial liabilities	380,840,186	413,507,105	435,663,757	291,681,432

The Company's sensitivity of interest rate is settled as following assumptions.

- The fluctuations of market interest that affects to interest revenue and expense which derived from floating rate financial instruments.

Based on the assumption, as of December 31, 2012 and 2011, if interest rates fluctuate by 100bp to financial instruments, interest expenses related to the instruments with variable interest rates, are as follows :

(In thousands of Korean won)

	2012		2011	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
Financial assets	1,097,024	(1,097,024)	530,351	(530,351)
Financial liabilities	(4,135,071)	4,135,071	(2,916,814)	2,916,814
Total	(3,038,047)	3,038,047	(2,386,463)	2,386,463

The simulation is performed on a quarterly basis to verify that the potential maximum loss is within the limit given by management.

Based on the various scenarios, the Company manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting debentures from floating rates to fixed rates. Generally, the Company raises debentures at floating rates and swaps them into fixed rates that are lower than those available if the Company borrowed at fixed rates directly. Under the interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts (Note 31).

4.1.2 Credit Risk

Credit risk is managed on a Company basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, the credit quality of the customer is evaluated taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilization of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

A summary of maximum exposure to the credit risk as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)

Financial Assets	2012	2011
Cash and cash equivalents[1]	118,846,734	64,870,949
Trade receivables	278,406,995	240,071,271
Other short-term financial assets	12,397,503	18,926,509
Other long-term financial assets	55,054,636	47,973,452
Available for sale financial assets[2]	170	69,220
Derivative assets	-	1,825,713
Total	464,706,038	373,737,114

[1] Amount excludes cash on hand from cash and cash equivalents on statement of financial position.
[2] Amount excludes equity instruments from available-for-sale on statement of financial position.

4.1.3 Liquidity Risk

The Company monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements.

Company treasury department invests surplus cash in interest-bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

The Company's liquidity risk as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	2012		
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**
Trade payables	28,901,007	-	-
Other financial liability	173,014,135	262,400	-
Short-term borrowing[1]	298,221,639	-	-
Current potion of long-term borrowings[1]	61,021,479	-	-
Long-term borrowing[1]	1,695,000	30,534,041	-
Debentures[1]	54,170,384	118,243,754	-
Derivatives (interest swap) -paid	5,213,757	962,256	-
Derivatives (interest swap) -received	(2,585,302)	(422,754)	-
Financial guarantee contracts[2]	48,634,050	-	-

(In thousands of Korean won)	2011		
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**
Trade payables	28,657,314	-	-
Other financial liability	156,571,684	67,400	-
Short-term borrowing[1]	165,999,072	-	-
Current potion of long-term borrowings[1]	111,384,236	-	-
Long-term borrowing[1]	3,960,000	63,487,500	30,847,500
Debentures[1, 3]	5,106,481	54,530,231	127,906,073
Derivatives (interest swap) [3]	2,148,508	2,148,508	2,148,508
Financial guarantee contracts[2]	51,028,654	-	-

[1] Consists of the principal and interest.
[2] Maximum amount payable.
[3] The cash flows of debentures include payable derivative's hedge effect to hedge relative interest risk.

The table above analyzes the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity Companyings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Net settled derivatives comprise interest rate swaps used by the Company to manage the Company's interest rate profile (Note 31).

4.2 Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the separate statement of financial position plus net debt.

The gearing ratios as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)

	2012	**2011**
Total borrowings	553,446,232	541,535,231
Less: cash and cash equivalents	(118,881,952)	(64,910,268)
Net debt	434,564,280	476,624,963
Total equity	802,729,433	748,402,362
Total capital	1,237,293,713	1,225,027,325
Gearing ratio	35%	39%

The decrease in the gearing ratio during 2012 resulted primarily from cash flows from operating activities.

4.3 Fair Value Estimation

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity within the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 consist primarily of KOSPI equity investments classified as available- for- sale financial assets.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.

(a) The following table presents the Company's financial assets and financial liabilities that are measured at fair value as of December 31, 2012 and 2011:

(In thousands of Korean won)

	2012			
	Level 1	**Level 2**	**Level 3**	**total**
Available-for-sale financial assets	3,787	-	-	3,787
Derivative liabilities used for hedging	-	-	5,867,616	5,867,616

	2011			
	Level 1	**Level 2**	**Level 3**	**total**
Available-for-sale financial assets	4,037	-	-	4,037
Derivative assets used for hedging	-	-	1,825,713	1,825,713
Derivative liabilities used for hedging	-	-	307,202	307,202

The following table presents available-for-sale financial assets that are valued at historical cost as of December 31, 2012 and 2011.

(In thousands of Korean won)

Category	**2012**	**2011**
Mc-Science Co., Ltd.	1,133,760	1,133,760
NEX Telecom Co., Ltd.	98,516	98,516
Ki-rin Music Right Publishing Co., Ltd.	1	96,500
Hyun Jin Co., Ltd	1	-
Academi Infra Co., Ltd.	1	1
Korea Culture Promotion Inc.	-	1
Kwang Myung SG Co., Ltd.	1	1
Open Solution Co.,Ltd.	1	1
Construction guarantee	295,873	295,873
Korea Water Purifier Cooperative	5,300	5,300
Community Development Bond	170	69,220
Total	1,533,624	1,699,173

5. Segment Information

(a) The Company's reporting segments and details are as follows:

Operating segments are determined by the management who makes strategic decisions. The management assesses the performance of the operating segments and resources distributed to each segment based on operating income.

Segment Information is classified by in accordance with making revenue unit as product perspective. Also it is categorized by rental business, sales business and others.

Segment	Major businesses
Rental	Rent water purifier, bidet or rend services to customers who have the memberships
Sales	Sales water purifier, bidet, or cosmetics to customers
Others	Construction contract water management facilities or others

Geographically, the Company is operating most business in Korea. It rents and sells product in U.S.A, China and Japan and others and has some tangible assets in China.

(b) The Company's management evaluates the outcome based on segment operating income. Financial information of operating segment for the years ended December 31, 2012 and 2011, are as follows :

(In thousands of Korean won)

	2012			
	Rental	Sales	Others	Total
Sales	1,447,019,662	321,531,360	38,281,604	1,806,832,626
Cost of goods sold	416,390,512	166,051,614	22,941,095	605,383,221
Gross profit	1,030,629,150	155,479,746	15,340,509	1,201,449,405

	2011			
	Rental	Sales	Others	Total
Sales	1,367,066,551	304,677,275	38,123,687	1,709,867,513
Cost of goods sold	385,603,317	143,617,740	22,784,535	552,005,592
Gross profit	981,463,234	161,059,535	15,339,152	1,157,861,921

There is no external customer who contributes more than 10% of the Company's revenue.

6. Financial Instruments by Category

(a) Categorizations of financial instruments as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)

	2012				
Financial Assets	**Loans and receivables**	**Available-for-sale financial assets**	**Derivatives used for hedging**	**Total**	**Fair value**
Cash & cash equivalents	118,881,952	- -	-	118,881,952	118,881,952
Trade receivables	278,406,995	-	-	278,406,995	278,406,995
Other short-term financial assets	12,397,503	-	-	12,397,503	12,397,503
Other long-term financial assets	55,054,637	-	-	55,054,637	54,757,353
Available-for-sale financial assets	-	1,537,411	-	1,537,411	1,537,411
Total	464,741,087	1,537,411	-	466,278,498	465,981,214

	2012				
Financial Liabilities	**Financial liabilities that are measured at amortized cost**	**Derivatives used for hedging**	**Other financial liabilities**	**Total**	**Fair value**
Trade payables	28,901,007	-	-	28,901,007	28,901,007
Other short-term financial liabilities	164,762,502	-	32,855,901	197,618,403	197,618,403
Short-term borrowings	295,686,105	-	-	295,686,105	295,686,105
Current portion of debentures	49,939,127	-	-	49,939,127	49,939,127
Current portion of long-term borrowings	60,000,000	-	-	60,000,000	60,000,000
Other long-term financial liabilities	8,514,033	-	-	8,514,033	8,514,033
Long-term borrowings	30,000,000	-	-	30,000,000	30,457,911
Debentures	117,821,000	-	-	117,821,000	122,455,749
Derivative liabilities	-	5,867,616	-	5,867,616	5,867,616
Total	755,623,774	5,867,616	32,855,901	794,347,291	799,439,951

(In thousands of Korean won)

	2011				
Financial Assets	**Loans and receivables**	**Available-for-sale financial assets**	**Derivatives used for hedging**	**Total**	**Fair value**
Cash & cash equivalents	64,910,268	-	-	64,910,268	64,910,268
Trade receivables	240,071,271	-	-	240,071,271	240,071,271
Other short-term financial assets	18,926,509	-	-	18,926,509	18,926,509
Other long-term financial assets	47,973,452	-	-	47,973,452	45,765,106
Available-for-sale financial assets	-	1,703,210	-	1,703,210	1,703,210
Derivative assets	-	-	1,825,713	1,825,713	1,825,713
Total	371,881,500	1,703,210	1,825,713	375,410,423	373,202,077

	2011				
Financial Liabilities	**Financial liabilities that are measured at amortized cost**	**Derivatives used for hedging**	**Other financial liabilities**	**Total**	**Fair value**
Trade payables	28,657,314	-	-	28,657,314	28,657,314
Other short-term financial liabilities	148,879,348	-	206,358	149,085,706	149,085,706
Short-term borrowings	164,818,432	-	-	164,818,432	164,818,432
Current potion of long-term borrowings	110,000,000	-	-	110,000,000	110,000,000
Other long-term financial liabilities	7,759,736	-	-	7,759,736	7,759,736
Long-term borrowings	90,000,000	-	-	90,000,000	89,313,895
Debentures	176,716,799	-	-	176,716,799	167,525,316
Derivative liabilities	-	307,202	-	307,202	307,202
Total	726,831,629	307,202	206,358	727,345,189	717,467,601

There is no significant differences between fair value and book value in cash and cash equivalent, trade receivables, other short-term financial assets, trade payables, other short-term financial liabilities, short-term borrowings, current portion of long-term borrowings. The fair value of non-current assets and liabilities is calculated by dividing nominal future cash flows by 4.89% (2011: 5.28%) the weighted average interest rate.

