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DON'T  
STAPLE**OS AA01**Statement of details of parent law and other  
information for an overseas company

Companies House

✓ **What this form is for**  
You may use this form to  
accompany your accounts  
disclosed under parent law.

✗ **What this form is NOT**  
You cannot use this form  
an alteration of manner of  
with accounting requirements

SATURDAY



A18 \*AC3XDZ7D\* 20/05/2023 #72  
COMPANIES HOUSE

**Part 1 Corporate company name**

Corporate name of overseas company ①  
GS ENGINEERING & CONSTRUCTION  
CORPORATION

UK establishment number  
B R 0 1 5 1 1 9

→ **Filling in this form**  
Please complete in typescript or in  
bold black capitals.

All fields are mandatory unless  
specified or indicated by \*

① This is the name of the company in  
its home state.

**Part 2 Statement of details of parent law and other  
information for an overseas company****A1 Legislation**

Please give the legislation under which the accounts have been prepared and  
audited.

Legislation ②  
Laws of South Korea

② This means the relevant rules or  
legislation which regulates the  
preparation of accounts.

**A2 Accounting principles**

Accounts  
Have the accounts been prepared in accordance with a set of generally accepted  
accounting principles?

Please tick the appropriate box.

☐ **No.** Go to **Section A3**.

☒ **Yes.** Please enter the name of the organisation or other  
body which issued those principles below, and then go to **Section A3**.

Name of organisation or body ③  
Korean International Financial Reporting Standards

③ Please insert the name of the  
appropriate accounting organisation  
or body.

# OS AA01

## Statement of details of parent law and other information for an overseas company

**A3**

### Audited accounts

Audited accounts

Have the accounts been audited in accordance with a set of generally accepted auditing standards?

Please tick the appropriate box.

☐ No. Go to **Part 3 'Signature'**.

☒ Yes. Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**.

❶ Please insert the name of the appropriate accounting organisation or body.

Name of organisation or body ❶

KICPA

### Part 3

### Signature

I am signing this form on behalf of the overseas company.

Signature

Signature

**X**

Do Young Kim **X**

This form may be signed by:  
Director, Secretary, Permanent representative.

# OS AA01

## Statement of details of parent law and other information for an overseas company



### Presenter information

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Contact name	SUNJAE KWON
Company name	KPY PHILLIPS YOUNG LLP
Address	13 APPROACH ROAD
Post town	
County/Region	LONDON
Postcode	S W 2 0 8 B A
Country	UK
DX	
Telephone	0203 274 3066



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Please make sure you have remembered the following:

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register.
- ☐ You have completed all sections of the form, if appropriate.
- ☐ You have signed the form.



### Important information

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# **GS Engineering & Construction Corporation and Subsidiaries**

**Consolidated Financial Statements  
December 31, 2011**

I hereby certify that this  
is correct / true of the  
original

Do Young Kim  


**GS Engineering & Construction Corporation and Subsidiaries**  
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**December 31, 2011**

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## Report of Independent Auditors

To the Shareholders and Board of Directors of  
GS Engineering & Construction Corporation

We have audited the accompanying consolidated statement of financial position of GS Engineering & Construction Corporation and its subsidiaries ("the Group") as of December 31, 2011, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, expressed in Korean won. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We did not audit the financial statements of Parnas Hotel Co., Ltd., whose financial statements represent ₩ 1,111,697 million of the Group's consolidated total assets as of December 31, 2011, and ₩ 224,733 million of the Group's consolidated total sales for the year then ended. These financial statements were audited by other auditors whose report has been furnished us and our opinion, insofar as it relates to the amounts included for Parnas Hotel Co., Ltd. is based solely on the report of the other auditors.

The consolidated financial statements of the Group as of and for the year ended December 31, 2010, presented herein for comparative purposes, were audited by other auditors whose report dated March 23, 2011, expressed an unqualified opinion on those statements. The December 31, 2010 consolidated financial statements, as audited by other auditors, do not reflect the adjustments as described in Note 32 required by the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). However, the consolidated financial statements, presented herein for comparative purposes, reflect such adjustments in accordance with Korean IFRS.

We conducted our audit 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 audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of GS Engineering & Construction Corporation and its subsidiaries as of December 31, 2011, and their financial performance and cash flows for the year then ended in accordance with 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 consolidated 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, 2012

This report is effective as of March 14, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**GS Engineering & Construction Corporation and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2011 and 2010, and January 1, 2010**

<i>(in millions of Korean won)</i>	Notes	December 31, 2011	December 31, 2010	January 1, 2010
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	9	1,487,895	1,493,535	1,526,461
Trade and other receivables	6,7,9	4,626,771	4,415,056	4,243,264
Inventories	8	494,799	418,935	522,524
Short-term financial instrument assets	5,9,11	292,223	268,782	433,229
Other current assets	8	880,720	707,285	592,296
Assets held for sale	12	-	340,308	405,744
Total current assets		<u>7,782,408</u>	<u>7,643,901</u>	<u>7,723,518</u>
<b>Non-current assets</b>				
Property, plant and equipment	14	2,195,263	2,347,635	2,309,856
Intangible assets	15	53,712	61,415	48,267
Investment property	16	343,314	341,308	370,954
Investments in associates	13	64,129	50,293	20,527
Long-term receivables and other receivables	6,9	448,279	395,865	338,227
Long-term financial instrument assets	5,9,10	210,827	205,941	195,452
Deferred income tax assets	27	612	-	-
Total non-current assets		<u>3,316,136</u>	<u>3,402,457</u>	<u>3,283,283</u>
<b>Total assets</b>		<u>11,098,544</u>	<u>11,046,358</u>	<u>11,006,801</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	9,17	1,734,422	1,680,265	1,494,978
Short-term financial instrument liabilities	9,11,18	999,435	1,038,071	865,398
Income tax payable	27	146,511	131,258	64,743
Other current liabilities	7,9,17	2,465,649	2,818,703	3,073,186
Total current liabilities		<u>5,346,017</u>	<u>5,668,297</u>	<u>5,498,305</u>
<b>Non-current liabilities</b>				
Long-term financial instrument liabilities	9,18	977,781	468,396	869,708
Defined benefit liabilities	19	93,721	64,645	56,222
Long-term provisions	9,20	372,864	359,860	326,150
Deferred income tax liabilities	27	-	156,580	186,209
Other non-current liabilities	17	350,123	557,225	582,922
Total non-current liabilities		<u>1,794,489</u>	<u>1,606,706</u>	<u>2,021,211</u>
<b>Total liabilities</b>		<u>7,140,506</u>	<u>7,275,003</u>	<u>7,519,516</u>
<b>Equity</b>				
<b>Equity attributable to owners of the Parent</b>				
Capital stock	1,22	255,000	255,000	255,000
Capital surplus	22	159,934	161,133	160,412
Other components of equity	22	(82,060)	(83,503)	(83,053)
Accumulated other comprehensive income	11	(17,392)	145,071	201,486
Retained earnings	23	3,419,587	3,072,246	2,738,230
		<u>3,735,069</u>	<u>3,549,947</u>	<u>3,272,075</u>
Non-controlling interest		222,969	221,408	215,210
<b>Total equity</b>		<u>3,958,038</u>	<u>3,771,355</u>	<u>3,487,285</u>
<b>Total liabilities and equity</b>		<u>11,098,544</u>	<u>11,046,358</u>	<u>11,006,801</u>

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



**GS Engineering & Construction Corporation and Subsidiaries**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2011 and 2010**

<i>(in millions of Korean won, except per share amounts)</i>	<b>Notes</b>	<b>2011</b>	<b>2010</b>
<b>Sales</b>	4		
Construction operations	7	8,565,644	7,729,371
Housing construction and sales operations		106,892	275,904
Other operations		379,698	414,645
		<u>9,052,234</u>	<u>8,419,920</u>
<b>Cost of sales</b>	28		
Construction operations		7,494,466	6,699,776
Housing construction and sales operations		173,349	222,859
Other operations		355,709	367,499
		<u>8,023,524</u>	<u>7,290,134</u>
<b>Gross profit</b>		<u>1,028,710</u>	<u>1,129,786</u>
<b>Selling and administrative expenses</b>	25,28	633,815	536,417
<b>Other operating income</b>	25	572,492	381,159
<b>Other operating expenses</b>	25	369,309	341,530
<b>Operating income</b>	4,25	<u>598,078</u>	<u>632,998</u>
Income(expenses) from investment in associates	4,13	14,640	(1,527)
Financial income	4,26	207,908	112,607
Financial expenses	4,26	256,989	188,289
<b>Profit before income tax</b>	4	<u>563,637</u>	<u>555,789</u>
<b>Income tax expense</b>	27	<u>136,224</u>	<u>150,246</u>
<b>Profit for the period</b>		<u>427,413</u>	<u>405,543</u>
<b>Profit for the period attributable to:</b>			
Equity holders of the Parent Company		<u>423,677</u>	<u>397,338</u>
Non-controlling interest		<u>3,736</u>	<u>8,205</u>
<b>Earnings per share attributable to the equity holders of the Parent Company during the period</b>			
Basic earnings per share	24	8,563	8,030

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

**GS Engineering & Construction Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2011 and 2010**

<i>(in millions of Korean won)</i>	Notes	2011	2010
<b>Profit for the year</b>		<u>427,413</u>	<u>405,543</u>
<b>Other comprehensive income</b>			
Gain on valuation of available-for-sale financial assets		(161,412)	(28,250)
Loss on valuation of available-for-sale financial assets		(497)	(5,548)
Share of other comprehensive income of associates	13	625	1,018
Share of other comprehensive loss of associates	13	(255)	-
Loss on overseas operations translation		(3,292)	(13,744)
Gain on valuation of derivative instruments	11	2,167	1,532
Loss on valuation of derivative instruments	11	82	(11,257)
Actuarial loss on defined benefit liability	19	(31,510)	(14,164)
<b>Other comprehensive income (loss) for the year, net of tax</b>		<u>(194,092)</u>	<u>(70,413)</u>
<b>Total comprehensive income for the year</b>		<u>233,321</u>	<u>335,130</u>
<b>Attributable to:</b>			
Equity holders of the Parent Company		230,490	327,715
Non-controlling interest		<u>2,831</u>	<u>7,416</u>
<b>Total comprehensive income for the year</b>		<u>233,321</u>	<u>335,131</u>

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

**GS Engineering & Construction Corporation and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**Years Ended December 31, 2011 and 2010**

(in millions of Korean won)

(in millions of Korean won)	Attributable to equity holders of the Parent							
	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling Interest	Total Equity
Balance at January 1, 2010	255,000	160,412	(83,053)	201,486	2,738,230	3,272,075	215,210	3,487,285
Comprehensive Income								
Profit for the year	-	-	-	-	397,338	397,338	8,205	405,543
Gain on valuation of available-for-sale financial assets	-	-	-	(28,309)	-	(28,309)	59	(28,250)
Loss on valuation of available-for-sale financial assets	-	-	-	(5,548)	-	(5,548)	-	(5,548)
Share of other comprehensive income of associates	-	-	-	1,018	-	1,018	-	1,018
Currency translation differences	-	-	-	(13,746)	-	(13,746)	2	(13,744)
Gain on valuation of derivative instruments	-	-	-	1,532	-	1,532	-	1,532
Loss on valuation of derivative instruments	-	-	-	(11,362)	-	(11,362)	105	(11,257)
Actuarial loss on defined benefit liability	-	-	-	-	(13,208)	(13,208)	(956)	(14,164)
Total comprehensive income for the year	-	-	-	(56,415)	384,130	327,715	7,415	335,130
Transactions with equity holders of the Company :								
Treasury stock	-	367	(450)	-	-	(83)	-	(83)
Dividends to equity holders of the Group	-	-	-	-	(49,479)	(49,479)	(639)	(50,118)
Others	-	354	-	-	(635)	(281)	(578)	(859)
Total transactions with equity holders of the Company	-	721	(450)	-	(50,114)	(49,843)	(1,217)	(51,060)
Balance at December 31, 2010	255,000	161,133	(83,503)	145,071	3,072,246	3,549,947	221,408	3,771,355
Balance at January 1, 2011	255,000	161,133	(83,503)	145,071	3,072,246	3,549,947	221,408	3,771,355
Comprehensive Income								
Profit for the year	-	-	-	-	423,677	423,677	3,736	427,413
Gain on valuation of available-for-sale financial assets	-	-	-	(161,353)	-	(161,353)	(59)	(161,412)
Loss on valuation of available-for-sale financial assets	-	-	-	(463)	-	(463)	(34)	(497)
Share of other comprehensive income of associates	-	-	-	625	-	625	-	625
Share of other comprehensive loss of associates	-	-	-	(172)	-	(172)	(83)	(255)
Currency translation differences	-	-	-	(3,283)	-	(3,283)	(9)	(3,292)
Gain on valuation of derivative instruments	-	-	-	2,167	-	2,167	-	2,167
Loss on valuation of derivative instruments	-	-	-	16	-	16	66	82
Actuarial loss on defined benefit liability	-	-	-	-	(30,723)	(30,723)	(787)	(31,510)
Total comprehensive income for the year	-	-	-	(162,463)	392,954	230,491	2,830	233,321
Transactions with equity holders of the Company :								
Treasury stock	-	(1,199)	1,443	-	-	244	-	244
Dividends to equity holders of the Group	-	-	-	-	(49,479)	(49,479)	(1,236)	(50,715)
Changes in the consolidated entities	-	-	-	-	3,662	3,662	-	3,662
Others	-	-	-	-	204	204	(33)	171
Total transactions with equity holders of the Company	-	(1,199)	1,443	-	(45,613)	(45,369)	(1,269)	(46,638)
Balance at December 31, 2011	255,000	159,934	(82,060)	(17,392)	3,419,587	3,735,069	222,969	3,958,038

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

**GS Engineering & Construction Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2011 and 2010**

<i>(in millions of Korean won)</i>	<b>Notes</b>	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>			
Cash generated from operations	30	(265,770)	390,681
Interest received		49,408	49,542
Interest paid		(42,936)	(74,533)
Dividends received		1,181	249
Income tax paid		(223,588)	(108,519)
<b>Net cash generated from (used in) operating activities</b>		<b>(481,705)</b>	<b>257,420</b>
<b>Cash flows from investing activities</b>			
Decrease in other receivables		233,447	332,039
Decrease in short-term financial instrument assets		15,352	3,145
Decrease in long-term other receivables		203,797	164,678
Decrease in long-term financial instrument assets		21,018	206
Disposal of investments in associates	13	69	20,965
Disposal of investment property	16	15,847	41,862
Disposal of property, plant and equipment	14	11,145	7,535
Disposal of intangible assets	15	364	-
Disposal of assets held for sale	12	163,944	-
Increase in other receivables		(206,116)	(304,622)
Increase in short-term financial instrument assets		(27,842)	(5,739)
Increase in long-term other receivables		(236,242)	(241,184)
Increase in long-term financial instrument assets		(18,128)	(35,465)
Acquisition of investments in associates	13	-	(42,416)
Decrease in cash and cash equivalents due to changes in in-scope subsidiaries subject to consolidation		(8,713)	-
Acquisition of investment property	16	(6,562)	(4,674)
Acquisition of property, plant and equipment	14	(51,245)	(99,584)
Acquisition of intangible assets	15	(2,543)	(14,476)
<b>Net cash provided by (used in) investing activities</b>		<b>107,592</b>	<b>(177,730)</b>
<b>Cash flows from financing activities</b>			
Increase in short-term financial instrument liabilities		990,794	974,010
Increase in long-term financial instrument liabilities		739,812	200,608
Increase in other non-current liabilities		37,322	27,667
Decrease in short-term financial instrument liabilities		(1,273,596)	(1,136,171)
Decrease in long-term financial instrument liabilities		(20,506)	(73,229)
Decrease in other non-current liabilities		(59,441)	(55,712)
Dividends		(50,712)	(41,585)
<b>Net cash provided by (used in) financing activities</b>		<b>363,673</b>	<b>(104,412)</b>
<b>Exchange gains(losses) on cash and cash equivalents</b>		<b>4,800</b>	<b>(8,204)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(5,640)</b>	<b>(32,926)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>1,493,535</b>	<b>1,526,461</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>1,487,895</b>	<b>1,493,535</b>

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

# GS Engineering & Construction Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### December 31, 2011 and 2010, and January 1, 2010

#### 1. General Information

In accordance with Korean IFRS1027, *Consolidated and Separate Financial Statements*, GS Engineering & Construction Corporation ("the Company") and its subsidiaries (collectively referred to as "the Group")'s general information is as follows,

##### 1.1 GS Engineering & Construction Corporation

The Company was incorporated on December 19, 1969 under the laws of the Republic of Korea to engage in civil works and architectural construction, construction and sales of new houses, repairs and maintenance, overseas complex construction and technology consultation. The Company merged with Lucky Foreign Construction Co., Ltd., LG Engineering Co., Ltd. and Baekyang Development Co., Ltd. on January 4, 1979, August 1, 1999 and October 1, 2000, respectively.

The Company listed its shares on the Korea Exchange on August 3, 1981 and changed its name from LG Engineering & Construction Co., Ltd. to GS Engineering & Construction Corporation on March 18, 2005. Also, the Company has been included in the GS Group since April 4, 2005, when the Fair Trade Commission had designated GS Group as the related companies with restricted mutual investment.

As of December 31, 2011, the Company maintains overseas branches and construction sites in many foreign countries, including United Arab Emirates, Oman, Canada, China and Singapore.

Capital stock of the Company as of December 31, 2011, is ₩255,000 million.

##### 1.2 Subsidiaries

The Company's consolidated subsidiaries as of December 31, 2011, are as follows:

(in millions of Korean won)

Subsidiaries	Location	Industry	Financial closing date	Percentage of ownership (%)	Total equity
Parnas Hotel Co., Ltd.	Korea	Hotel	12.31	67.56	676,331
EziVille Inc.	Korea	Home network system development and operation	12.31	83.00	19,828
Xi service	Korea	Construction service	12.31	100.00	678
G-Estec Co., Ltd	Korea	Construction service	12.31	100.00	217
GLS Service	Korea	Resort maintenance service	12.31	100.00	412
GCS Plus	Korea	Resort maintenance service	12.31	100.00	3,661
BSM	Korea	Processing	12.31	100.00	782
GS O&M	Korea	Plant operation and maintenance service	12.31	100.00	1,344
Sanglak Food Co., Ltd.	Korea	Providing food service on construction sites	12.31	97.69	2,159
GS E&C Nanjing	China	Construction	12.31	100.00	22,865
GS Nha Be Development One-member LLC	Vietnam	Construction	12.31	100.00	28,740
GS Saigon Development One-member LLC	Vietnam	Construction	12.31	100.00	12,528
GS E&C India Private Ltd.	India	Construction service	3.31	100.00	1,217

**GS Engineering & Construction Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2011 and 2010, and January 1, 2010**

GS(Cambodia) Development Co.,Ltd.	Cambodia	Construction	12.31	100.00	1,488
GS Construction Arabia Co.,Ltd.	Saudi Arabia	Construction	12.31	98.00	2,732
GS Construction Saudi Co., Ltd.	Saudi Arabia	Construction	12.31	80.00	586
GS E&C Poland SP.ZO.O	Poland	Construction	12.31	100.00	35
GS E&C Construction Canada Ltd.	Canada	Construction	12.31	100.00	(1,306)
GS E&C Panama S.A.	Panama	Construction	12.31	100.00	1,172

**1.3 Summary of Financial Information on Subsidiaries**

Summarized financial information of subsidiaries follows:

(in millions of Korean won)

	December 31, 2011			
	Assets	Liabilities	Sales	Net income(loss)
Parnas Hotel Co., Ltd.	1,111,697	435,366	224,773	11,508
EziVille Inc.	32,338	12,510	75,604	118
Xi service	2,948	2,270	21,121	65
G-Estec Co., Ltd	892	675	5,398	64
GLS Service	550	138	3,171	5
GCS Plus	8,910	5,249	40,731	595
BSM	1,901	1,119	9,526	526
GS O&M	3,358	2,014	26,502	440
Sanglak Food Co., Ltd	7,204	5,045	36,141	823
GS E&C Nanjing	86,538	63,673	85,684	7,444
GS Nha Be Development One-member LLC	96,132	67,392	-	(2,835)
GS Saigon Development One-member LLC	230,943	218,415	11,283	(10,699)
GS E&C India Private Ltd.	4,331	3,114	11,006	547
GS(Cambodia) Development Co.,Ltd.	1,552	64	-	14,292
GS Construction Arabia Co.,Ltd.	59,510	56,778	163,475	582
GS Construction Saudi Co., Ltd.	1,176	590	753	(186)
GS E&C Poland SP.ZO.O	551	516	-	8
GS E&C Construction Canada Ltd.	32,234	33,540	58,139	(1,301)
GS E&C Panama S.A. <sup>1</sup>	1,362	190	197	(101)

<sup>1</sup>GS E&C Panama S.A. was acquired in 2011.

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(in millions of Korean won)

	December 31, 2010			
	Assets	Liabilities	Sales	Net income(loss)
Parnas Hotel Co., Ltd.	1,117,826	446,430	211,511	22,936
EziVille Inc.	33,204	13,495	102,617	4,680
Xi service	2,881	2,268	15,452	31
G-Estec Co., Ltd	766	613	4,959	16
GLS Service	539	231	1,833	6
GCS Plus	8,559	5,493	41,763	804
BSM	1,350	1,094	8,168	22
GS O&M	2,941	2,036	16,116	109
Sanglak Food Co., Ltd	6,112	4,776	30,979	780
GS E&C Nanjing	42,514	22,309	75,685	6,692
GS Cu Chi Development One-member Ltd. <sup>1</sup>	44,197	32,424	-	(98)
GS Nha Be Development One-member LLC	83,549	49,779	-	(135)
GS Saigon Development One-member LLC	306,204	281,157	57,491	6,118
GS E&C ITALY S.R.L. <sup>2</sup>	-	12	-	-
GS E&C India Private Ltd.	5,004	4,702	12,069	(1,223)
GS(Cambodia) Development Co.,Ltd.	43,635	56,854	-	(5,691)
GS Construction Arabia Co.,Ltd.	35,556	33,457	112,847	1,252
GS Construction Saudi Co., Ltd.	1,048	279	116	(375)
GS E&C Poland SP.ZO.O	704	673	1	1
GS E&C Construction Canada Ltd.	27,967	27,961	7,780	5
GS GLOBAL BIO Co., Ltd. <sup>2</sup>	22	1,332	-	(1)

<sup>1</sup> The Group disposed of 95% of GS Cu Chi Development One-Member Ltd. shares and reclassified the residual shares as available-for-sale financial assets.

<sup>2</sup> GS GLOBAL BIO Co., Ltd. and GS E&C ITALY S.R.L were liquidated in 2011.

(in millions of Korean won)

	January 1, 2010	
	Assets	Liabilities
Parnas Hotel Co., Ltd.	1,116,557	463,820
EziVille Inc.	24,599	9,364
Xi service	2,065	1,483
G-Estec Co., Ltd	910	773
GLS Service	426	124
GCS Plus	7,007	4,745
BSM	645	511
GS O&M	2,612	1,816
Sanglak Food Co., Ltd	4,968	4,412
GS E&C Nanjing	32,002	11,850
GS Cu Chi Development One-member Ltd.	45,855	33,056
GS Nha Be Development One-member LLC	55,873	19,354

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GS Saigon Development One-member LLC	248,771	226,852
GS E&C ITALY S.R.L	572	585
GS E&C India Private Ltd.	3,074	1,564
GS(Cambodia) Development Co.,Ltd.	49,710	57,516
GS Construction Arabia Co.,Ltd.	15,708	14,778
GS E&C Poland SP.ZO.O	3,906	1,906
GS GLOBAL BIO Co., Ltd.	89	1,432

## **2. Significant Accounting Policies**

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

### **2.1 Basis of Preparation**

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

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

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

The consolidated financial statements of the Group were prepared in accordance with Korean IFRS and are subject to Korean IFRS1101, 'First-time Adoption of Korean IFRS'. The transition date, according to Korean IFRS1101, from the previous accounting principles generally accepted in the Republic of Korea ("Previous K-GAAP") to Korean IFRS is January 1, 2010. Reconciliations and descriptions of the effect of the transition from previous K-GAAP to Korean IFRS on the Group's equity, comprehensive income and cash flows are described in Note 32.