(b) Income and loss of financial instruments by category for the years ended December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)

	2012	2011
Loans and other receivables		
Interest income	1,406,521	1,638,601
Gain on foreign exchange translation	-	3,393,112
Loss on foreign exchange translation	(9,417,491)	(616,250)
Loss on impairment of trade receivables	(6,863,746)	(1,292,483))
Loss on impairment of other receivables	(229,745)	(308,794)
Available-for-sale financial assets		
Gain or loss on valuation(Other comprehensive income)[1]	(190)	(3,960)
Dividend income	4,800	6,000
Interest income	10,915	56,137
Gain on disposal of available- for-sales	125,064	390
Impairment of available-for-sales	(116,493)	-
Derivatives used for hedging		
Gain on valuation of derivatives(profit or loss)	-	4,173,000
Loss on valuation of derivatives(profit or loss)	(9,042,000)	-
Gain on valuation of derivatives(Other comprehensive income)[1]	1,255,152	-
Loss on valuation of derivatives(Other comprehensive income)[1]	-	(2,012,103)
Financial liabilities measured at amortized cost		
Interest expense	(28,833,999)	(25,211,139)
Gain on foreign exchange translation	9,129,506	683
Loss on foreign exchange translation	-	(4,211,727)
Other financial liabilities		
Financial guranteeing commission income	77,377	542,766
Financial guarantee expense	(32,726,920)	(553,737)

[1] Net of related income tax.

The Company accounted for ₩ 1,812,138 thousand (2011: ₩ 5,478,355 thousand) as gain on foreign exchange transaction and ₩ 2,496,836 thousand (2011: ₩ 5,186,807 thousand) of loss on foreign exchange transaction through trade receivables, other short-term financial assets, other long-term financial assets and trade payables.

7. Cash and cash equivalents

Cash and cash equivalents as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	2012	2011
Cash in bank and on hand	20,759	16,499
Ordinary deposits	118,846,733	64,870,949
Other cash equivalents	14,460	22,820
Total	118,881,952	64,910,268

8. Trade receivables

Trade receivables as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)

	2012	2011
Trade receivables	318,911,197	292,536,497
Less: Allowance for doubtful accounts	(40,504,202)	(52,465,226)
Trade receivables, net	278,406,995	240,071,271

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

(In thousands of Korean won)

Category	2012	2011
A. Receivables not past due	184,455,830	134,850,110
B. Past due but not impaired[1]		
Up to 6 months	37,667,155	59,810,523
6 to 12 months	20,625,089	35,754,980
	58,292,244	95,565,503
C. Impaired[2]		
6 to 12 months	2,750,807	3,126,784
Over 12 months	73,412,316	58,994,100
	76,163,123	62,120,884
Total	318,911,197	292,536,497

[1] Trade receivables not past due and past due but not impaired relate to a number of independent customers for whom there is no recent history of default.

[2] The amount of the provision is ₩ 33,030,508 thousand as of December 31, 2012 (2011: ₩ 48,914,262 thousand). The impaired receivables are mainly related to subsidiaries and some are expected to be recovered.

Changes in the allowance for bad debts of trade receivables for the years ended December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	**2012**	**2011**
At January 1	52,465,226	58,312,503
Impairment loss	6,863,746	1,363,633
Disposal of impaired receivables	(18,867,807)	(7,287,421)
Recovery of impaired receivables	43,037	76,511
At December 31	40,504,202	52,465,226

9. Other Financial Assets

Other financial assets as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)

	2012	**2011**
Other Short-term financial assets		
Short-term loans	540,000	8,816,701
Other receivables	28,465,338	30,131,856
Accrued income	505,234	494,248
Less : provision for other short-term financial assets	(17,113,069)	(20,516,296)
Total	12,397,503	18,926,509
Other long-term financial assets		
Long-term financial instruments	4,000,000	4,000,000
Long-term loans	13,830,097	6,839,936
Guarantee deposits	41,567,466	41,961,226
Other long-term trade receivables and other receivables	2,959,073	3,295,259
Others	1	1
Less : provision for other long-term financial assets	(7,302,000)	(8,122,970)
Total	55,054,637	47,973,452

The impairment has occurred on certain loans to associates, refund and leasehold deposits. The Company evaluates the impaired receivables and recognizes impairment expense as of December 31, 2012.

The most of other short-term financial assets are less than one year, and most of other long-term financial assets are between one and two years. Due to the other financial assets are spread to various customers, there is no significant concentrated exposure to credit risk.

Movements on provision for other financial assets for the years ended December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	**2012**	**2011**
Other short-term financial assets		
At January 1	20,516,296	18,184,499
Impairment loss	1,088,137	2,331,797
Disposal of impaired receivables	(2,156,003)	-
Decrease due to transfer to long-term financial assets	(2,671,547)	-
Increase due to transfer from non-current account	336,186	-
At December 31	17,113,069	20,516,296
Other long-term financial assets		
At January 1	8,122,970	10,217,123
Disposal of impaired receivables	(2,297,939)	-
Increase due to transfer from short-term financial assets	2,671,547	-
Decrease due to transfer to current account	(336,186)	-
Reversal of impairment loss	(858,392)	(2,094,153)
At December 31	7,302,000	8,122,970

10. Other assets

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

(In thousands of Korean won)	**2012**	**2011**
Other current assets		
Unbilled amount for construction contract	1,605,790	6,736,611
Advance payments	10,341,878	15,975,113
Prepaid expenses	94,987,349	100,589,776
Less: Provision for other current assets	-	(8,691,528)
	106,935,017	114,609,972
Other non-current assets		
Long-term prepaid expenses	76,093,415	60,674,089
Others	105,330	285,330
	76,198,745	60,959,419

Movements on provision for other assets for the years ended December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	**2012**	**2011**
Other current assets		
At January 1	8,691,528	8,691,528
Disposal of impaired receivables	(8,691,528)	-
At December 31	-	8,691,528

11. Inventories

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

(In thousands of Korean won)

	2012		
	Acquisition cost	**Valuation allowance**	**Net book value**
Merchandise	28,084,059	(9,761,301)	18,322,758
Finished goods	26,361,026	(9,493,410)	16,867,616
Work-in- process	184,914	-	184,914
Raw materials	4,982,495	(74,701)	4,907,794
Materials in transit	1,063,460	-	1,063,460
	60,675,954	(19,329,412)	41,346,542

	2011		
	Acquisition cost	**Valuation allowance**	**Net book value**
Merchandise	41,903,173	(4,956,218)	36,946,955
Finished goods	30,921,827	(3,758,751)	27,163,076
Work-in- process	268,901	(1,009)	267,892
Raw materials	8,168,129	(642,867)	7,525,262
Materials in transit	1,077,947	-	1,077,947
	82,339,977	(9,358,845)	72,981,132

The cost of inventories recognized as expense and included in ‘cost of sales’ for the years ended December 31, 2012 and 2011, amounted to ₩ 403,566 million and ₩330,334 million, respectively, and the related valuation loss amounted to ₩ 9,971 million and ₩ 4,024 million, respectively.

12. Available-for-sale Financial Assets

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

(In thousands of Korean won)

	2012			2011
	Acquisition cost	**Fair value**	**Book value**	**Book value**
Listed equities	1	3,787	3,787	4,037
Non-listed equities	3,271,776	1,533,454	1,533,454	1,629,953
Public bond	170	170	170	69,220
Total	3,271,947	1,537,411	1,537,411	1,703,210

(a) All of the listed equities are investments in Tongyang Securities Inc. The difference between the acquisition cost and the current fair value, net of income tax, is recognized in other comprehensive income.

(b) Fair value could not be determined reliably due to the range and probability of various estimates. Therefore, the Company presents the non-listed equities as their acquisition cost. However, the Company recognizes impairment, when there is objective evidence that the impairment event had occurred, and the event affects estimated future cash flows of available-for-sale financial assets. The Company accounted for ₩ 1,738 million as loss on impairment of non-listed equities as of December 31, 2012, and additional loss on impairment for current period amounted to ₩ 116 million.

(c) The maximum exposure to credit risk is the book value of the debt securities classified as available-for-sale financial assets at the reporting date.

(d) Movements on available-for-sale financial assets for the years ended December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)

Category	**2012**	**2011**
At January 1	1,703,210	3,101,916
Acquisitions	(69,051)	(393,489)
Disposals	19,995	(999,993)
Transfer	(250)	(5,224)
Other comprehensive income	(116,493)	-
At December 31	1,537,411	1,703,210
Less: non-current portion	(1,537,411)	(1,703,210)
Current portion	-	-

13. Investments in Subsidiaries and Associates

Investments in subsidiaries and associates are direct equity investments based in cost method. Also, dividend income is recognized when the right to receive dividend is established.