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

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011, and not early adopted by the Group are as follows:

- Amendments to Korean IFRS1101, *Hyperinflation and Removal of Fixed Dates for first-time adopters*

As an exception to retrospective application requirements, this amendment to Korean IFRS1101 allows a prospective application of derecognition of financial assets for transactions occurring on or after the date of transition to Korean IFRS, instead of fixed date (January 1, 2004). Accordingly, the Group is not required to restate and recognize those assets or liabilities that were



# **GS Engineering & Construction Corporation and Subsidiaries**

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derecognized as a result of a transaction that occurred before the dated of transition to Korean IFRS. This amendment is effective for the Group as of January 1, 2012. The Group is assessing the impact of application of the amended Korean IFRS1101 on its consolidated financial statements as of the report date.

- Amendments to Korean IFRS1012, *Income Taxes*

According to the amendments to Korean IFRS1012, *Income Taxes*, for the investment property that is measured using the fair value model, the measurement of deferred tax liability and deferred tax asset should reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale, unless evidences support otherwise. This amendment is effective for the Group as of January 1, 2012. The Group is assessing the impact of application of the amended Korean IFRS1012 on its consolidated financial statements as of the report date.

- Amendments to Korean IFRS1019, *Employee Benefits*

According to the amendments to Korean IFRS1019, *Employee Benefits*, 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 the Group as of January 1, 2013, and the Group is assessing the impact of application of the amended Korean IFRS1019 on its consolidated financial statements as of the report date.

- Amendments to Korean IFRS1107, *Financial Instruments: Disclosures*

According to the amendment, an entity should provide the required disclosures of nature, carrying amount, risk and rewards associated with all transferred financial instruments that are not derecognized from an entity's financial statements. In addition, an entity is required to disclose additional information related to transferred and derecognized financial instruments for any continuing involvement in transferred assets. This amendment is effective for the Group as of January 1, 2012. The Group is assessing the impact of application of the amended Korean IFRS1107 on its consolidated financial statements as of the report date.

- Enactment of Korean IFRS1113, *Fair value measurement*

Korean IFRS1113, *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 IFRS1113 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. The Group is assessing the impact of application of the Enactment of Korean IFRS1113 on its consolidated financial statements as of the report date.

## **2.2 Consolidation**

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

### **(a) Subsidiaries**

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

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

*(c) Disposal of subsidiaries*

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

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*(d) Associates*

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

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

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

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

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

**2.3 Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (Note 4). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

**2.4 Foreign Currency Translation**

*(a) Functional and presentation currency*

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

*(b) Transactions and balances*

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

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Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'financial income or expenses'. All other foreign exchange gains and losses are presented in the income statement within 'other operating incomes and expenses'.

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

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

*(c) Translation to presentation currency*

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognized in other comprehensive income.

Exchange differences arising from the translation of foreign operations are recognized in other comprehensive income. When foreign operations are wholly or partially sold, exchange differences recognized in equity are transferred to profit or loss in the income statement. When the Company ceases to control the subsidiary, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

**2.5 Cash and Cash Equivalents**

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 Assets**

**2.6.1 Classification**

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives or embedded derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

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*(b) Loans and receivables*

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

*(c) 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.

**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 income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'other operating income and expense'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of 'financial incomes'. Dividends on available-for-sale equity instruments are recognized in the income statement as part of 'other operating income' when the Group's right to receive dividend payments is established.

**2.6.3 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount is 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 Derecognition**

Financial assets are derecognized when the contractual rights to receive cash flows from the investments have expired or have been transferred and the Group has substantially transferred all risks and rewards of ownership.

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#### **2.7 Impairment of Financial Assets**

##### *(a) Assets carried at amortized cost*

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

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

- Significant financial difficulty of the issuer or obligor;
- 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; or
- 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 Group may measure impairment loss based on the fair value of financial asset using an observable market price.

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

##### *(b) Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) 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 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.

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**2.8 Derivative Financial Instruments**

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 resulting gain or loss on derivatives of financial assets at fair value through profit or loss is recognized in 'other operating income and expense' or 'financial income (expenses)' according to the nature of transactions.

The Group designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or
- hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge)

The Group 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 Group 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 11. Movements on the hedging reserve in other comprehensive income are shown in Note 11. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is longer than the Group's normal business cycle, and as a current asset or liability when the remaining maturity of the hedged item is shorter than the Group's normal business cycle. 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.

*(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 operating income and expense'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast purchase that is hedged takes place).

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 income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other operating income and expense'.

**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.

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#### **2.10 Inventories**

Inventories are stated at the lower of cost and net realizable value. Raw materials and supplies are determined using the periodic average method. Other inventories are determined using the specific identification method.

#### **2.11 Non-current Assets Held for Sale**

Non-current assets 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.

#### **2.12 Property, Plant and Equipment**

All property, plant 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 Group 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	30 - 50 years
Structures	20 - 40 years
Machinery	6 - 20 years
Construction equipment	6 - 12 years
Vehicles	6 - 10 years
Tools and equipment	5 - 6 years
Supplies	5 - 6 years

The assets' residual values 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 operating income and expense' in the income statement.

#### **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.



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**2.14 Intangible Assets**

Amortization of intangible assets is calculated using the straight-line method over their estimated useful lives. 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.

Rental rights	20 - 50 years
Others	5 years

**2.15 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 included 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 Group 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 of 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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other operating income and expense' in the income statements.

**2.16 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 grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**2.17 Financial Liabilities**

*(a) Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified as financial liabilities at fair value through profit or loss when incurred principally for the purpose of repurchasing it in the near term. Derivatives or embedded derivatives are also categorized as this category unless they are designated as hedges.

# GS Engineering & Construction Corporation and Subsidiaries

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#### *(b) Financial liabilities carried at amortized cost*

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, as financial liabilities carried at amortized cost and as 'trade and other payables' and 'other financial instrument liabilities' in the statement of financial position. In case when a transfer of a financial asset does not qualify for derecognition, the transferred asset is continuously recognized as asset and the consideration received is recognized as financial liabilities. Financial liabilities carried at amortized cost are included in non-current liabilities, except for liabilities with maturities less than 12 months after the end of the reporting period, which are classified as current liabilities.

#### **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 Group'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 Group recognizes borrowings as current assets unless it has an unconditional right to delay the settlement of the borrowing.

#### **2.21 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 Group operate and generate 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.

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Deferred income tax is recognized, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 substantively 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 Group 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.

#### **2.22 Employee Benefits**

Group companies operate defined benefit liability pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations.

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. Past-service costs are recognized immediately in income, while costs are amortized over the vesting period.

#### **2.23 Provisions**

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are 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.

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**2.24 Treasury Shares**

Where the Group purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Group'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, after elimination of inter-company transactions.

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

*(a) Construction contracts*

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

Contract costs are recognised as expenses when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. 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 recognised as an expense immediately.

The Group uses the 'percentage-of-completion method' to determine the appropriate revenue amount to recognise 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. These amounts are recognized as inventory, prepaid expenses or other assets.

In cases where the aggregate amount of costs incurred and recognised profits (less recognised 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 recognised profits (less recognised losses), the aggregate amount of recognized losses plus progress billing (less cost incurred and recognized profits) represents a liability (overbilled amount).

The Group used the percentage-of-completion method to recognize its revenues from building and selling apartment houses in accordance with "2011-KQA", an official opinion issued by Korea Accounting Institute. This accounting treatment is valid only under the Korean International Financial Reporting Standards as stated in sub-clause 1 of clause 1, Article 13 of the Act on External Audit of Corporations.

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*(b) Rendering of services*

If the services are rendered, revenue is recognized to the stage of completion. Other revenue are recognized when the risks of obsolescence and loss have been transferred to customers, the amount of revenue can be reliably measured and high probability that future economic benefits will flow to the Group.

*(c) Interest income*

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

*(d) Dividend income*

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

**2.26 Dividend Distribution**

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

**3. Critical Accounting Estimates and Judgments**

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 Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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) Provisions for construction warranty*

The Group recognizes provisions for construction warranty as of the reporting date. The amounts are estimated based on historical data. The Group provides a warranty period as prescribed in the contract starting from the completion of the construction. When there is a warranty liability, the Group charges the estimated warranty costs to its cost of construction over the time of the project, and include them in the statement of financial position as provision for construction warranty.

*(b) Defined benefit liability*

The present value of the defined benefit liability 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 liability.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the pension benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Other key assumptions for defined benefit liability are based in part on current market conditions. Additional information is disclosed in Note 19.

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*(c) Income taxes*

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

*(d) Fair value of financial instruments*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

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**4. Segment Information**

The Group's reportable segments and details are as follows:

Operating segments	Major businesses
Civil works	Road, railroad and others
Architectural construction	Building, factory and others
Housing	Apartment, villa and others
Plant construction	Petroleum refining facility, others
Power & environment	Power plant, others
Hotel	Hotel operations, others
Others	Rental, others

The following table presents segment information for the years ended December 31, 2011 and 2010:

**Revenue and operating profit (loss)**

(in millions of  
Korean won)

	2011								Consolidation Adjust-ment	Consolidated total
	Civil works	Architectural Construction	Housing	Plant construction	Power & environment	Hotel	Others	Total		
Sales	1,145,946	2,231,777	1,154,829	3,485,455	921,311	224,773	134,297	9,298,388	(246,154)	9,052,234
Inter-company sales	(48,673)	(6,009)	(78,884)	(51,683)	(21)	(611)	(60,273)	(246,154)	246,154	-
Net sales	1,097,273	2,225,768	1,075,945	3,433,772	921,290	224,162	74,024	9,052,234	-	9,052,234
Operating income(loss) <sup>1</sup>	188,454	127,038	(64,163)	252,764	60,941	40,195	(7,151)	598,078	-	598,078
Financial income <sup>1</sup>	14,400	18,038	65,015	106,575	5,510	112	(1,742)	207,908	-	207,908
Financial expenses <sup>1</sup>	4,447	14,262	98,538	125,043	7,366	5,938	1,395	256,989	-	256,989
Income(expenses) from investment in associates <sup>1</sup>	-	-	14,619	(334)	-	505	(150)	14,640	-	14,640
Profit(loss) before income tax <sup>1</sup>	198,407	130,814	(83,067)	233,962	59,085	34,874	(10,438)	563,637	-	563,637

<sup>1</sup> Operating income (loss), financial income, financial expenses, Income (expenses) from investment in associates and Profit(loss) before income tax are stated after applying the inter-company transactions.

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(in millions of  
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2010

	Civil works	Architectural Construction	Housing	Plant construction	Power & environment	Hotel	Others	Total	Consolidation Adjust-ment	Consolidated total
Sales	1,065,203	1,506,817	2,391,208	2,693,515	541,979	211,511	154,436	8,564,699	(144,749)	8,419,920
Inter-company sales	(17,773)	(9,490)	(37,238)	(22,665)	-	(561)	(57,022)	(144,749)	144,749	-
Net sales	1,047,430	1,497,327	2,353,970	2,670,850	541,979	210,950	97,414	8,419,920	-	8,419,920
Operating income(loss) <sup>1</sup>	31,239	59,315	262,122	239,153	27,103	37,040	(22,974)	632,998	-	632,998
Financial income <sup>1</sup>	13,691	4,386	25,117	35,043	1,942	257	32,171	112,607	-	112,607
Financial expenses <sup>1</sup>	10,657	755	93,096	35,922	1,807	8,780	37,272	188,289	-	188,289
Income(expenses) from investment in associates <sup>1</sup>	-	-	(1,115)	(511)	-	-	99	(1,527)	-	(1,527)
Profit(loss) before income tax <sup>1</sup>	34,273	62,946	193,028	237,763	27,238	28,517	(27,976)	555,789	-	555,789

<sup>1</sup> Operating income (loss), financial income, financial expenses, Income (expenses) from investment in associates and Profit(loss) before income tax are stated after applying the inter-company transactions.