The investment in subsidiaries and associates as of December 31, 2012 and 2011, are as follows:

Name	Location	Business	Percentage of ownership (%)	
			2012	2011
Subsidiaries				
WoongJin Coway (China) Living Goods Co., Ltd.	China	Producing Cosmetics/Manufacture and sales or rental of water purifiers	100	100
WoongJin Coway (Thailand) Co.,Ltd.	Thailand	Manufacture and sales or rental of water purifiers	100	100
WoongJin Coway (M) Sdn Bhd.	Malaysia	Manufacture and sales or rental of water purifiers	100	100
Woong Jin Coway USA Inc.	U.S.A.	Manufacture and sales or rental of water purifiers	100	100
Coway (Japan) Co., Ltd	Japan	Manufacture and sales or rental of water purifiers	100	-
Coway ITALIA S.R.L.	Italy	Manufacture and sales or rental of water purifiers	100	100
Green Environment Technology Co., Ltd.	Korea	Construction of waste disposal facilities	100	100
Samyang water system Co., Ltd.	Korea	Manufacture water treatment systems	-	100
Aimkorea Co., Ltd.	Korea	Recycling the non-metal materials	-	100
Associates				
Coway (Japan) Co.,Ltd.	Japan	Sales or rental of water purifiers	-	49
Woong Jin USA Inc.	U.S.A.	Sales or rental of water purifiers	-	35
Woongjin Chemical Co., Ltd.	Korea	Weaving Chemical fabrics	-	45
Kizmam Co., Ltd.	Korea	Operating child care facilities	-	49

(In thousands of Korean won)

	2012	2011
Subsidiaries		
Woong Jin Coway (China) Living Goods Co., Ltd.	22,788,397	22,788,397
Woong Jin Coway Thailand Co.,Ltd.	9,435,237	7,688,787
Woong Jin Coway (M) Sdn Bhd.	24,354,680	24,354,680
Woong Jin Coway USA, Inc.	10,170,939	10,170,939
Coway (Japan) Co., Ltd.	1	-
Green Environment Technology Co., Ltd.	34,954,000	28,180,000
Coway ITALIA S.R.L.	1	935,239
Samyang Water System Co., Ltd.	-	6,774,000
Aimkorea Co., Ltd.	-	685,000
Associates		
Coway (Japan) Co.,Ltd.	-	1
Woong Jin USA Inc.	-	1
Woongjin Chemical Co., Ltd.	-	133,308,647
Kizmam Co., Ltd.	-	1,999,988

The Company recognized impairment loss on some investments in subsidiaries and associates, since each is individually treated as a separate cash generating unit. This impairment recognition is due to deterioration of profit and decrease in net assets.

Impairment loss is measured as present value of estimated future cash flows.

	Before impairment loss	Recoverable Value	Impairment loss	After impairment loss
Subsidiaries				
Coway ITALIA S.R.L.	935,239	1	935,238	1
Aimkorea Co., Ltd.[1]	685,000	1	684,999	1
Associate				
Kizmam Co., Ltd.[2]	1,999,988	1	1999,987	1
Total	3,620,227	3	3,620,224	3

[1] Aimkorea Co., Ltd. was liquidated during 2012.
[2] Kizmam Co., Ltd. was disposed of during 2012.

Market value of investment in an associate as of December 31, 2012 and 2011, is as follows:

(In thousands of Korean won)

	2012		
	Number of shares held	**Fair value**	**Book value**
Woongjin Chemical Co., Ltd.	-	-	-

	2011		
	Number of shares held	**Fair value**	**Book value**
Woongjin Chemical Co., Ltd.	214,644,092	206,058,329	133,308,647

14. Assets Held-for-sale

Investments in Woongjin Chemical Co., Ltd. have been presented as held-for-sale following the approval of the Company's board of directors on May 30, 2012.

Investments in Woongjin Chemical Co., Ltd. are measured at the lower of carrying amount and fair value less costs to sell.

The asset and liabilities classified to held for sale as are as follows:

(In thousands of Korean won)

Category	December 31, 2012
Investment in associate	133,308,647

There is no other comprehensive income recognized in regards to assets held for sale.

15. Property, Plant and Equipment

Details of property, plant and equipment as of December 31, 2012 and 2011, are as follows:

	2012			
(In thousands of Korean won)	**Acquisition cost**	**Accumulated depreciation and impairment**	**Government grants**	**Net book value**
Land	35,121,377	-	-	35,121,377
Buildings	45,759,169	(4,045,339)	-	41,713,830
Structures	1,464,037	(728,464)	-	735,573
Machinery and equipment	25,805,422	(7,811,916)	-	17,993,506
Vehicles	432,691	(412,678)	-	20,013
Tools	103,607,226	(57,747,798)	(4,100)	45,855,328
Furniture and fixtures	88,982,478	(64,939,230)	-	24,043,248
Rental assets	741,799,323	(320,340,644)	-	421,458,679
Others	16,504,261	(12,279,901)	(65,547)	4,158,813
Construction-in-progress	3,104,466	-	-	3,104,466
Total	1,062,580,450	(468,305,970)	(69,647)	594,204,833

	2011			
(In thousands of Korean won)	**Acquisition cost**	**Accumulated depreciation and impairment**	**Government grants**	**Net book value**
Land	34,993,474	-	-	34,993,474
Buildings	45,657,621	(2,897,934)	-	42,759,687
Structures	1,210,537	(584,425)	-	626,112
Machinery and equipment	16,701,445	(6,118,347)	-	10,583,098
Vehicles	432,690	(332,879)	-	99,811
Tools	92,355,439	(49,511,893)	(20,500)	42,823,046
Furniture and fixtures	87,903,124	(61,140,455)	-	26,762,669
Rental assets	664,759,775	(293,070,661)	-	371,689,114
Others	13,778,370	(9,742,174)	(121,731)	3,914,465
Construction-in-progress	482,904	-	-	482,904
Total	958,275,379	(423,398,768)	(142,231)	534,734,380

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

(In thousands of Korean won)

2012

	Land	Buildings	Structures	Machinery and Equipment	Rental assets	Others	Total
January 1	34,993,474	42,759,687	626,112	10,583,098	371,689,114	74,082,895	534,734,380
Acquisition /Capital expenditure	127,903	404,105	248,300	7,048,106	251,150,475	36,120,411	295,099,300
Disposals /Impairment	-	(270,652)	-	(3,394)	(64,841,780)	(2,761,037)	(67,876,863)
Depreciation	-	(1,202,034)	(144,039)	(1,694,857)	(133,355,287)	(28,171,924)	(164,568,141)
Transfers[1]	-	22,724	5,200	2,060,553	(3,183,843)	(2,088,477)	(3,183,843)
December 31	35,121,377	41,713,830	735,573	17,993,506	421,458,679	77,181,868	594,204,833

[1] Represents transfers to inventory.

2011

	Land	Buildings	Structures	Machinery and Equipment	Rental assets	Others	Total
January 1	23,368,661	16,501,150	436,789	9,804,027	322,358,174	69,088,548	441,557,349
Acquisition /Capital expenditure	2,554	8,511,563	239,950	1,545,213	225,731,839	63,342,474	299,373,593
Disposals /Impairment	-	-	-	-	(58,228,960)	(331,921)	(58,560,881)
Depreciation	-	(656,282)	(107,827)	(1,535,642)	(118,171,939)	(24,413,333)	(144,885,023)
Transfers[2]	11,622,259	18,403,256	57,200	769,500	-	(33,602,873)	(2,750,658)
December 31	34,993,474	42,759,687	626,112	10,583,098	371,689,114	74,082,895	534,734,380

[2] Represents transfers from investment property.

Depreciation expenses in cost of sales amount to ₩150,942 million (2011: ₩131,939 million) , and depreciation expenses in selling and administrative expenses amount to ₩13,626 million (2011: ₩12,946 million).

(a) Rental assets are provided under operating lease contracts with numerous customers, the book value of the rental assets as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	**2012**	**2011**
Rental assets	421,458,679	371,689,114

The minimum lease receipts under operating lease agreements for rental assets as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	**2012**	**2011**
Within one year	1,333,795,561	1,265,078,554
From one year to three years	2,037,180,721	1,917,084,656
Total	3,370,976,282	3,182,163,210

16. Intangible Assets

Details of intangible assets as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)

	2012					
	Goodwill	**Industrial rights**	**Software**	**Member -ships**	**Others**	**Total**
Acquisition cost	107,390,916	1,380,790	43,672,518	5,663,313	35,871,479	193,979,016
Accumulated amortization and impairment	-	(345,938)	(27,490,776)	-	(8,626,240)	(36,462,954)
Net book value	107,390,916	1,034,852	16,181,742	5,663,313	27,245,239	157,516,062

	2011					
	Goodwill	**Industrial rights**	**Software**	**Member -ships**	**Others**	**Total**
Acquisition cost	107,390,916	1,380,790	39,943,140	5,663,313	31,875,746	186,253,905
Accumulated amortization and impairment	-	(209,344)	(23,007,526)	-	(7,071,649)	(30,288,519)
Net book value	107,390,916	1,171,446	16,935,614	5,663,313	24,804,097	155,965,386

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

(In thousands of Korean won)

	2012					
	Goodwill	**Industrial property rights**	**Software**	**Usage rights**	**Others**	**Total**
January 1	107,390,916	1,171,446	16,935,614	5,663,313	24,804,097	155,965,386
Acquisitions / Capital expenditure	-	-	1,760,154	-	7,444,957	9,205,111
Disposals / Impairment	-	-	(585,433)	-	-	(585,433)
Amortization	-	(136,594)	(5,217,818)	-	(1,714,590)	(7,069,002)
Transfers	-	-	3,289,225	-	(3,289,225)	-
December 31	107,390,916	1,034,852	16,181,742	5,663,313	27,245,239	157,516,062

	2011					
	Goodwill	**Industrial property rights**	**Software**	**Usage rights**	**Others**	**Total**
January 1	107,390,916	47,045	14,117,415	4,963,763	29,937,330	156,456,469
Acquisitions / Capital expenditure	-	78,615	1,304,369	699,550	4,965,725	7,048,259
Disposals / Impairment	-	-	-	-	(12,533)	(12,533)
Amortization	-	(56,568)	(5,929,996)	-	(1,540,245)	(7,526,809)
Transfers	-	1,102,354	7,443,826	-	(8,546,180)	-
December 31	107,390,916	1,171,446	16,935,614	5,663,313	24,804,097	155,965,386

Amortization cost in cost of sales is ₩290 million (2011: ₩191 million), and amortization cost in selling, general and administrative expenses is ₩6,779 million (2011: ₩7,336 million).