Assets and liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of  
Korean won)

December 31, 2011

	Civil works	Architectural Construction	Housing	Plant construction	Power & environment	Hotel	Others	Total	Consolidation Adjust-ment	Consolidated total
Assets	1,091,279	1,387,487	3,953,153	2,101,527	346,289	1,111,697	1,997,399	11,988,831	(890,287)	11,098,544
Liabilities	441,325	515,812	2,636,895	1,127,405	238,439	435,366	2,038,150	7,433,392	(292,886)	7,140,506

(in millions of  
Korean won)

December 31, 2010

	Civil works	Architectural Construction	Housing	Plant construction	Power & environment	Hotel	Others	Total	Consolidation Adjust-ment	Consolidated total
Assets	1,216,719	1,074,921	4,390,090	1,097,276	283,915	1,117,826	2,601,319	11,782,066	(735,708)	11,046,358
Liabilities	496,889	195,297	2,987,496	201,134	218,126	446,430	2,853,295	7,398,667	(123,664)	7,275,003

(in millions of  
Korean won)

January 1, 2010

	Civil works	Architectural Construction	Housing	Plant construction	Power & environment	Hotel	Others	Total	Consolidation Adjust-ment	Consolidated total
Assets	1,009,703	936,857	4,422,218	1,250,698	286,724	1,116,557	2,673,775	11,696,532	(689,731)	11,006,801
Liabilities	653,064	519,858	2,098,896	1,916,148	253,999	463,820	1,697,279	7,603,064	(83,548)	7,519,516



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Sales by locations for 2011 and 2010 are as follows:

(in millions of Korean won)	2011				
	Korea	Middle East	China & South East Asia	Others	Total
Sales	5,371,907	3,314,492	523,912	88,077	9,298,388
Inter-company sales	(132,894)	(14,142)	(98,920)	(198)	(246,154)
Net sales	5,239,013	3,300,350	424,992	87,879	9,052,234

  

(in millions of Korean won)	2010				
	Korea	Middle East	China & South East Asia	Others	Total
Sales	6,093,511	1,816,213	559,720	95,225	8,564,669
Inter-company sales	(134,500)	(466)	(9,783)	-	(144,749)
Net sales	5,959,011	1,815,747	549,937	95,225	8,419,920

**5. Restricted Financial Instruments**

(in millions of Korean won)	Bank	December 31, 2011	December 31, 2010	January 1, 2010	Remarks
Short-term financial instruments	Shinhan	3,508	272	553	Pledge for leasehold deposits
	Shinhan and others	30,000	2,582	-	- Shared-growth agreement
	Shinhan and others	22,100	22,100	22,100	Loans for employees' housing
	Shinhanvina Bank				Deposit for corporate credit
	Hanoi and others	15	118	17	card
	Woori and others	50	11,387	-	- Other deposits
Long-term financial instruments	Shinhan and others	39	39	39	Deposit for overdraft

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**6. Trade and Other Receivables**

Trade and other receivables as of December 31, 2011 and 2010, are as follows:

(in millions of Korean won)

		December 31, 2011		
		Receivables	Provision for impairment of receivables	Receivables, net
<b>Current</b>				
Trade receivables	Receivables from construction contracts	2,608,746	(214,870)	2,393,876
	Receivables from apartment sales	79,000	-	79,000
	Unbilled amount related to construction	1,260,285	-	1,260,285
	Notes receivable	263,468	-	263,468
	Other trade receivables	19,595	(338)	19,257
		<u>4,231,094</u>	<u>(215,208)</u>	<u>4,015,886</u>
Other receivables	Other accounts receivable	322,743	(3,898)	318,845
	Accrued Income	38,536	(6,841)	31,695
	Short-term loans	423,266	(162,921)	260,345
		<u>784,545</u>	<u>(173,660)</u>	<u>610,885</u>
		<u>5,015,639</u>	<u>(388,868)</u>	<u>4,626,771</u>
<b>Non-current</b>				
Long-term trade and other receivables	Long-term trade receivables	6	-	6
	Long-term loans	429,955	(111,545)	318,410
	Leasehold deposits	83,227	-	83,227
	Deposits provided for business	48,153	(1,517)	46,636
		<u>561,341</u>	<u>(113,062)</u>	<u>448,279</u>

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		December 31, 2010		
		Receivables	Provision for impairment of receivables	Receivables, net
<b>Current</b>				
<b>Trade receivables</b>	Receivables from construction contracts	2,662,526	(99,194)	2,563,332
	Receivables from apartment sales	44,258	-	44,258
	Unbilled amount related to construction	846,745	-	846,745
	Notes receivable	206,266	-	206,266
	Other trade receivables	7,083	(1,154)	5,929
		<u>3,766,878</u>	<u>(100,348)</u>	<u>3,666,530</u>
<b>Other receivables</b>	Other accounts receivable	338,461	(2,115)	336,346
	Accrued Income	39,440	(11,941)	27,499
	Short-term loans	479,704	(95,023)	384,681
		<u>857,605</u>	<u>(109,079)</u>	<u>748,526</u>
		<u>4,624,483</u>	<u>(209,427)</u>	<u>4,415,056</u>
<b>Non-current</b>				
<b>Long-term trade and other receivables</b>	Long-term loans	426,629	(142,111)	284,518
	Leasehold deposits	65,147	-	65,147
	Deposits provided for business	46,742	(542)	46,200
		<u>538,518</u>	<u>(142,653)</u>	<u>395,865</u>

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		January 1, 2010		
		Receivables	Provision for impairment of receivables	Receivables, net
<b>Current</b>				
Trade receivables	Receivables from construction contracts	2,603,276	(69,008)	2,534,268
	Receivables from apartment sales	7,903	-	7,903
	Unbilled amount related to construction	669,216	-	669,216
	Notes receivable	341,311	-	341,311
	Other trade receivables	6,356	(461)	5,895
		<u>3,628,062</u>	<u>(69,469)</u>	<u>3,558,593</u>
Other receivables	Other accounts receivable	248,329	(2,111)	246,218
	Accrued Income	35,449	(11,766)	23,683
	Short-term loans	479,106	(64,336)	414,770
		<u>762,884</u>	<u>(78,213)</u>	<u>684,671</u>
		<u>4,390,946</u>	<u>(147,682)</u>	<u>4,243,264</u>
<b>Non-current</b>				
Long-term trade and other receivables	Long-term loans	361,448	(117,063)	244,385
	Leasehold deposits	67,777	(64)	67,713
	Deposits provided for business	26,671	(542)	26,129
		<u>455,896</u>	<u>(117,669)</u>	<u>338,227</u>

As of December 31, 2011 and 2010, and January 1, 2010, the fair values and the book values of trade and other receivables are identical.

Aging of trade and other receivables are as follows:

(in millions of Korean won)	December 31, 2011		December 31, 2010		January 1, 2010	
	Trade receivables	Other receivables	Trade receivables	Other receivables	Trade receivables	Other receivables
Up to 1 year	2,442,057	338,547	2,572,537	325,866	2,917,623	403,190
1 to 2 years	542,988	58,937	761,584	108,874	432,438	45,209
Over 2 years	426,605	57,473	171,646	54,275	20,387	38,760
	<u>3,411,650</u>	<u>454,957</u>	<u>3,505,767</u>	<u>489,015</u>	<u>3,370,448</u>	<u>487,159</u>
Impaired	819,444	329,588	261,111	368,590	257,614	275,725
	<u>4,231,094</u>	<u>784,545</u>	<u>3,766,878</u>	<u>857,605</u>	<u>3,628,062</u>	<u>762,884</u>
Provision for impairment of receivables	(215,208)	(173,660)	(100,348)	(109,079)	(69,469)	(78,213)

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Movements on the provision for impairment of trade and other receivables as of December 31, 2011 and 2010, are as follows:

(in millions of Korean won)

		2011			
		Beginning	Provision for impairment	Reversal /write off	Ending
Trade and other receivables	Trade receivable	100,348	124,424	(9,564)	215,208
	Other accounts receivable	2,115	2,540	(757)	3,898
	Accrued income	11,941	1,270	(6,370)	6,841
	Short-term loans	95,023	75,028	(7,130)	162,921
		<u>209,427</u>	<u>203,262</u>	<u>(23,821)</u>	<u>388,868</u>
Long-term trade and other receivables	Long-term loans	142,111	30,809	(61,375)	111,545
	Deposits provided for business	542	975	-	1,517
		<u>142,653</u>	<u>31,784</u>	<u>(61,375)</u>	<u>113,062</u>
		<u>352,080</u>	<u>235,046</u>	<u>(85,196)</u>	<u>501,930</u>

(in millions of Korean won)

		2010			
		Beginning	Provision for impairment	Reversal /write off	Ending
Trade and other receivables	Trade receivable	69,469	43,517	(12,638)	100,348
	Other accounts receivable	2,111	4	-	2,115
	Accrued income	11,766	547	(372)	11,941
	Short-term loans	64,336	30,720	(33)	95,023
		<u>147,682</u>	<u>74,788</u>	<u>(13,043)</u>	<u>209,427</u>
Long-term trade and other receivables	Long-term loans	117,063	30,832	(5,784)	142,111
	Leasehold deposits	64	-	(64)	-
	Deposits provided for business	542	-	-	542
		<u>117,669</u>	<u>30,832</u>	<u>(5,848)</u>	<u>142,653</u>
		<u>265,351</u>	<u>105,620</u>	<u>(18,891)</u>	<u>352,080</u>

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**7. Construction Contracts**

The following table presents changes in the remaining balance of construction contracts in 2011 and 2010:

(in millions of Korean won)

	2011			
	Beginning Balance	Increase	Recognition Revenue	Year-end Balance
Civil works	4,232,276	790,111	1,095,615	3,926,772
Architectural construction	1,450,807	2,671,969	2,217,111	1,905,665
Housing	1,980,182	1,090,882	901,850	2,169,214
Plant construction	9,614,760	2,579,967	3,430,250	8,764,477
Power & environment	1,743,876	1,282,075	920,553	2,105,398
	<u>19,021,901</u>	<u>8,415,004</u>	<u>8,565,379</u>	<u>18,871,526</u>

(in millions of Korean won)

	2010			
	Beginning Balance	Increase	Recognition Revenue	Year-end Balance
Civil works	3,675,343	1,618,548	1,061,615	4,232,276
Architectural construction	750,881	2,196,779	1,496,853	1,450,807
Housing	3,264,319	673,419	1,957,556	1,980,182
Plant construction	9,932,126	2,346,165	2,663,531	9,614,760
Power & environment	621,887	1,663,910	541,921	1,743,876
	<u>18,244,556</u>	<u>8,498,821</u>	<u>7,721,476</u>	<u>19,021,901</u>

The following table presents the breakdown of in-progress construction contracts as of December 31, 2011 and 2010:

(in millions of Korean won)

	2011				
	Accumulated Revenue	Accumulated Cost	Accumulated Profit	Advances	Reserve Receivables
Civil works	4,845,551	4,373,656	471,895	116,472	7,476
Architectural construction	7,167,374	6,415,710	751,664	90,539	1,251
Housing	6,039,668	5,233,999	805,669	61,097	-
Plant construction	12,174,854	10,687,932	1,486,922	702,743	114,225
Power & environment	2,065,639	1,852,098	213,541	91,093	-
	<u>32,293,086</u>	<u>28,563,395</u>	<u>3,729,691</u>	<u>1,061,944</u>	<u>122,952</u>

(in millions of Korean won)

	2010				
	Accumulated Revenue	Accumulated Cost	Accumulated Profit	Advances	Reserve Receivables
Civil works	3,987,463	3,539,652	447,811	115,353	941
Architectural construction	5,239,114	4,657,062	582,052	77,098	-
Housing	5,336,155	4,594,255	741,900	62,734	-
Plant construction	9,389,152	8,357,884	1,031,268	840,942	90,249
Power & environment	1,362,573	1,234,589	127,984	23,640	-
	<u>25,314,457</u>	<u>22,383,442</u>	<u>2,931,015</u>	<u>1,119,767</u>	<u>91,190</u>

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Details of unbilled amount related to construction are as follows:

<i>(in millions of Korean won)</i>	Accumulated Cost	Recognized gain	Recognized loss	Billed amount	Unbilled amount
Civil works	2,311,487	200,355	(27,764)	2,102,201	381,877
Architectural construction	2,320,221	231,098	(2,340)	2,304,963	244,016
Housing	759,034	54,610	(12,856)	666,423	134,365
Plant construction	3,902,584	442,367	(16,465)	3,909,647	418,839
Power & environment	582,324	74,383	-	575,519	81,188
December 31, 2011	9,875,650	1,002,813	(59,425)	9,558,753	1,260,285
December 31, 2010	6,775,962	839,568	(51,041)	6,717,744	846,745
January 1, 2010	5,397,473	660,118	(3,310)	5,385,065	669,216

Details of overbilled amount related to construction are as follows:

<i>(in millions of Korean won)</i>	Accumulated Cost	Recognized gain	Recognized loss	Billed amount	Overbilled amount
Civil works	1,434,357	253,713	(6,911)	1,759,040	77,881
Architectural construction	1,765,498	255,680	-	2,071,459	50,281
Housing	3,604,850	626,938	(41,826)	4,451,655	261,693
Plant construction	5,791,255	927,581	(18,960)	6,998,303	298,427
Power & environment	1,182,293	147,571	(4,897)	1,425,335	100,368
December 31, 2011	13,778,253	2,211,483	(72,594)	16,705,792	788,650
December 31, 2010	11,863,115	1,582,755	(123,875)	14,387,172	1,065,177
January 1, 2010	12,792,527	1,862,269	(101,823)	16,114,406	1,561,433

Details of major joint construction contracts as of December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	Total contract amount	The Group's portion	Percent of participation	Representative company
Ruwais 4th NGL Project(JV)	2,347,216	1,235,513	52.64%	Petrofac
P9-Project	1,109,887	665,932	60.00%	GS E&C
IFC Seoul Construction	812,083	331,574	40.83%	GS E&C
Shinuljin Atomic Power Plant Main Facility No.1 and 2	1,164,857	291,214	25.00%	Hyundai E&C
Uijeongbu LRT Private Investment Construction	397,954	209,117	52.55%	GS E&C
Buhang Multi-purpose Dam Construction	251,843	151,106	60.00%	GS E&C
Shinwolsung Atomic Power Plant Main Facility No.1 and 2	1,059,873	143,083	13.50%	Daewoo E&C
Jungrang Advanced Sewage Treatment Plant	260,702	130,351	50.00%	GS E&C
Yeongheung Coal Fired Power Plant (Unit 5&6)	161,492	126,886	78.57%	GS E&C
Mokpo Detour road (Goha-Jukkyo)	285,228	119,796	42.00%	GS E&C

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**8. Inventories and Other Current Assets**

Inventories as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(In millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Land held for development	193,301	170,655	131,055
Finished housing	5,432	3,198	-
Goods and products	597	535	168
Raw materials	48,558	37,377	103,852
Supplies	31,394	1,372	987
Materials-in-transit	-	48	47
Finished buildings	8,517	11,104	-
Unfinished building construction	-	9,968	6,771
Unfinished housing construction	-	-	-
	<u>207,000</u>	<u>184,678</u>	<u>279,644</u>
	<u>494,799</u>	<u>418,935</u>	<u>522,524</u>

Other current assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(In millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Prepaid construction cost	385,506	328,210	298,607
Advance payments	420,908	311,594	225,302
Prepaid expenses	40,293	38,101	53,454
Prepaid value added tax	18,458	14,652	8,021
Prepaid income taxes	15,555	14,728	6,912
	<u>880,720</u>	<u>707,285</u>	<u>592,296</u>

**9. Financial Instruments by Category**

Categorizations of financial assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>				<b>Total</b>
	<b>Loans and receivables</b>	<b>Assets at fair value through profit or loss</b>	<b>Derivative financial instruments</b>	<b>Assets classified as available-for- sale</b>	
Cash and cash equivalents	1,487,895	-	-	-	1,487,895
Trade and other receivables <sup>1</sup>	3,366,487	-	-	-	3,366,487
Short-term financial instruments	60,065	22,038	210,120	-	292,223
Long-term trade and other receivables	448,279	-	-	-	448,279
Long-term financial instruments	353	-	-	210,474	210,827
	<u>5,363,079</u>	<u>22,038</u>	<u>210,120</u>	<u>210,474</u>	<u>5,805,711</u>

<sup>1</sup> Excludes unbilled amount related to construction.



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	December 31, 2010				Total
	Loans and receivables	Assets at fair value through profit or loss	Derivative financial instruments	Assets classified as available-for-sale	
Cash and cash equivalents	1,493,535	-	-	-	1,493,535
Trade and other receivables <sup>1</sup>	3,568,311	-	-	-	3,568,311
Short-term financial instruments	28,960	4,419	235,403	-	268,782
Long-term trade and other receivables	395,865	-	-	-	395,865
Long-term financial instruments	535	-	-	205,405	205,940
	<u>5,487,206</u>	<u>4,419</u>	<u>235,403</u>	<u>205,405</u>	<u>5,932,433</u>

<sup>1</sup> Excludes unbilled amount related to construction.

(in millions of Korean won)

	January 1, 2010				Total
	Loans and receivables	Assets at fair value through profit or loss	Derivative financial instruments	Assets classified as available-for-sale	
Cash and cash equivalents	1,526,461	-	-	-	1,526,461
Trade and other receivables <sup>1</sup>	3,574,048	-	-	-	3,574,048
Short-term financial instruments	26,360	-	406,869	-	433,229
Long-term trade and other receivables	338,227	-	-	-	338,227
Long-term financial instruments	435	-	-	195,016	195,451
	<u>5,465,531</u>	<u>-</u>	<u>406,869</u>	<u>195,016</u>	<u>6,067,416</u>

<sup>1</sup> Excludes unbilled amount related to construction.

Categorizations of financial liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)

	December 31, 2011			Total
	Liabilities at fair value through profit or loss	Derivative financial instruments	Other financial liabilities at amortized cost	
Trade and other payables	-	-	1,734,422	1,734,422
Short-term financial liabilities	230	201,521	797,684	999,435
Other current liabilities <sup>1</sup>	-	-	112,664	112,664
Long-term financial liabilities	-	-	977,781	977,781
Non-current provision liabilities <sup>2</sup>	-	-	211,208	211,208
	<u>230</u>	<u>201,521</u>	<u>3,833,759</u>	<u>4,035,510</u>

<sup>1</sup> Consists of accrued expenses and accrued dividends.

<sup>2</sup> Represents financial guarantee provision liabilities.

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	December 31, 2010			
	Liabilities at fair value through profit or loss	Derivative financial instruments	Other financial liabilities at amortized cost	Total
Trade and other payables	-	-	1,680,265	1,680,265
Short-term financial liabilities	4,059	179,851	854,161	1,038,071
Other current liabilities <sup>1</sup>	-	-	150,988	150,988
Long-term financial liabilities	-	-	468,396	468,396
Non-current provision liabilities <sup>2</sup>	-	-	173,432	173,432
	4,059	179,851	3,327,242	3,511,152

<sup>1</sup> Consists of accrued expenses and accrued dividends.

<sup>2</sup> Represents financial guarantee provision liabilities.

(in millions of Korean won)

	January 1, 2010			
	Liabilities at fair value through profit or loss	Derivative financial instruments	Other financial liabilities at amortized cost	Total
Trade and other payables	-	-	1,494,978	1,494,978
Short-term financial liabilities	-	255,618	609,780	865,398
Other current liabilities <sup>1</sup>	-	-	49,340	49,340
Long-term financial liabilities	-	518	869,190	869,708
Non-current provision liabilities <sup>2</sup>	-	-	150,314	150,314
	-	256,136	3,173,602	3,429,738

<sup>1</sup> Consists of accrued expenses and accrued dividends.

<sup>2</sup> Represents financial guarantee provision liabilities.

Income and loss of financial instruments by category for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)

	2011					
	Loans and other receivables	Assets at fair value through profit or loss	Derivative financial instruments	Assets classified Available-for-sale	Other financial liabilities at amortized costs	Total
Interest income	50,674	-	-	-	-	50,674
Interest expense	-	-	-	-	(40,929)	(40,929)
Gain (loss) on foreign currency translation	(51,859)	-	-	-	10,408	(41,451)
Gain (loss) on foreign currency transaction	(1,284)	-	-	-	-	(1,284)
Gain (loss) on derivative valuation	-	21,808	(27,882)	-	-	(6,074)
Gain (loss) on derivative transaction	-	4,394	16,080	-	-	20,474
Dividend income	-	-	-	834	-	834
Other financial income(loss)	(72,391)	-	-	12	(38,052)	(110,431)
	(74,860)	26,202	(11,802)	846	(68,573)	(128,187)

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	2010					
	Loans and other receivables	Assets at fair value through profit or loss	Derivative financial instruments	Assets classified Available-for- sale	Other financial liabilities at amortized costs	Total
Interest income	47,445	-	-	-	-	47,445
Interest expense	-	-	-	-	(72,608)	(72,608)
Gain (loss) on foreign currency translation	(3,344)	-	-	-	-	(3,344)
Gain (loss) on foreign currency transaction	24,314	-	-	-	-	24,314
Gain (loss) on derivative valuation	-	-	(27,499)	-	-	(27,499)
Gain (loss) on derivative transaction	-	-	11,832	-	-	11,832
Dividend income	-	-	-	2,169	-	2,169
Other financial income(loss)	(47,047)	-	-	(6,120)	1,147	(52,020)
	<u>21,368</u>	<u>-</u>	<u>(15,667)</u>	<u>(3,951)</u>	<u>(71,461)</u>	<u>(69,711)</u>

**10. Available-for-sale Financial Assets**

Available-for-sale financial assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Government bonds	10,960	2,568	15,054
Debentures	5,836	5,200	5,200
Marketable equity securities	31,265	-	-
Non-marketable equity securities	162,413	197,637	174,762
	<u>210,474</u>	<u>205,405</u>	<u>195,016</u>

Details of marketable securities as of December 31, 2011, are as follows:

(in millions of Korean won)	Number of shares owned	Percentage of ownership (%)	Acquisition cost	Book value
GS Retail Co., Ltd. <sup>1</sup>	1,350,530	1.75	15,420	31,265

<sup>1</sup> GS Retail Co., Ltd. which was listed in 2011 was reclassified to marketable equity securities.

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Non-marketable equity securities as of December 31, 2011, and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)

Name	Number of shares owned	Percentage of ownership (%)	Acquisition cost			Book value		
			December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
Public Development Co., Ltd.	394,655	17.09	3,947	3,947	3,947	4,258	4,258	3,947
Busan Travel & Development Co., Ltd.	80,000	2.67	400	400	400	-	-	-
Corona Development Co., Ltd.	653,600	7.60	3,268	3,268	3,268	1,107	1,107	3,268
Alpha Dome City Co., Ltd.	3,933,600	4.25	19,668	19,668	11,800	17,587	17,587	11,800
Bichaenoori Development Co., Ltd.	657,800	11.50	3,289	3,289	3,289	3,289	3,289	3,289
Bichaenoori Co., Ltd.	11,500	11.50	58	58	58	58	58	58
Metro Corona Co., Ltd.	5,952	9.92	30	30	30	30	30	30
Jei Youngdong Highway Co., Ltd.	964,000	10.00	4,820	4,048	4,048	4,235	3,463	4,048
Junju Drain Co., Ltd.	207,060	7.90	1,035	1,035	1,035	1,035	1,035	1,035
Eumseong Sewage Pipe Co., Ltd.	67,210	6.30	336	336	336	336	336	336
Y-S highway Co., Ltd.	79,000	10.00	395	255	255	395	255	255
Youngduk&Bio Co., Ltd.	34,870	4.22	174	174	206	174	174	206
FN New Housing CR-REIT 2	-	-	-	28,195	28,195	-	14,495	28,195
Yangju Eco Corporation	1,900	19.00	10	10	-	10	10	-
Alpharos PFV Co., Ltd.	2,299,200	9.58	11,496	11,496	6,706	11,121	11,121	6,706
Alpharos Mixed-use Development Co., Ltd.	9,580	9.58	48	48	48	48	48	48
Alpha Dome City Asset Management Co., Ltd.	4,000	4.00	20	20	20	20	20	20
Seoul Northern Highway Co., Ltd.	160,512	14.08	803	507	225	803	507	225
New Seoul Railroad Co., Ltd.	200	10.00	1	1	-	1	1	-
MILESEUM Co., Ltd.	86,645	1.63	433	433	321	433	433	321
Midan City Development Co., Ltd.	1,809,760	12.60	9,049	9,049	9,049	7,938	7,938	9,049
Masan Drain Co., Ltd.	220,890	8.14	1,104	971	535	1,104	971	535
Dream Hub Project Financial Investment Co., Ltd.	4,000,000	2.00	20,000	20,000	20,000	19,200	19,200	20,000
Daejeon Sewage Pipe Co., Ltd.	108,456	4.00	830	830	830	830	830	830
Dangyul Co., Ltd.	112,728	10.50	564	-	-	564	-	-
Nonsan Drain Co., Ltd.	91,868	11.90	459	459	459	459	459	459
South-Seoul LRT Co., Ltd.	1,370	13.70	7	7	-	7	7	-
Gyeonggi Highway Co., Ltd.	495,000	11.00	2,475	1,476	6	2,475	1,476	6
Kangreung Sewage Pipe Co., Ltd.	50,682	3.30	253	253	253	253	253	253
Kangnam Inter Circular Road Co., Ltd.	414,000	1.86	2,070	2,070	2,070	2,070	2,070	2,070
Gaya Railway Co., Ltd.	305,490	3.43	1,527	1,527	1,527	1,527	1,527	1,527

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The Korea Economic Daily	646	0.00	14	14	14	14	14	14
Potato Co., Ltd.	60,000	10.00	300	300	300	300	300	300
International Convention Center Jeju	100,000	0.30	500	500	500	500	500	500
M-Ciety Development Co., Ltd.	448,800	4.33	2,244	2,244	2,244	2,244	2,244	2,244
M-Cieta Co., Ltd.	2,640	4.40	13	13	13	13	13	13
Wonju Green Co., Ltd.	1,900	19.00	10	-	-	10	-	-
Mugung Hwa Trust Co., Ltd.	190,000	8.97	950	950	950	950	950	950
GS Cu Chi Development One-member Ltd. <sup>1</sup>	0.1	5.00	713	-	-	615	-	-
GS Retail Co., Ltd. <sup>2</sup>	-	-	-	15,420	15,420	-	27,479	11,362
Uijeongbu LRT Inc.	5,449,275	29.90	27,246	27,246	27,246	27,246	27,246	27,246
Ulsan green Co., Ltd.	701,368	19.74	3,507	3,507	3,507	3,507	3,507	3,507
Clean Gimpo Co., Ltd.	403,032	22.81	1,949	1,828	1,828	1,948	1,828	1,828
Seoul Tunnel Co., Ltd.	1,130	11.30	6	-	-	6	-	-
Green Energy Development Co., Ltd.	81,000	27.00	405	405	405	405	405	405
Seoul-Munsan Highway Co., Ltd.	436,315	48.58	2,182	1,253	798	2,181	1,253	798
Oksan Ochang Highway Corporation	5,000	50.00	25	25	25	25	25	25
Eun Pyung New Road Corp.	315,520	54.40	1,578	925	272	1,578	925	272
Engineering Construction Financial Cooperative	1,449	0.25	180	180	180	180	180	180
Electric Construction Financial Cooperative	600	0.02	98	98	98	98	98	98
Construction Guarantee Information & Communication Financial Cooperative	12,801	0.33	12,092	12,092	12,092	12,244	12,244	12,092
Korea Electric Engineers Association	501	0.05	76	76	77	76	76	77
Fire Guarantee	40	0.02	20	20	-	20	20	-
Korea Housing Guarantee Co., Ltd. <sup>3</sup>	1,038,490	0.16	21,532	21,532	-	13,040	13,040	-
Korea Specialty Contractor Financial Cooperative	332	0.01	293	192	152	293	192	152
Others			2,444	2,447	2,447	-	58	58
Equity fund			12,668	10,268	13,000	13,264	11,960	14,090
Treasury stock fund			1,500	1,500	1,500	6,616	7,871	7,335
Less: treasury stock			-	-	-	(6,327)	(7,769)	(7,320)
Sub total			1,500	1,500	1,500	289	102	15
			181,114	216,915	182,004	162,413	197,637	174,762

Above non-marketable equity securities that cannot be reasonably assessed at fair value are measured at acquisition cost. Among the above equity securities, the investments where the Group cannot exercise significant influence despite the fact that the Group holds more than 20% of the total ownership are classified as available-for-sale securities.

As of December 31, 2011, there are no investments overdue or impaired except for those invested in Korea Housing Guarantee Co., Ltd. and Busan Travel & Development Co., Ltd.

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- <sup>1</sup> Reclassified from investment in associate to available-for-sale securities due to the disposal of equities.  
<sup>2</sup> GS Retail Co., Ltd. which was listed in 2011 was reclassified to marketable equity securities.  
<sup>3</sup> Provided as collateral to Korea Housing Guarantee Co., Ltd. in relation to the long-term borrowings (Note 18).

**11. Derivative instruments**

**Forward currency contracts**

The Group has entered into 282 forward currency contracts with HSBC and others to hedge against the fluctuation risk of exchange rate. Forward contracts outstanding as of December 31, 2011, are as follows:

*(in millions of Korea won and in thousands of foreign currencies, except for the number of contracts)*

<b>Buying currencies</b>	<b>Buying amount</b>	<b>Selling currencies</b>	<b>Selling amount</b>	<b>Number of contracts</b>
CHF	2,398	CAD	3,037	1
EUR	534	CAD	763	1
EUR	9,102	KRW	14,285	5
EUR	17,498	SGD	29,750	7
EUR	567,111	USD	774,044	51
GBP	9,548	USD	14,941	12
IDR	1,060,257,910	USD	109,306	7
JPY	800,477	SGD	12,372	1
JPY	12,111,792	USD	150,966	28
KRW	23,677	CAD	21,092	3
KRW	14	EUR	9	1
KRW	23,616	KWD	5,837	5
KRW	65,713	SGD	74,641	12
KRW	1,943,088	USD	1,687,999	85
USD	67,362	CAD	69,727	6
USD	3,215	EUR	2,471	1
USD	334,686	KRW	368,740	17
USD	472,400	KWD	131,845	37
VND	16,617,094	USD	922	2

**Exchange rate fluctuation insurance**

<b>Contractor</b>	<b>Amount (in thousands)</b>	<b>Guaranteed exchange rate</b>	<b>Contract date</b>	<b>Maturity date</b>
Korea Trade Insurance Corporation	USD 82,333	922.30	2007-08-31	2012-01-31
Korea Trade Insurance Corporation	USD 26,194	918.50	2007-10-31	2012-01-31
Korea Trade Insurance Corporation	USD 264,377	907.70	2007-08-14	2012-03-31
	USD <u>372,904</u>			

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**Valuation details by derivative instruments**

(in millions of  
Korean won)

2011

		Valuation		Gain or loss			Accumulated other comprehensive income <sup>1</sup>		
		Assets	Liabilities	Gain	Loss	Net	Gain	Loss	Net
Derivative Instruments	Forward	52,095	99,213	42,188	64,779	(22,591)	40,930	80,344	(39,414)
	Insurance	-	90,831	1,227	6,621	(5,394)	-	-	-
		52,095	190,044	43,415	71,400	(27,985)	40,930	80,344	(39,414)
Firm commitments	Forward	97,916	11,707	60,500	42,811	17,689	-	-	-
	Insurance	82,147	-	5,449	1,227	4,222	-	-	-
		180,063	11,707	65,949	44,038	21,911	-	-	-
		232,158	201,751	109,364	115,438	(6,074)	40,930	80,344	(39,414)

<sup>1</sup> Gain (loss) on derivative valuation before deducting the effects of deferred income tax

(in millions of  
Korean won)

2010

		Valuation		Gain or loss			Accumulated other comprehensive income <sup>1</sup>		
		Assets	Liabilities	Gain	Loss	Net	Gain	Loss	Net
Derivative Instruments	Forward	70,208	63,854	77,959	54,966	22,993	36,998	77,854	(40,856)
	Insurance	-	92,115	10,328	-	10,328	-	-	-
	Interest-rate swap	-	271	-	-	-	-	271	(271)
		70,208	156,240	88,287	54,966	33,321	36,998	78,125	(41,127)
Firm commitments	Forward	84,750	27,670	53,214	98,212	(44,998)	-	-	-
	Insurance	84,864	-	4,700	20,522	(15,822)	-	-	-
		169,614	27,670	57,914	118,734	(60,820)	-	-	-
		239,822	183,910	146,201	173,700	(27,499)	36,998	78,125	(41,127)

<sup>1</sup> Gain (loss) on derivative valuation before deducting the effects of deferred income tax

**12. Non-current Assets Held for Sale**

The sale of the equity securities of Seoul Highway Co., Ltd., which had previously been classified as non-current assets held for sale, was completed in 2011. The related cumulative gain recognized in equity (gain on valuation of available-for-sale financial assets recognized in other comprehensive income) was reclassified as other operating income.

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**13. Investments in Associates**

Changes in investment in associates for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)

		2011				
	Percentage of ownership (%)	Beginning balance	Increase (Decrease)	Gain (loss) on equity-method	Changes in equity	Ending balance
Major Development Co., Ltd.	40.00	-	-	-	-	-
Sacheon Resort Co., Ltd.	29.00	151	-	(151)	-	-
GS E&C Thai Co., Ltd.	49.00	1,342	-	(334)	(52)	956
GS PP Development Co., Ltd.	49.00	-	-	-	-	-
GL Project Financing Vehicle 1 Ltd.	42.63	45,509	(69)	14,620	-	60,060
LG Properties(S'PORE) Pte., Ltd.	30.00	-	-	-	-	-
GS-HP Corp.	30.00	3,291	(347)	505	(336)	3,113
		<u>50,293</u>	<u>(416)</u>	<u>14,640</u>	<u>(388)</u>	<u>64,129</u>

(in millions of Korean won)

		2010				
	Percentage of ownership (%)	Beginning balance	Increase (Decrease)	Gain (loss) on equity-method	Changes in equity	Ending balance
Major Development Co., Ltd.	40.00	-	-	-	-	-
Sacheon Resort Co., Ltd.	29.00	52	-	99	-	151
GS E&C Thai Co., Ltd.	49.00	1,734	-	(511)	119	1,342
GS PP Development Co., Ltd.	49.00	-	-	-	-	-
GL Project Financing Vehicle 1 Ltd.	42.63	-	46,624	(1,115)	-	45,509
LG Properties(S'PORE) Pte., Ltd.	30.00	-	-	-	-	-
GS-HP Corp.	30.00	1,864	1,292	-	135	3,291
Metro PFV Co., Ltd. <sup>1</sup>	-	16,877	(16,605)	-	(272)	-
		<u>20,527</u>	<u>31,311</u>	<u>(1,527)</u>	<u>(18)</u>	<u>50,293</u>

<sup>1</sup> Disposed of in 2010.



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Equity method of accounting has been suspended due to its accumulated losses. In relation to this, unrecognized losses in equity for the year ended December 31, 2011, are as follows:

(in millions of Korean won)

Name	Beginning	Movements	Ending
Major Development Co., Ltd..	8,507	(3,258)	5,249
Sacheon Resort Co., Ltd.	-	2,394	2,394
GS PP Development Co., Ltd.	45,059	7,861	52,920

Summary of financial information on associates is as follows:

(in millions of Korean won)

	2011			
	Assets	Liabilities	Sales	Net income(loss)
Major Development Co., Ltd..	666,321	679,443	309,864	15,091
Sacheon Resort Co., Ltd.	531	8,788	-	(8,774)
GS E&C Thai Co., Ltd.	1,958	6	463	(19)
GS PP Development Co., Ltd.	45,480	153,480	-	(14,296)
GL Project Financing Vehicle 1 Ltd.	529,046	508,094	139,568	31,725
LG Properties(S'PORE) Pte., Ltd <sup>1</sup>	-	-	-	-
GS-HP Corp.	9,537	2,791	5,102	1,683

<sup>1</sup> No information was presented because LG Properties (S'PORE) Pte., Ltd's December 31, 2011 financial statements were not obtained.