Goodwill is allocated to the operating segments (CGU) as of December 31, 2012 and 2011:

(In thousands of Korean won)	**2012**	**2011**
Environmental appliances division	99,262,568	99,262,568
Cosmetics division	8,128,348	8,128,348
Total	107,390,916	107,390,916

Goodwill is reviewed annually for impairment. Impairment test suggests that the carrying amount of CGU does not exceed the recoverable amount. The recoverable amounts of CGU have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Net income/sales ratio for the five-year period and the estimated growth rates used for perpetual cash flow calculation beyond the five-year period are below. The key assumptions used for value-in-use calculations in conversion date, are as follows:

	Environmental appliances division	**Cosmetics division**
Net income/sales ratio	16.5% - 16.7%	(-)8.0% - 11.5%
Sales growth rate[1]	5.05% - 6.32%	8.28% - 12.39%
Growth rate[2]	-	1%
Pre-tax discount rate[3]	9.0%	14.12%

[1] In order to calculate the cash flow forecast for the next five years, weighted-average sales growth rate were calculated as the basis of past growth values.
[2] Growth rate is consistent with the rate in the industry reports.
[3] Pre-tax discount rate applied to the cash flow projections.

Sales growth rate is determined based on the prior performances and the expected market development. The pre-tax discount rate reflects the specific risk related to the industry.

17. Investment properties

Details of investment properties as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	2012		
	Acquisition cost	**Accumulated depreciation and impairment**	**Net book value**
Land	14,755,498	-	14,755,498
Buildings	9,596,469	(336,019)	9,260,450
Total	24,351,967	(336,019)	24,015,948

(In thousands of Korean won)	2011		
	Acquisition cost	**Accumulated depreciation and impairment**	**Net book value**
Land	14,627,594	-	14,627,594
Buildings	9,300,743	(104,293)	9,196,450
Total	23,928,337	(104,293)	23,824,044

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

(In thousands of Korean won)	2012				
	January 1	**Acquisitions / Capital expenditure**	**Transfers**	**Depreciation**	**December 31**
Land	14,627,594	127,904	-	-	14,755,498
Buildings	9,196,450	395,779	(92,215)	(239,564)	9,260,450
Total	23,824,044	523,683	(92,215)	(239,564)	24,015,948

(In thousands of Korean won)	2011				
	January 1	**Acquisitions / Capital expenditure**	**Transfers**	**Depreciation**	**December 31**
Land	11,876,936	-	2,750,658	-	14,627,594
Buildings	721,110	8,511,563	-	(36,223)	9,196,450
Total	12,598,046	8,511,563	2,750,658	(36,223)	23,824,044

The fair value of investment properties as of December 31, 2012, amounts to ₩22,433 million (2011: ₩26,621 million). Rental income generated from the investment properties for the year ended December 31, 2012, amounts to ₩1,179 million (2011: ₩463 million).

18. Other Financial Liabilities and Other Liabilities

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

(In thousands of Korean won)	**2012**	**2011**
Other short-term financial liabilities		
Financial guarantee liabilities	32,855,901	206,358
Trade payables	133,793,214	133,004,707
Accrued expenses	30,969,288	15,874,641
Total	197,618,403	149,085,706
Other long-term financial liabilities		
Long-term trade payables	42,400	42,400
Guarantee deposits withheld	220,000	25,000
Rental deposits provided	1,117,713	1,118,263
Reserve for agent losses	7,133,920	6,574,073
Total	8,514,033	7,759,736
Other current liabilities		
Advances received	47,823,546	47,192,143
Withholdings	8,480,081	8,774,074
Unearned income	2,671,858	940,257
Liabilities for government grants	1,142,299	1,269,123
Overbilled amount for construct contract work	3,165,914	1,080,070
Total	63,283,698	59,255,667
Other non-current liabilities		
Long-term unearned income	-	2,384,506
Long-term advanced received	3,294,583	3,783,543
Total	3,294,583	6,168,049

19. Short-term Borrowings

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

(In thousands of Korean won)

Financial Institutions	Annual Interest Rates (%)	Amount	
		2012	2011
Hana Bank	4.41	17,381,504	42,255,819
NH Bank	4.45	19,252,632	17,882,204
Shinhan Bank	4.31 – 4.52	52,888,976	49,942,787
Woori Bank	5.46	38,679,636	30,463,241
Korea Exchange Bank	5.98	6,775,856	4,724,159
Standard Chartered Bank	5.55	20,707,501	19,550,222
Kookmin Bank	4.98 – 5.01	40,000,000	-
KDB	4.24 – 4.72	100,000,000	-
		295,686,105	164,818,432

20. Long-term Borrowings

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

(In thousands of Korean won)

Financial Institutions	Annual Interest Rates (%)	Amount	
		2012	2011
KDB	-	-	70,000,000
Hana Bank	5.65	30,000,000	30,000,000
Woori Bank	5.98	30,000,000	30,000,000
Shinhan Bank	5.97	30,000,000	30,000,000
Kookmin Bank	-	-	40,000,000
		90,000,000	200,000,000
Less: current portion		(60,000,000)	(110,000,000)
		30,000,000	90,000,000

21. Debentures

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

(In thousands of Korean won)

	Issue Date	Due Date	Annual Interest Rates (%)	2012	2011
Non- guaranteed debentures	2010.09.08	2013.09.08	4.61	50,000,000	50,000,000
Non- guaranteed foreign debentures	2011.01.14	2014.01.14	LIBOR + 1.90	53,555,000	57,665,000
Non- guaranteed foreign debentures	2011.04.18	2014.04.18	LIBOR + 1.40	64,266,000	69,198,000
				167,821,000	176,863,000
Less: discounts				(60,873)	(146,201)
Less: current portion				(49,939,127)	-
				117,821,000	176,716,799

22. Accrued Severance Benefits

Retirement benefit obligations recognized in statement of financial position as December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	2012	2011
Present value of defined benefit liability	68,207,155	49,387,430
Fair value of plan assets	(57,673,518)	(37,015,996)
Defined benefit liability-net	10,533,637	12,371,434

Changes in accrued severance benefits for the years ended December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	2012	2011
Beginning balance	49,387,430	33,141,963
Current service cost	16,118,782	14,111,031
Interest expenses of defined benefit liability	2,154,470	1,767,739
Benefits paid	(3,822,701)	(3,236,708)
Actuarial gains and losses	3,554,993	3,280,566
Transfers from related companies	814,181	322,839
Ending balance	68,207,155	49,387,430

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

(In thousands of Korean won)	**2012**	**2011**
Beginning balance	37,015,996	23,502,837
Expected return on plan assets	1,661,672	1,283,899
Contributions by employer	22,100,000	13,600,000
Benefits paid	(3,276,918)	(1,609,258)
Actuarial gains and losses	(124,638)	2,063
Transfers from related companies	299,977	237,774
Others	(2,571)	(1,319)
Ending balance	57,673,518	37,015,996

Amounts recognized in the statements of income for the years ended December 31, 2012 and 2011, consist of the following:

(In thousands of Korean won)	**2012**	**2011**
Current service cost	16,118,782	14,111,031
Interest expenses of retirement benefit obligations	2,154,470	1,767,739
Expected return on plan assets	(1,661,672)	(1,283,899)
Expenses of defined contribution plans and others	168,052	533,295
Total	16,779,632	15,128,166
Cost of sales	1,313,762	1,224,026
Selling and administrative expenses	15,465,870	13,904,140
Total	16,779,632	15,128,166

The key assumptions used for accrued severance benefits calculations are as follows:

	December 31, 2012	**December 31, 2011**	**Remark**
Discount rate	3.52%	4.35%	Interest rate of high-quality corporate(AA0) bonds
Wage increase rate	rate by age	rate by age	Historical experience
Expected return on plan assets	4.15%	5.47%	Independent estimates by the actuary
Fatality rate	rate by age	rate by age	Korea Insurance Development Institute
Retirement rate	rate by age	rate by age	Historical experience
Retirement age	55	55	Company policy

The actual returns on plan assets for the years ended December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	**2012**	**2011**
Actual return on plan assets	1,537,034	1,285,962

Details of operating plan assets as of December 31, 2012 and 2011, are as follows:

	2012	**2011**
Cash and bank deposits	93.83%	92.02%
Securities	6.13%	7.01%
Others	0.04%	0.97%
Total	100.00%	100.00%

Expected contributions by employer for the year ending December 31, 2013, are ₩23,000 million.

Actuarial gains and losses recognized as other comprehensive income and expenses as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	**2012**	**2011**
Actuarial losses(gains)	3,679,631	3,278,502
Income tax effect	(890,471)	(879,819)
Actuarial losses(gains), net of tax	2,789,160	2,398,683

23. Provisions

Changes in the main liability provisions for the years ended December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)		**2012**		
		January 1	**Increase (decrease)**	**December 31**
Provision for product warranties	A	4,135,849	(555,278)	3,580,571
Provisions for mileage	B	599,573	413,964	1,013,537
Provisions for return of good sold	C	2,238,930	(859,891)	1,379,039
Provision for construction warranties	D	114,520	50,163	164,683
Total		7,088,872	(951,042)	6,137,830

(In thousands of Korean won)		2011		
		January 1	Increase (decrease)	December 31
Provision for product warranties	A	3,008,688	1,127,161	4,135,849
Provisions for mileage	B	63,679	535,894	599,573
Provisions for return of good sold	C	1,193,744	1,045,186	2,238,930
Provision for construction warranties	D	91,816	22,704	114,520
Total		4,357,927	2,730,945	7,088,872

A. The Company accrues warranty reserves for estimated costs of future service, repairs and recalls based on historical experience and terms of warranty programs (which have terms of one year).

B. Customers are required to use the given mileage within two years. The Company makes mileage provisions for future obligation based on historical experience and the fair value of remaining mileage.

C. The Company makes provisions for estimated future expenses arising from the sales of goods with return option.

D. The Company makes provisions for repairs and maintenance, based on historical experience and terms of warranty programs. The warranty is not adjusted to unbilled amount or overbilled amount and recognized as separate account (Note 37).

24. Reserve for agent losses

In accordance with the contract between the Company and its sales agents, the Company provides a reserve by deducting a certain portion of commission fees payable to its sales agents to account for any unfavorable events that may result in losses to be absorbed by the Company due to the business conduct of the sales agents. The cases are still pending and the ultimate effects of these cases on the Company’s financial statements cannot be reasonably determined.

25. Commitments and contingencies

As of December 31, 2012, the Company has pending lawsuits locally and overseas. Among pending lawsuits, the Company is a defendant in six lawsuits with total claims amounting to ₩539 million and the Company is a plantiff in four lawsuits with total claims amounting to ₩2,444 million. The outcome of lawsuit is yet to be determined.

As of December 31, 2012, the details of available credit lines of the Company with various banks and financial institutions are as follows:

(Only Korean won in thousands)

Credit provider	Limit	Description of credit line
Shinhan Bank and six others	247,000,000	Purchase Loan
Korea Development Bank and five others	245,000,000	General borrowings
Hana Bank	50,000,000	Private equity bonds
Hana Bank and three others	JPY3,534,000,000	Guarantee debt agreement
Standard Chartered Bank(Malaysia)	MYR 13,000,000	Guarantee debt agreement
Hana Bank	5,000	Electronic loan mortgage revenue bond
Korea Exchange Bank	3,000,000	Electronic promissory note
Shinhan Bank and another	USD 6,000,000	Lines of credit (sight)
Seoul Guarantee Insurance Company	2,610,300	Joint surety
Seoul Guarantee Insurance Company	11,467,810	Insured amount
Australia and New Zealand Banking Company Limited	USD 50,000,000	Foreign public offering bonds
Mizuho Corporate Bank	USD 40,000,000	Foreign public offering bonds
Industrial and Commercial Bank of China Limited	USD 20,000,000	Foreign public offering bonds

26. Capital Stock

Details of capital stock of the Company as of December 31, 2012, are as follows:

Number of shares authorized : 200,000,000 shares
Par value per share : ₩500
Number of common share outstanding : 77,124,796 shares as of December 31, 2012

The Company had previously retired 4,200,000 treasury shares through the appropriation of retained earnings. As a result, the number of common shares outstanding of 77,124,796 shares with a face value of ₩38,562,398 thousand differs from the face value and number of shares issued (capital stock : ₩40,662,398 thousand) recorded in the statement of financial position as of December 31, 2012.

Under Article 340.2 of the Commercial Law, the Company can grant stock options to its employees and directors within the limit prescribed by law (Note 29).

The Company is authorized to issue convertible bonds and bonds with warrants under the approval of the Board of Directors within the limit of ₩100 billion. As of December 31, 2012, no convertible bonds or bonds with warrants have been issued.

27. Retained earnings

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

(In thousands of Korean won)	2012	2011
Legal reserve	20,347,427	12,347,427
Voluntary reserve	579,494,035	537,516,035
Unappropriated retained earnings	116,960,599	127,820,721
Total	716,802,061	677,684,183

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

In accordance with the Korea Corporation Income Tax Law, the Company has accumulated reserves for business development by the amount of retained earnings in excess of reasonable retained earnings until 2001. This amount may be transferred to capital stock or used to reduce accumulated deficit.

Appropriation of retained earnings for the years ended December 31, 2012 and 2011, is as follows :

(In thousands of Korean won)

	2012		2011	
Retained earnings before appropriations		116,960,599		127,820,721
Unappropriated retained earnings carried over from the prior year	1,185		(46,886,239)	
Actuarial gains and losses	(2,789,160)		(2,398,683)	
Net income	119,748,574		177,105,643	
Appropriations		116,959,000		127,819,536
Earned surplus reserve	-		8,000,000	
Reserve for research and human resource development	116,959,000		41,978,000	
Cash dividends	-		77,841,536	
Common stock				
In 2012 : nil				
In 2011 : ₩ 1,050 (Dividend rate: 210%)				
Unappropriated retained earnings carried forward to succeeding year		1,599		1,185

The appropriation of retained earnings in the current period is expected to be approved at the general shareholders' meeting on March 22, 2013.

28. Other components of equity

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

(In thousands of Korean won)	2012	2011
Gains on disposal of treasury stock	32,805,649	33,115,087
Treasury stock	(90,620,058)	(107,521,258)
Stock option	6,059,813	8,697,343
Gains on available-for-sale financial assets	3,073	3,263
Losses on valuation of derivatives	(756,951)	(2,012,103)
Total	(52,508,474)	(67,717,668)

29. Treasury stock

Changes of treasury stock for the year ended December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)

	January 1, 2012		Decrease		December 31, 2012	
	Number of shares	Book value	Number of shares	Book value	Number of shares	Book value
Exercise of share option	2,990,000	107,521,258	470,000	16,901,200	2,520,000	90,620,058

	January 1, 2011		Increase		December 31, 2011	
	Number of shares	Book value	Number of shares	Book value	Number of shares	Book value
Purchase	990,000	34,026,806	2,000,000	73,494,452	2,990,000	107,521,258

The Company recorded treasury stock as other components of equity, which will be used for issuing shares in exchange of stock options.

30. Share-based payment transactions

The details of stock options granted by the Company as of December 31, 2012, are as follows:

Type of shares issued as stock option: shares of common stock in registered form.

Based on the resolution of the Board of Directors, new shares or treasury shares will be issued upon exercise of stock options and the settlement in cash and treasury stock for the difference between the exercise price or fair value are available.

	1st grant	2nd grant	3rd grant	4th grant	5th grant	6th grant	7th grant	8th grant
Granted shares	440,000	150,000	50,000	185,000	330,000	132,120	69,000	228,000
Remaining shares	-	-	-	45,000	265,000	132,120	69,000	228,000
Grant date	2006.03.13	2006.08.01	2006.09.28	2008.03.21	2009.03.20	2010.03.19	2011.03.25	2012.03.23
Exercise price per share	₩27,050	₩20,780	₩22,970	₩28,690	₩27,480	₩35,260	₩34,780	₩37,420
Vesting condition	Remain in service for a period of 2 years	Remain in service for a period of 2 years	Remain in service for a period of 2 years	Remain in service for a period of 3 years	Remain in service for a period of 3 years	Remain in service for a period of 3 years	Remain in service for a period of 3 years	Remain in service for a period of 3 years

Changes in stock options during the years ended December 31, 2012 and 2011, are as follows:

2012	1st grant	2nd grant	3rd grant	4th grant	5th grant	6th grant	7th grant	8th grant	Total
At January 1	160,000	120,000	-	185,000	315,000	132,120	69,000	-	981,120
Granted during 2012	-	-	-	-	-	-	-	228,000	228,000
Exercised	160,000	120,000	-	140,000	50,000	-	-	-	470,000
At December 31,	-	-	-	45,000	265,000	132,120	69,000	228,000	739,120

2011	1st grant	2nd grant	3rd grant	4th grant	5th grant	6th grant	7th grant	Total
At January 1	160,000	120,000	-	185,000	330,000	132,120	-	927,120
Granted during 2011	-	-	-	-	-	-	69,000	69,000
Decrease - failure to meet vesting conditions	-	-	-	-	15,000	-	-	15,000
At December 31	160,000	120,000	-	185,000	315,000	132,120	69,000	981,120

The Company uses the fair-value method to calculate compensation expenses of stock options and recognizes as compensation expenses and capital adjustments over the vesting period. The details of stock options as of December 31, 2012, are as follows:

(In thousands of Korean won)		1st grant	2nd grant	3rd grant	4th grant	5th grant	6th grant	7th grant	8th grant	Total
Total compensation Expense		4,313,077	1,042,346	337,060	1,758,572	3,614,757	1,566,121	727,214	2,473,572	15,832,719
Recognized expense	up to 2011	4,313,077	1,042,346	337,060	1,758,572	3,423,065	957,074	202,004	-	12,033,198
	2012	-	-	-	-	191,692	522,040	242,405	687,103	1,643,240
	Sub total	4,313,077	1,042,346	337,060	1,758,572	3,614,757	1,479,114	444,409	687,103	13,676,438
Exercise/ cancellation		4,313,077	1,042,346	337,060	1,330,811	593,332	-	-	-	7,616,626
At December 31		-	-	-	427,761	3,021,425	1,479,114	444,409	687,103	6,059,812
Unrecognized expense		-	-	-	-	-	87,007	282,805	1,786,469	2,156,281