#### 14. Property, Plant and Equipment

Details of property, plant and equipment as of December 31, 2011 and 2010, are as follows:

(In millions of Korean won)

	2011			2010		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Land	1,417,907	-	1,417,907	1,414,508	-	1,414,508
Buildings	774,759	(246,044)	528,715	770,514	(220,779)	549,735
Structures	109,151	(25,974)	83,177	109,069	(23,236)	85,833
Machinery	51,930	(42,308)	9,622	51,127	(41,123)	10,004
Construction equipment	41,949	(23,364)	18,585	43,281	(13,059)	30,222
Vehicles	22,564	(18,655)	3,909	21,511	(18,337)	3,174
Tools and equipment	13,407	(11,242)	2,165	12,206	(11,116)	1,090
Supplies	168,985	(117,468)	51,517	162,727	(111,695)	51,032
Construction-in-progress <sup>2</sup>	79,666	-	79,666	202,037	-	202,037
	<u>2,680,318</u>	<u>(485,055)</u>	<u>2,195,263</u>	<u>2,786,980</u>	<u>(439,345)</u>	<u>2,347,635</u>

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Changes in property, plant and equipment for the years ended December 31, 2011 and 2010, are as follows:

(In millions of Korean won)	2011							
	Beginning	Acquisition	Disposal	Depreciation	Transfer	Exchange differences	Other	Ending
Land	1,414,508	2,994	-	-	405	-	-	1,417,907
Buildings	549,735	10,569	(1,265)	(30,301)	(577)	(102)	656	528,715
Structures	85,833	88	(6)	(2,743)	-	-	5	83,177
Machinery	10,004	537	(14)	(1,461)	3,633	(1)	(3,076)	9,622
Construction equipment	30,222	7,941	(9,412)	(10,220)	-	54	-	18,585
Vehicles	3,174	1,800	(136)	(926)	-	(3)	-	3,909
Tools and equipment	1,090	1,828	(251)	(502)	-	-	-	2,165
Supplies	51,032	10,777	(1,256)	(10,525)	1,680	(191)	-	51,517
Construction-in-progress	202,037	14,711	-	-	(68,437)	(11,109)	(57,536)	79,666
	<u>2,347,635</u>	<u>51,245</u>	<u>(12,340)</u>	<u>(56,678)</u>	<u>(63,296)</u>	<u>(11,352)</u>	<u>(59,951)</u>	<u>2,195,263</u>

Bank borrowings are secured by certain property, plant and equipment.

(In millions of Korean won)	2010							
	Beginning	Acquisition	Disposal	Depreciation	Transfer	Exchange differences	Other	Ending
Land	1,417,889	-	(3,381)	-	-	-	-	1,414,508
Buildings	548,209	21,933	(1,999)	(24,081)	4,950	65	658	549,735
Structures	88,479	154	(97)	(2,709)	-	-	6	85,833
Machinery	9,552	31	(234)	(1,408)	2,005	(2)	60	10,004
Construction equipment	57	31,496	(13)	(1,266)	-	(52)	-	30,222
Vehicles	1,622	2,787	(307)	(1,048)	131	(11)	-	3,174
Tools and equipment	1,384	652	(11)	(931)	-	(4)	-	1,090
Supplies	39,155	11,814	(825)	(12,708)	13,601	(5)	-	51,032
Construction-in-progress	203,509	30,717	-	-	(20,687)	(11,383)	(119)	202,037
	<u>2,309,856</u>	<u>99,584</u>	<u>(6,867)</u>	<u>(44,151)</u>	<u>-</u>	<u>(11,392)</u>	<u>605</u>	<u>2,347,635</u>

Bank borrowings are secured by certain property, plant and equipment.

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**15. Intangible Assets**

Intangible assets as of December 31, 2011 and 2010, are as follows:

(In millions of Korean won)	2011			2010		
	Acquisition cost	Accumulated amortization	Net book value	Acquisition cost	Accumulated amortization	Net book value
Rental rights	13,322	(11,139)	2,183	13,322	(4,272)	9,050
Membership rights	48,434	-	48,434	49,553	-	49,553
Computer software	4,033	(1,720)	2,313	3,701	(1,344)	2,357
Others	782	-	782	455	-	455
	<u>66,571</u>	<u>(12,859)</u>	<u>53,712</u>	<u>67,031</u>	<u>(5,616)</u>	<u>61,415</u>

Changes in intangible assets for the years ended December 31, 2011 and 2010, are as follows:

(In millions of Korean won)	2011						
	Beginning	Acquisition	Disposal	Amortization	Exchange differences	Changes in consolidat- ion scope	Ending
Rental rights	9,050	-	-	(328)	-	(6,539)	2,183
Membership rights	49,553	1,779	(329)	-	(2,569)	-	48,434
Computer software	2,357	339	(4)	(377)	(2)	-	2,313
Others	455	425	(31)	(67)	-	-	782
	<u>61,415</u>	<u>2,543</u>	<u>(364)</u>	<u>(772)</u>	<u>(2,571)</u>	<u>(6,539)</u>	<u>53,712</u>

(In millions of Korean won)	2010						
	Beginning	Acquisition	Disposal	Amortization	Exchange differences		Ending
Rental rights	10,044	-	-	(474)	(520)		9,050
Membership rights	36,580	13,016	-	-	(43)		49,553
Computer software	1,267	1,358	(12)	(256)	-		2,357
Others	376	102	-	(23)	-		455
	<u>48,267</u>	<u>14,476</u>	<u>(12)</u>	<u>(753)</u>	<u>(563)</u>		<u>61,415</u>

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**16. Investment Property**

Changes in investment property for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Beginning	341,308	370,954
Acquisition	23,562	20,652
Disposal	(16,571)	(46,237)
Depreciation	(4,985)	(4,061)
Ending	<u>343,314</u>	<u>341,308</u>
Acquisition cost	385,117	393,569
Accumulated depreciation	(38,808)	(36,666)
Accumulated impairment losses	(2,995)	(15,595)

There is no significant difference between the fair value and book value of investment property as of December 31, 2011 and 2010.

Profit(loss) recognized on the statement of income for investment property for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Rental income	7,905	6,546
Operating expenses	(9,411)	(9,235)
	<u>(1,506)</u>	<u>(2,689)</u>

**17. Current and Non-current Liabilities**

Accounts payable and other payable as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Accounts payable	1,656,595	1,606,565	1,362,718
Other payables	77,827	73,700	132,260
	<u>1,734,422</u>	<u>1,680,265</u>	<u>1,494,978</u>

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Details of other current liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010	January 1, 2010
Advances from construction contracts	1,061,944	1,119,767	1,074,802
Advances from apartment sales	653	1,586	24,217
Overbilled amount related to construction	788,650	1,065,177	1,561,433
Advances from customers	89,942	350,976	228,137
Withholdings	162,626	95,502	111,584
Deposits received	5,457	7,309	7,164
Accrued expenses	112,649	150,971	49,323
Dividends Payable	15	17	18
Unearned revenues	37,034	16,873	6,518
Value added tax withheld	10,015	10,130	9,546
Membership guarantee deposits	191,147	-	-
Provision liabilities	5,517	395	444
	<u>2,465,649</u>	<u>2,818,703</u>	<u>3,073,186</u>

Details of other non-current liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010	January 1, 2010
Long-term deposits received	1,391	1,795	270
Rental deposits	220,722	211,779	210,230
Membership guarantee deposits	128,010	343,650	372,422
	<u>350,123</u>	<u>557,224</u>	<u>582,922</u>

**18. Financial Liabilities**

Details of short-term financial liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010	January 1, 2010
Short-term borrowings	549,124	603,532	400,176
Current portion of long-term debts	248,661	251,073	209,699
Discount on debentures	(101)	(444)	(95)
Derivative liabilities	201,751	183,910	255,618
	<u>999,435</u>	<u>1,038,071</u>	<u>865,398</u>

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Details of long-term financial liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010	January 1, 2010
Long-term borrowings	233,803	119,477	208,829
Debentures	745,938	350,000	661,980
Discount on debentures	(1,960)	(1,081)	(1,619)
Derivative liabilities	-	-	518
	<u>977,781</u>	<u>468,396</u>	<u>869,708</u>

Details of short-term borrowings as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

*(in millions of Korean won)*

Type	Creditor	Annual interest rate (%) at December 31, 2011	December 31, 2011	December 31, 2010	January 1, 2010
Usance	Kookmin	0.98~2.71	17,104	2,717	9,250
	NovaScotia	1.26~2.85	14,877	813	-
	Nonghyup	1.15~2.59	33,045	-	-
	Deutsche	1.16~2.54	6,686	-	-
	Suhyup	1.15~2.58	9,664	-	-
	Shinhan	1.10~2.59	3,973	481	-
	KEB	1.00~2.70	15,361	5,076	-
	China	1.33~2.80	4,919	7,237	-
	Hana	0.93~2.65	45,781	5,713	5,705
	ANZ	1.24~2.01	16,783	-	641
	BOA	1.47~2.75	3,297	-	-
	ING	1.16~2.54	4,755	1,411	-
	RBS	1.38~2.32	4,261	-	-
	SC	2.79	4,808	3,448	-
	SG	1.42~2.95	11,912	-	-
General borrowings	Korea Exim	3M Libor + 2.07	147,443	22,221	59,501
	Korea Exim	3M Libor + 1.97 ~ 2.12	151,755	444,780	125,143
Discount of electronic bills	Woori	-	-	-	116,750
Collateralized debt	Hana	-	-	20,000	-
	KDB	4.65~4.72	40,000	-	-
Borrowings of subsidiaries	Nonghyup	5.11	10,000	25,000	-
	Woori	5.04	2,700	-	-
	Woori	-	-	4,628	-
	NovaScotia, etc.	-	-	38,923	57,126
	China	-	-	17,084	-

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Tong Yang Securities	-	-	4,000	-
Woori	-	-	-	25,860
others	-	-	-	200
		<u>549,124</u>	<u>603,532</u>	<u>400,176</u>

Details of long-term borrowings as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

*(in millions of Korean won)*

Type	Creditor	Annual interest rate (%) at December 31, 2011	December 31, 2011	December 31, 2010	January 1, 2010
Long-term borrowings in foreign currency	Korea Exim	3M Libor + 1.97	77,317	-	-
		3M Libor + 2.95	114,223	-	-
Long-term borrowings in Korean won	Korea Housing Guarantee	1.00	11,940	11,940	11,940
Borrowings of subsidiaries	KDB	2.69~5.00	31,145	43,569	43,706
	Hana	4.98	10,000	-	-
	KDB Capital	2.75	624	-	-
	NovaScotia, others	3M Libor + 1.7~4.5	137,215	132,835	135,882
	KEB	-	-	20,000	20,000
	Shinhan	-	-	506	-
	Nonghyup	-	-	-	30,000
	Hanmoo First Securitization Specialty	-	-	-	2,000
			<u>382,464</u>	<u>208,850</u>	<u>243,528</u>
Less: Current portion			<u>(148,661)</u>	<u>(89,373)</u>	<u>(34,699)</u>
			<u>233,803</u>	<u>119,477</u>	<u>208,829</u>

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Details of debentures as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)

Type	Series	Annual interest rate(%) at December 31, 2011	December 31, 2011	December 31, 2010	January 1, 2010
Bonds with fixed interest rate	118 <sup>th</sup> - non-guaranteed debentures	-	-	-	50,000
	08-1 <sup>th</sup> - private placement bonds	-	-	61,700	61,700
	120 <sup>th</sup> - non-guaranteed debentures	-	-	-	100,000
	121 <sup>th</sup> - non-guaranteed debentures	-	-	100,000	100,000
	122 <sup>th</sup> - non-guaranteed debentures	5.7	100,000	100,000	100,000
	123 <sup>th</sup> - non-guaranteed debentures	4.8	100,000	100,000	-
	124 <sup>th</sup> - non-guaranteed debentures	5.2	100,000	100,000	-
	125 <sup>th</sup> - non-guaranteed debentures	4.75	200,000	-	-
Foreign bonds	119 <sup>th</sup> - non-guaranteed foreign bonds	-	-	-	350,280
	126 <sup>th</sup> - non-guaranteed debentures	6M Libor + 1.9	345,938	-	-
Bonds of subsidiaries	25 <sup>th</sup> - private placement bonds	-	-	-	15,000
	26 <sup>th</sup> - private placement bonds	-	-	-	10,000
	27 <sup>th</sup> - private placement bonds	-	-	30,000	30,000
	28 <sup>th</sup> - private placement bonds	-	-	20,000	20,000
			845,938	511,700	836,980
Less: Current portion			(100,000)	(161,700)	(175,000)
			745,938	350,000	661,980
Less: Discount on debentures			(1,960)	(1,081)	(1,619)
			<u>743,978</u>	<u>348,919</u>	<u>660,361</u>

**19. Defined benefit liability**

The Group operates a defined benefit plan for qualified employees. Relative to this, an actuarial valuation on plan assets and defined benefit obligations were performed by Aon Hewitt, an independent actuary. The present value and current service cost were measured using the projected unit credit method.

The amounts recognized in the statements of financial position are as follows:

(in millions of Korean won)

	December 31, 2011	December 31, 2010
Present value of obligations <sup>1</sup>	257,015	192,198
Fair value of plan assets	<u>(163,294)</u>	<u>(127,553)</u>
Liability on the statements of financial position	<u>93,721</u>	<u>64,645</u>

<sup>1</sup>The present value of obligation is calculated by deducting the contribution to the National Pension Fund amounting to ₩1,216 million (2010: ₩1,252 million).