The assumptions used in calculating compensation expenses using fair value approach are as follows:

(In thousands of Korean won)	1st grant	2nd grant	3rd grant	4th grant	5th grant	6th grant	7th grant	8th grant
Risk-free interest rate	5.12%	4.86%	4.67%	5.23%	4.15%	4.30%	4.06%	3.82%
Vesting period	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Expected volatility	34.39%	33.35%	32.86%	44.66%	45.30%	40.25%	38.12%	35.89%
Expected dividend yield	42%	42%	42%	156%	174%	202%	210%	210%
Expected rate of forfeited right	-	-	-	-	-	-	-	-
Total compensation expense	4,313,077	1,042,346	337,060	1,758,572	3,614,757	1,566,121	727,214	2,473,572

31. Derivatives

Derivative instruments with the purpose of hedging as of December 31, 2012, are as follows:

(In thousands of Korean won)

	Contract	**Deal date**	**Due date**	**Currency**	**Interes t rate**	**Amount**	**Fair value**	**Details**
Currency/ interest rate swap	1	2011-01-14	2014-01-14	KRW	3.93%	57,350,000	(3,862,088)	Derivatives used for hedging for currency rate and interest rate risk of foreign floating rate bonds
	2	2011-04-18	2014-04-18	KRW	4.53%	65,340,000	(2,005,528)	

Movements on the loss on valuation of cash flow hedges in other comprehensive income for the years ended December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	**Jan. 1**	**Valuation**	**Deferred income tax**	**Dec 31**
Loss on valuation of derivative instruments of 2012	(2,012,103)	1,655,873	(400,721)	(756,951)
Loss on valuation of derivative instruments of 2011	-	(2,654,489)	642,386	(2,012,103)

32. Selling and administrative expenses

Selling and administrative expenses for the years ended December 31, 2012 and 2011, consist of the following:

(In thousands of Korean won)	2012	2011
Wages and salaries	211,098,147	182,412,489
Retirement benefits	15,465,870	13,904,140
Welfare expenses	38,880,811	33,511,118
Travel expenses	7,524,751	7,850,490
Communication expenses	15,327,235	14,203,528
Taxes and dues	1,790,936	1,927,218
Rent expenses	48,387,516	45,051,859
Depreciation expenses	13,866,181	12,945,896
Amortization expenses	6,779,351	7,336,304
Repairs and maintenance expenses	3,907,641	4,110,105
Supplies expenses	28,661,119	28,569,613
Periodicals and printing expenses	1,446,869	1,510,188
Advertising expenses	51,272,677	57,945,378
Sales promotion expenses	29,300,974	32,458,972
Transportation expenses	2,769,524	2,572,471
Insurance premium	3,210,891	3,144,643
Commission expenses	84,176,536	83,417,797
Training expenses	9,138,321	11,590,067
Usual development expenses	8,072,162	8,265,023
Sales commission	316,339,725	304,927,948
Conference expenses	1,300,171	1,681,328
Shared-based compensation expenses	1,643,240	1,990,149
Customer compensation expenses	4,201,203	3,949,277
Impariment of account receivable	6,863,746	1,363,633
Rental asset waste expenses	59,843,293	44,051,849
Others	2,368,235	3,826,954
Total	973,637,125	914,518,437

33. Other income and expense

Other income and expenses for the years ended December 31, 2012 and 2011, consist of the following:

(In thousands of Korean won)

Other income	**2012**	**2011**
Rental income	1,178,541	462,918
Commission income	23,801	47,159
Gain on disposal of property, plant and equipment	254,510	35,197
Gains on disposal of intangible assets	20,000	38,000
Gain on foreign currencies transactions	1,812,138	5,478,355
Gain on foreign exchange translation	9,129,506	3,393,795
Miscellaneous income	11,014,136	6,304,153
Gain on valuation of derivatives	-	4,173,000
Total	23,432,632	19,932,577

(In thousands of Korean won)

Other expenses	**2012**	**2011**
Loss from disposal of property, plant and equipment	781,824	259,524
Impairment on property, plant and equipment	4,069,189	885,380
Loss from disposal of intangible assets	-	833
Impairment on receivables	229,745	237,644
Loss on foreign currencies transactions	2,496,836	5,186,807
Loss on foreign exchange translation	9,417,491	4,827,977
Loss on valuation of derivatives	9,042,000	-
Donation	1,325,623	1,308,275
Miscellaneous losses	1,103,533	1,696,972
Total	28,466,241	14,403,412

34. Financial income and expenses

Financial income and expenses for the years ended December 31, 2012 and 2011, consist of the following.

(In thousands of Korean won)	2012	2011
Financial Income		
Interest income	1,417,436	1,694,738
Dividend income	1,931,669	6,000
Gain on disposal of available-for-sale financial assets	125,064	390
Finance guarantee commission income	77,377	542,766
Total	3,551,546	2,243,894
Financial expenses		
Interest expense	28,833,999	25,211,139
Impairment losses on Available-for-sale financial assets	116,493	-
Finance guarantee expenses	32,726,920	553,737
Total	61,677,412	25,764,876

35. Investment income and loss of subsidiaries and associates

(In thousands of Korean won)	2012	2011
Gain on disposal of investment in subsidiaries and associates	432,692	-
Loss from disposal of investment in subsidiaries and associates	(1)	-
Impairment on investment in subsidiaries and associates	(3,620,224)	-
Total	(3,187,533)	-

36. Expenses by Nature

Expenses by nature for the years ended December 31, 2012 and 2011, consist of the following:

(In thousands of Korean won)	**2012**	**2011**
Changes in inventories of finished goods and work in progress	10,378,438	5,888,426
Changes in inventories of merchandise	18,624,198	(6,887,476)
Use of merchandise and raw materials	374,563,516	331,333,410
Wages and salaries	249,581,025	198,369,316
Retirement benefits	16,779,632	15,128,166
Welfare expenses	38,880,811	36,588,286
Supplies	30,424,202	30,715,474
Commission expenses	85,868,223	84,990,564
Depreciation expenses	164,807,705	144,921,246
Rental expenses	48,601,633	45,235,718
Advertising expenses	51,273,375	57,946,002
Sales promotion expenses	29,300,974	32,458,972
Sales commissions	316,339,725	304,927,948
Impairment on receivables	6,863,746	1,363,633
Rental asset waste loss	59,843,294	44,051,849
Other expenses	76,889,849	139,492,495
Total	1,579,020,346	1,466,524,029

37. Construction contracts

Movements on the amount of construction contracts in 2012 and 2011 are as follows:

(In thousands of Korean won)

2012			
Beginning balance	**Increase**	**Construction revenue**	**Ending balance**
9,934,188	33,516,721	19,113,150	24,337,759

(In thousands of Korean won)

2011			
Beginning balance	**Increase**	**Construction revenue**	**Ending balance**
15,958,373	16,993,920	23,018,105	9,934,188

The increase represents new construction contracts.

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

(In thousands of Korean won)

2012			2011		
Accumulated construction revenue	**Accumulated construction cost**	**Accumulated profit**	**Accumulated construction revenue**	**Accumulated construction cost**	**Accumulated profit**
6,408,909	5,094,667	1,314,242	32,495,362	18,990,988	13,504,374

Unbilled amount and overbilled amount for construction contracts as of December 31, 2012 and 2011, are as follows:

2012		2011	
Unbilled amount[1]	**Overbilled amount[2]**	**Unbilled amount[1]**	**Overbilled amount[2]**
1,605,790	3,165,914	6,736,611	1,080,070

[1] Classified as other current assets on the statement of financial position.
[2] Classified as other current liabilities on the statement of financial position.

The Company accrues provision for repairs and maintenance, based on historical experience (Note 23).

38. Income Tax Expense

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

(In thousands of Korean won)	2012	2011
Current tax	37,036,240	34,561,640
Deferred income taxes	4,091,857	12,160,914
Tax charged directly to equity [1]	588,602	1,523,470
Income tax expense	41,716,699	48,246,024

[1] Deferred income taxes charged directly to equity as of December 31, 2012 and 2011, consist of the following:

(In thousands of Korean won)	2012		
	Gross Amount	Income tax effect	Net of tax
Loss on valuation of available-for-sale financial assets	(250)	60	(190)
Actual gains and losses	(3,679,631)	890,471	(2,789,160)
Loss on valuation of derivative instruments	1,655,873	(400,721)	1,255,152
Gain on disposal of treasury shares	(408,230)	98,792	(309,438)
Total	(2,432,238)	588,602	(1,843,636)

	2011		
	Gross Amount	Income tax effect	Net of tax
Loss on valuation of available-for-sale financial assets	(5,224)	1,264	(3,960)
Actual gains and losses	(3,278,502)	879,819	(2,398,683)
Loss on valuation of derivative instruments	(2,654,489)	642,386	(2,012,103)
Total	(5,938,215)	1,523,469	(4,414,746)

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

(In thousands of Korean won)	**2012**	**2011**
Profit before income tax	161,465,272	225,351,667
Income tax based on statutory rate	38,612,596	54,508,703
Tax credit	(2,738,614)	(2,495,672)
Permanent differences	1,890,785	(264,940)
Unrealized deferred taxes	1,252,533	-
Tax adjustment	615,713	(2,275,583)
Additional payment of income taxes	2,331,796	(281,360)
Others (change in tax rates, others)	(248,110)	(945,124)
Income tax expense	41,716,699	48,246,024
Effective tax rate	25.84%	21.41%

The analysis of deferred tax assets and liabilities as of December 31, 2012 and 2011 is as follows:

(In thousands of Korean won)	**2012**	**2011**
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	27,900,315	19,403,407
Deferred tax asset to be recovered within 12 months	32,488,575	29,333,320
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	(44,538,983)	(46,984,695)
Deferred tax liabilities to be recovered within 12 months	(18,853,165)	(663,437)
Net total	(3,003,258)	1,088,595

Deferred income tax assets and liabilities from the tax effects of temporary differences for the years ended December 31, 2012 and 2011, are as follows:
(In thousands of Korean won)

2012	Temporary difference			Deferred income tax assets(liabilities)		
	Beginning balance	Increase (Decrease)	Ending balance	Beginning balance	Increase (Decrease)	Ending balance
I. Deductible temporary differences						
Short-term investment assets	70,310	-	70,310	-	-	-
Accrued income	1,438	-	1,438	-	-	-
Advanced receipts	22,714,751	(8,997,510)	13,717,241	5,496,970	(2,177,398)	3,319,572
Inventory valuation allowance	9,358,845	9,970,567	19,329,412	2,264,841	2,412,877	4,677,718
Accrued expenses	13,440,695	14,701,817	28,142,512	3,252,649	3,557,839	6,810,488
Unearned income	3,324,763	360,632	3,685,395	804,593	87,273	891,866
Financial guarantee liabilities	206,358	32,649,543	32,855,901	49,939	7,901,189	7,951,128
Provision for return of goods sold	2,238,930	(859,890)	1,379,040	541,821	(208,093)	333,728
Provision for product warranties	4,135,849	(555,279)	3,580,570	1,000,875	(134,377)	866,498
Provision for receivables	86,248,228	(25,008,880)	61,239,348	20,872,072	(6,052,150)	14,819,922
Loss of foreign currency translation	660,518	(660,518)	-	159,845	(159,845)	-
Government grants	1,332,023	(185,624)	1,146,399	322,350	(44,921)	277,429
Bad debts expense	853,820	-	853,820	206,624	-	206,624
Rental assets	5,923,338	4,334,510	10,257,848	1,433,449	1,048,950	2,482,399
Depreciation	2,570	-	2,570	-	-	-
Coway ITALIA S.R.L.	-	935,238	935,238	-	226,328	226,328
Retirement benefits obligation	34,177,785	9,481,935	43,659,720	8,271,024	2,294,628	10,565,652
Equiry method investment	15,389,795	-	15,389,795	-	-	-
Long-term Investment securities	2,169,031	116,493	2,285,524	524,906	28,191	553,097
Goodwill (Woongjin Chemical)	5,843,438	(4,124,780)	1,718,658	1,414,112	(998,197)	415,915
Goodwill (Woongjin Happyall)	25,255,820	(12,627,910)	12,627,910	6,111,909	(3,055,955)	3,055,954
Provision for construction warranty	114,520	50,163	164,683	27,714	12,139	39,853
Provisional payment	2,544,269	486,340	3,030,609	615,713	(615,713)	-
Taxes and dues	529,000	(529,000)	-	128,018	(128,018)	-
Other payables	36,938	39,712	76,650	8,939	9,610	18,549
Long-term securities	2,388,092	-	2,388,092	-	-	-
Deferred assets	29,048	-	29,048	-	-	-
Payment for abroad employee	-	4,689,414	4,689,414	-	-	-
Miscellaneous Losses	54,521	-	54,521	-	-	-
Sub total	239,044,693	24,266,973	263,311,666	53,508,363	4,004,357	57,512,720

II. Taxable temporary differences

Prepaid expenses	143,294,478	10,704,574	153,999,052	34,677,264	2,590,507	37,267,771
Gain on foreign currency translation	1,033,489	(1,033,489)	-	250,104	(250,104)	-
Equity method investments	31,470,945	-	31,470,945	6,821,722	-	6,821,722
Provision for advance depreciation(Merger)	7,872,697	-	7,872,697	1,905,193	-	1,905,193
Provision for temporary depreciation(Merger)	745,150	(33,435)	711,715	180,326	(8,091)	172,235
Provision for temporary depreciation	20,500	(16,400)	4,100	4,961	(3,969)	992
Insurance deposits	34,177,785	20,368,320	54,546,105	8,271,024	4,929,133	13,200,157
Goodwill (Woongjin Cuchen)	84,754,782	-	84,754,782	-	-	-
Goodwill (Woongjin coway construction)	1,564,734	-	1,564,734	-	-	-
Amortization(Goodwill)	11,134,765	5,489,871	16,624,636	2,694,613	1,328,549	4,023,162
Sub total	316,069,325	35,479,441	351,548,766	54,805,207	8,586,025	63,391,232

Ⅲ. Charged directly to equity

Gain on available-for-sale financial assets	(4,036)	250	(3,786)	(977)	61	(916)
Actuarial gains and losses	7,206,754	3,679,631	10,886,385	1,744,034	890,471	2,634,505
Loss on valuation of derivatives	2,654,489	(1,655,873)	998,616	642,386	(400,721)	241,665
Sub total	9,857,207	2,024,008	11,881,215	2,385,443	489,811	2,875,254
Total	(67,167,425)	(9,188,460)	(76,355,885)	1,088,599	(4,091,857)	(3,003,258)

(In thousands of Korean won)

2011	Temporary difference			Deferred income tax assets(liabilities)		
	Beginning balance	Increase (Decrease)	Ending balance	Beginning balance	Increase (Decrease)	Ending balance
I. Deductible temporary differences						
Short-term investment assets	70,310	-	70,310	-	-	-
Accrued income	1,438	-	1,438	-	-	-
Advanced receipts	35,602,299	(12,887,548)	22,714,751	9,765,009	(4,268,039)	5,496,970
Inventory valuation allowance	5,335,336	4,023,509	9,358,845	1,291,151	973,690	2,264,841
Accrued expenses	9,293,204	4,147,491	13,440,695	2,325,576	927,073	3,252,649
Unearned income	845,688	2,479,075	3,324,763	186,051	618,542	804,593
Financial guarantee liabilities	195,387	10,971	206,358	42,985	6,954	49,939
Provision for return of goods sold	1,193,744	1,045,186	2,238,930	288,886	252,935	541,821
Provision for product warranties	3,008,687	1,127,162	4,135,849	728,102	272,773	1,000,875
Provision for receivables	97,095,675	(10,847,447)	86,248,228	23,405,171	(2,533,099)	20,872,072
Loss of foreign currency translation	1,712,446	(1,051,928)	660,518	414,412	(254,567)	159,845
Government grants	618,321	713,702	1,332,023	145,289	177,061	322,350
Bad debts expense	853,820	-	853,820	206,624	-	206,624
Rental assets	5,152,450	770,888	5,923,338	1,133,539	299,910	1,433,449
Depreciation(general)	2,570	-	2,570	-	-	-
Intangible assets	60,708	(60,708)	-	13,356	(13,356)	-
Retirement benefits obligation	21,764,359	12,413,426	34,177,785	4,788,159	3,482,865	8,271,024
Equiry method investment	15,389,795	-	15,389,795	-	-	-
Long-term Investment securities	4,566,383	(2,397,352)	2,169,031	475,150	49,552	524,702
Goodwill (Woongjin Chemical)	9,968,217	(4,124,779)	5,843,438	2,195,045	(780,933)	1,414,112
Goodwill (Woongjin Happyall)	37,883,731	(12,627,911)	25,255,820	8,334,421	(2,222,512)	6,111,909
Provision for construction warranty	91,816	22,704	114,520	20,200	7,514	27,714
Provisional payment	1,844,283	699,986	2,544,269	405,742	209,971	615,713
Taxes and dues	-	529,000	529,000	-	128,018	128,018
Other payables	-	36,938	36,938	-	8,939	8,939
Long-term securities	2,388,092	-	2,388,092	-	-	-
Deferred assets	29,048	-	29,048	-	-	-
Miscellaneous Losses	54,521	-	54,521	-	-	-
	255,022,328	(15,977,635)	239,044,693	56,164,868	(2,656,709)	53,508,159

II. Taxable temporary differences

Accrued income	64,251	(64,251)	-	15,549	(15,549)	-
Prepaid expenses	100,349,235	42,945,243	143,294,478	26,693,073	7,984,191	34,677,264
Gain on foreign currency translation	1,338,918	(305,429)	1,033,489	324,018	(73,914)	250,104
Equity method investments	31,470,945	-	31,470,945	5,917,477	904,245	6,821,722
Provision for advance depreciation(Merger)	7,872,697	-	7,872,697	1,731,993	173,200	1,905,193
Provision for temporary depreciation(Merger)	778,584	(33,434)	745,150	171,289	9,037	180,326
Provision for temporary depreciation	36,900	(16,400)	20,500	8,118	(3,157)	4,961
Insurance deposits	23,479,329	10,698,456	34,177,785	5,165,452	3,105,572	8,271,024
Goodwill (Woongjin Cuchen)	84,754,782	-	84,754,782	2,159,017	(2,159,017)	-
Goodwill (Woongjin coway construction)	1,564,734	-	1,564,734	378,666	(378,666)	-
Amortization(Goodwill)	4,883,539	6,251,226	11,134,765	1,181,815	1,512,798	2,694,613
Others	141,229	(141,229)	-	31,070	(31,070)	-
	256,735,143	59,334,182	316,069,325	43,777,537	11,027,670	54,805,207

Ⅲ.Charged directly to equity

Gain on available-for-sale financial assets	(9,260)	5,224	(4,036)	(2,037)	1,264	(773)
Actuarial gains and losses	3,928,252	3,278,502	7,206,754	864,215	879,819	1,744,034
Loss on valuation of derivatives	-	2,654,489	2,654,489	-	642,386	642,386
	3,918,992	5,938,215	9,857,207	862,178	1,523,469	2,385,647
Total	2,206,177	(69,373,602)	(67,167,425)	13,249,509	(12,160,910)	1,088,599

Deferred tax assets and liabilities are computed based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities by applying enacted tax rates in effect in the years in which the differences are expected to reverse. The Company periodically assesses its ability to realize deferred tax assets. In case of significant doubt regarding the Company's ultimate ability to realize such assets, a valuation allowance is recorded to reduce the assets to their estimated realizable value.

Details of the unrecognized deferred income tax assets (liabilities) as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	2012	2011
Short-term investment assets	70,310	70,310
Investment in subsidiaries	15,389,795	15,389,795
Payment guarantee of foreign subsidiaries	3,030,609	-
Payment for abroad employee	4,689,414	-
Long-term investment securities	2,388,092	2,388,092
Unearned income	1,438	1,438
Depreciation	2,570	2,570
Deferred assets	29,048	29,048
Miscellaneous Losses	54,521	54,521
Total deferred tax asset	25,655,797	17,935,774
Goodwill (Woongjin Cuchen)	84,754,782	84,754,782
Goodwill (Woongjin Coway construction)	1,564,734	1,564,734
Total deferred tax liabilities	86,319,516	86,319,516

39. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the parent by the weighted average number of common shares outstanding during the year excluding treasury stock (Note 29).

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

(In Korean won)	2012	2011
Net income	119,748,573,647	177,105,642,866
Weighted-average number of shares of common stock outstanding	74,211,873	74,737,965
Basic earnings per share	1,614	2,370

The weighted-average number of shares of common stock outstanding for 2012 and 2011 are 74,211,873 and 74,737,965 respectively, excluding treasury stock.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential common shares. The Company has dilutive potential common shares, which are stock options.

The Company's diluted earnings per share amounts for the years ended December 31, 2012 and 2011, is computed as follows:

(In Korean won)	**2012**	**2011**
Net income attributable to common stock	119,748,573,647	177,105,642,866
Share-based compensation expense	-	-
Net income attributable to common stock adjusted for the effect of dilution	119,748,573,647	177,105,642,866
Weighted-average number of shares of common stock outstanding	74,211,873	74,737,965
Adjustment for assumed exercise of stock options	477,625	232,835
Weighted-average number of shares of common stock outstanding adjusted for the effect of dilution	74,689,498	74,970,800
Diluted earnings per share	1,603	2,362

There are no events after the reporting period which could change the number of dilutive potentially shares.

40. Dividends

The dividends paid in 2012 and 2011 were ₩ 77,842 million (₩ 1,050 per share) and ₩ 79,942 million (₩1,050 per share), respectively. The decision not to pay any dividend in respect of the year ended December 31, 2012, will be approved at the annual general meeting on March 22, 2013.

The Company determined to pay dividends at the end of the first quarter in 2013 instead of the payment of the annual dividends in December 2012. The Board of Directors will decide on the dividends in April 2013, based on business performance of the first quarter of 2013. The Company plans to pay amount of dividends similar to the 2011 year end dividends.

These financial statements do not reflect this dividend payable.

41. Cash generated from operations

Cash flows from operating activities for the years ended December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	2012	2011
Adjustments		
Retirement benefits	16,611,580	14,594,871
Share-based compensation expenses	1,643,240	1,990,149
Depreciation expenses	164,807,705	144,921,246
Amortization expenses	7,069,003	7,526,809
Impairment on receivables	7,093,491	1,601,277
Loss on valuation of inventories	9,970,567	4,023,509
Loss on rental property abandoned	59,843,294	44,051,849
Loss on valuation of derivative instruments	9,042,000	-
Loss on foreign exchange translation	9,417,491	4,827,977
Income of investment in subsidiaries and associates	3,187,533	-
Impairment of property, plant and equipment	4,069,189	885,380
Financial guarantee expense	32,726,920	553,737
Gain on foreign exchange translation	(9,129,506)	(3,393,795)
Gains on valuation of derivatives	-	(4,173,000)
Interest income	(1,417,436)	(1,694,738)
Interest expense	28,833,999	25,211,139
Income tax expense	41,716,699	48,246,024
Others	(3,702,606)	4,833,570
Total	381,783,163	294,006,004
Changes in operating assets and liabilities		
Increase in trade receivables	(55,459,075)	(34,903,554)
(Increase)/Decrease in other short-term financial assets	(15,606)	1,691,116
(Increase)/Decrease in other current assets	6,741,043	(28,975,319)
Decrease in inventories	24,847,867	662,160
Increase in other non-current assets	(15,239,326)	(12,198,643)
Increase/(Decrease) in trade payables	331,199	(9,692,332)
Increase in other short-term financial liabilities	15,812,861	3,987,523
Increase/(Decrease) in other short-term liabilities	7,312,786	(11,698,044)
Increase in other long-term financial liabilities	559,297	584,960
(Decrease) in other long-term liabilities	(488,960)	(5,826,308)
Payment of retirement benefits	(3,822,701)	(3,236,708)
Transfers from related companies	814,181	322,839
Decrease in national pension fund	(19,120,488)	(12,227,196)
Changes in net working capital, total	(37,726,922)	(111,509,506)

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

(In thousands of Korean won)	**2012**	**2011**
Transfer of construction-in-progress to tangible assets	3,219,634	40,934,589
Transfer of construct-in-progress to intangible assets	3,289,225	8,613,998
Transfer of long-term borrowings to current liabilities	60,000,000	110,000,000
Transfer of associates investment to assets held for sale	133,308,647	-
Transfer of current liabilities to short-term borrowings	110,000,000	-
Transfer of debenture to current liabilities	49,939,127	-

42. Related Party Transactions

The related parties of the Company as of December 31, 2012, are as follows:

	Name
Entity with significant influence over the Company	Woong Jin Holdings Co., Ltd.
Subsidiaries	Woong Jin Coway (China) Living Goods Co., Ltd. Woong Jin Coway Thailand Co.,Ltd. Woong Jin Coway (M) Sdn Bhd. Woong Jin Coway USA, Inc. Coway ITALIA S.R.L. Coway (Japan) Co., Ltd. Green Environment Technology Co., Ltd.
Associates	Woong Jin Chemical Co., Ltd.
Others	Kukdong Engineering & Construction, Booxen Co.,Ltd , Woongjin Polysilicon Co.,Ltd. , OPMS Co, Ltd

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

(In thousands of Korean won)	**2012**	**2011**
Transactions		
Sales	2,097,598	1,671,168
Purchases	99,349,630	107,663,088
Receivables and Payables		
Receivables	201,630	1,379,981
Payables	7,983,678	10,731,535

Subsidiaries

(In thousands of Korean won)	**2012**	**2011**
Transactions		
Sales	32,111,780	36,080,105
Purchases	2,446,042	30,000
Receivables and Payables		
Receivables (before recognizing impairment)	100,700,849	69,686,500
Payables	369,009	-

As of December 31, 2012, the provision for receivable of ₩ 20,533 million (2011: ₩ 5,896 million) and reversal of the impairment is ₩1,362 million (2011: ₩6,172 million).

Transactions with associates for the years ended December 31, 2013 and 2012, and the related receivables and payables as of December 31, 2012 and 2011, are as follows:

(In thousands of Korean won)	**2012**	**2011**
Transactions		
Sales	257,540	3,257,848
Purchases	22,113,612	27,674,958
Receivables and Payables		
Receivables	4,285,914	16,016,195
Payables	2,018,765	1,705,566

As of December 31, 2011, the provision for receivable was ₩ 15,999 million and the impairment loss was ₩ 3,785 million.

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

(In thousands of Korean won)	**2012**	**2011**
Transactions		
Sales	305,336	2,542,235
Purchases	30,907,712	48,042,732
Receivables and Payables		
Receivables	273,912	4,727,571
Payables	2,835,903	4,342,909

The compensation paid or payable to key management for employee services is shown below:

(In thousands of Korean won)	**2012**	**2011**
Salaries	4,381,709	4,309,695
Retirement benefits	577,278	637,153
Share-based compensation expenses	1,166,252	1,510,010

As of December 31, 2012, the guarantees for related parties are as follows:

Related party	**Currency**	**Amount**	**Details**
Woong Jin Coway (M) S dn Bhd.	MYR	13,000,000	Borrowings
Coway Japan Corporation	JPY	3,534,000,000	Borrowings

Report on the Operations of the Internal Accounting Control System

To the President of Coway Co., Ltd.(formerly Woongjin Coway Co., Ltd.)

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of Coway Co., Ltd. (formerly Woongjin Coway Co., Ltd., the Company) as of December 31, 2012. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2012, no material weaknesses are identified as of December 31, 2012, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a Company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A Company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. 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 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 management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with IACS standards established by IACSOC.

Our review is based on The Company's IACS as of December 31, 2012, and we did not review management's assessment of its IACS subsequent to December 31, 2012. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

March 14, 2013

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Audit Committee of
Woongjin Coway Co., Ltd.

I, as the Internal Accounting Control Officer ("IACO") of Woongjin Coway Co., Ltd. ("the Company"), assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2012.

The Company's management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations 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.

February 5, 2013

Sang-jun Kim
Internal Accounting Control System Officer

Joon-Kee Hong
President