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Changes in the carrying amount of defined benefit liabilities for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Beginning balance	192,198	168,256
Current service cost	43,507	42,365
Interest expense	9,848	8,322
Actuarial gains and losses	29,642	14,537
Exchange differences	(25)	(8)
Benefits paid	(18,192)	(42,157)
Liability transferred to a related party	37	(224)
Past service cost	-	1,107
Ending balance	<u>257,015</u>	<u>192,198</u>

The movement in the fair value of plan assets for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Beginning balance	127,553	112,033
Expected return on plan assets	5,162	6,870
Actuarial gains and losses	411	(1,799)
Employer contribution	39,031	47,882
Benefits paid	(8,900)	(37,292)
Asset transferred to a related party	37	(141)
Ending balance <sup>1</sup>	<u>163,294</u>	<u>127,553</u>

<sup>1</sup> As of December 31, 2011, the Group's total plan assets are invested in principal guarantee financial instruments with fixed rates of return.

The amounts recognized on the statements of income for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Current service cost	43,507	42,365
Interest expenses	9,848	8,322
Expected return on plan assets	(5,162)	(6,870)
Past service cost	-	1,107
Total, included in employee benefit expenses <sup>1</sup>	<u>48,193</u>	<u>44,924</u>

<sup>1</sup> Total expense consists of:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Cost of sales	32,796	33,608
Selling and administrative expenses	<u>15,397</u>	<u>11,316</u>
	<u>48,193</u>	<u>44,924</u>

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Cumulative actuarial losses recognized as other comprehensive income as of December 31, 2011, amount to ₩45,674 million.

The principal actuarial assumptions as of December 31, 2011 and 2010, were as follows:

	2011	2010
Discount rate	4.28 ~ 4.60%	5.30 ~ 5.50%
Expected return on plan assets	4.00 ~ 4.86%	3.90 ~ 4.80%
Future salary increase (Including inflation)	6.50 ~ 6.75%	5.31 ~ 6.50%

Retirement pension mortality rate which was calculated and announced by the Insurance Development Institute, was used.

The sensitivity of the overall pension liability to changes in the discount rate is:

(in millions of Korean won)	1% Increase	1% Decrease
Increase(Decrease) of liabilities	(19,902)	22,925

**20. Non-current Provisions**

Details of non-current provisions for the years ended of December 31, 2011 and 2010, are as follows:

(in millions of Korean won)

	2011		
	Beginning balance	Increase	Decrease
Provisions for financial guarantee	173,432	103,245	(65,469)
Provisions for construction warranty	184,762	22,714	(45,880)
Provisions for contingent liabilities	1,666	-	(1,606)
	<u>359,860</u>	<u>125,959</u>	<u>(112,955)</u>
			<u>372,864</u>

(in millions of Korean won)

	2010		
	Beginning balance	Increase	Decrease
Provisions for financial guarantee	150,314	61,734	(38,616)
Provisions for construction warranty	175,161	48,302	(38,701)
Provisions for contingent liabilities	675	2,292	(1,301)
	<u>326,150</u>	<u>112,328</u>	<u>(78,618)</u>
			<u>359,860</u>

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**21. Commitments and Contingencies**

- (1) As of December 31, 2011, the Group has been provided with guarantees amounting to ₩11,961,950 million from the Construction Guarantee and the Group's business partners in relation to its construction performance, sales of housing lots and construction warranty. Also, as of December 31, 2011, the Group has provided guarantees amounting to ₩1,748,875 million on behalf of its business partners.
- (2) As of December 31, 2011, the Group has been provided with guarantees amounting to ₩2,910,950 million from the Korea Eximbank and others in relation to the performance of its overseas construction projects.
- (3) In relation to housing loans and temporary relocation costs of future tenants during the construction period, the Group has provided guarantees amounting to ₩674,020 million to financial institutions as of December 31, 2011. Also, in relation to refurbishment projects such as redevelopment projects, the Group has provided payment guarantees amounting to ₩571,861 million to the refurbishment project cooperative as of December 31, 2011.
- (4) On behalf of the entities incorporated under the Act on Private Investment in Social Overhead Capital, the Group has provided ₩89,338 million in payment guarantees and pledged as collateral investments with book value of ₩48,430 million as of December 31, 2011. Also, the Group has provided put-options and other commitments (relevant amount: ₩65,034 million) to the financial investors of Ulsan Green Co., Ltd. and others, part of which were exercised by those who had invested in the Uijeongbu light rail project. In relation to this exercise, the Group is scheduled to pay the amount prices amounting to ₩18,210 million on April 2, 2012.
- (5) In relation to asset securitization, the Group has provided payment guarantees amounting to ₩505,461 million to Zeus NHK Ltd. and other parties, as of December 31, 2011.
- (6) As of December 31, 2011, the Group has pledged as collateral eight blank notes, 40 notes amounting to ₩53,896 million in face value and other assets to guarantee its construction contracts and payment of rent for land and parking lots.
- (7) The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. The Group is involved in 14 litigations as a plaintiff and 52 litigations as a defendant, whose relevant contingent assets and liabilities amount to ₩98,714 million and ₩37,288 million, respectively. As of December 31, 2011, the outcome of these cases cannot be reasonably determined.
- (8) As of December 31, 2011, the Group has lease contracts on real estate, wherein the lessors are GL Project Financing Vehicle 1 Ltd. and KOCREF XVIII Co., Ltd.
- (9) As of December 31, 2011 and 2010, payment guarantees the Group provided for the borrowings of the developers of the construction projects are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
ABCP	645,000	1,093,600
Other PF Loan	1,306,294	1,420,222
	<u>1,951,294</u>	<u>2,513,822</u>

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Major guarantees for the developers' debts that the Group provided as of December 31, 2011, are as follows:

(in millions of Korean won)

Region	Creditor	Borrowings Amount	Borrowings Balance	Warranty	Period	Type
Gyeonggi-do	Bank and others	269,500	269,500	Debt guarantee	2008.07 ~ 2013.01	ABCP and other loan
Seoul	Bank and others	244,500	244,500	Debt guarantee	2011.09 ~ 2014.03	Other loan
Gyeonggi-do	Bank and others	166,726	166,726	Debt guarantee	2007.11 ~ 2012.11	ABCP and other loan
Seoul	Securities and others	163,263	163,263	Debt guarantee	2009.07 ~ 2012.10	ABCP and other loan
Gyeonggi-do	Bank and others	144,000	144,000	Debt guarantee	2006.11 ~ 2012.12	Other loan
Gyeonggi-do	Bank and others	142,984	142,984	Debt guarantee	2008.08 ~ 2012.10	Other loan
Gyeonggi-do	Insurance and others	100,000	100,000	Debt guarantee	2010.07 ~ 2012.07	Other loan
Gyeonggi-do	Bank and others	89,673	89,673	Debt guarantee	2006.11 ~ 2012.07	ABCP and other loan
Gyeonggi-do	Bank and others	77,000	77,000	Debt guarantee	2007.04 ~ 2012.04	Other loan
Seoul	Securities	73,000	73,000	Debt guarantee	2011.12 ~ 2012.06	ABCP

- (10) Parnas Hotel Co., Ltd. ("Parnas"), a subsidiary, changed its contract with Intercontinental Hotels Group PLC. ("IHG"), according to which Grand Hotel and Coex Hotel should be directly managed by Parnas, and only supporting services on hotel operation and sales should be provided by IHG as of January 1, 2011. The supporting service fees recognized for the years ended December 31, 2011 and 2010, amount to ₩4,374 million and ₩8,164 million, respectively.
- (11) Parnas, a subsidiary, entered into a lease contract with the Korea International Trade Association ("KITA") on land for use in the construction of Coex Hotel on July 22, 1997. The lease contract is effective until December 31, 2019, with a renewal option for another ten years upon mutual agreement. According to this contract, Parnas shall pay to KITA rental fees corresponding to a prescribed proportion of the sales it recognizes in relation to Coex Hotel. For the years ended December 31, 2011 and 2010, Parnas recognized lease expenses amounting to ₩5,131 million and ₩4,156 million, respectively.

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**22. Equity and Share Premium**

Details of equity as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Authorized shares	200,000,000 shares	200,000,000 shares	200,000,000 shares
Par value	₩ 5,000	₩ 5,000	₩ 5,000
Outstanding shares	51,000,000 shares	51,000,000 shares	51,000,000 shares
Common stock	₩ 255,000 million	₩ 255,000 million	₩ 255,000 million

Details of share premium as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010	January 1, 2010
Gains on sale of treasury stock	10,660	11,859	11,492
Additional paid-in capital	109,735	109,735	109,735
Gain on business combination	15,002	15,002	15,002
Other additional capital	24,537	24,537	24,183
	<u>159,934</u>	<u>161,133</u>	<u>160,412</u>

To stabilize the Group's share price, the Group purchased 1,521,151 shares of its issued common stock valued at ₩82,060 million and recorded the treasury stock in other equity as of December 31, 2011. Those shares purchased through the treasury stock fund are valued at the smaller of their fair value and the fair value of the fund.

**23. Retained Earnings**

Retained earnings as of December 31, 2011 and 2010, and January 1, 2010, consist of:

<i>(in millions of Korean won)</i>	December 31, 2011	December 31, 2010	January 1, 2010
Legal reserves	73,339	68,356	63,452
Appropriated retained earnings for business stabilization	674,653	584,653	494,653
Discretionary reserves	2,152,894	1,891,754	1,632,111
Actuarial gain and losses	(43,931)	(13,208)	-
Unappropriated retained earnings	<u>562,632</u>	<u>540,691</u>	<u>548,014</u>
	<u>3,419,587</u>	<u>3,072,246</u>	<u>2,738,230</u>

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**24. Earnings per Share**

Basic earnings per ordinary share for the years ended December 31, 2011 and 2010, is as follows:

<i>(in Korean won except for shares)</i>	<b>2011</b>	<b>2010</b>
Profit attributable to ordinary shareholders	423,676,712,843	397,337,821,841
Weighted average number of ordinary shares outstanding <sup>1</sup>	49,478,849	49,478,849
<b>Basic earnings per share</b>	<b>8,563</b>	<b>8,030</b>

<sup>1</sup> Weighted average number of ordinary shares outstanding is calculated as follows:

	<b>Period</b>	<b>Number of shares</b>	<b>Number of days</b>	<b>Number of shares * Number of days</b>
Beginning	2011.1.1 ~ 2011.12.31	51,000,000	365	18,615,000,000
Treasury stock	2011.1.1 ~ 2011.12.31	(1,439,281)	365	(525,337,565)
Treasury stock fund	2011.1.1 ~ 2011.12.31	(81,870)	365	(29,882,550)
				<u>18,059,779,885</u>
Weighted average number of ordinary shares				<u>49,478,849</u>

As there are no diluted securities outstanding as of December 31, 2011 and 2010, diluted earnings per share is identical to basic earnings per share.

**25. Classification of Operating Income (Loss)**

(1) Operating income and expense in accordance with Korean IFRS

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Operating income before implementing Korean IFRS	394,895	593,369
Other operating income	572,492	381,159
Other operating expenses	<u>(369,309)</u>	<u>(341,530)</u>
Operating income after implementing Korean IFRS	<u>598,078</u>	<u>632,998</u>

Under the former accounting standards, operating income (loss) was calculated as gross profit net of selling and administrative expenses. Under Korean IFRS, operating income (loss) was calculated as gross profit net of selling and administrative expenses and other operating income (loss).

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(2) Selling and administrative expenses

Selling and administrative expenses for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Salaries	197,053	184,769
Severance benefits	15,397	11,316
Employee benefits	37,078	34,230
Taxes and dues	9,200	8,320
Commission expense	85,730	90,634
Rental	29,711	23,881
Depreciation	3,904	6,764
Depreciation of investment properties	966	-
Advertising expense	20,498	21,272
Bad debts expense	124,424	43,517
Amortization	26	466
Development costs	63,206	69,028
Warranty expenses	12,822	8,807
Insurance premium	6,026	5,312
Travel expenses	13,005	9,545
Others	14,769	18,556
	<u>633,815</u>	<u>536,417</u>

(3) Other operating income

Other operating income for the years ended December 31, 2011 and 2010, consists of:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Gain on disposal of property, plant and equipment	232	3,853
Gain on disposal of investment property	1,041	16
Gain on disposal of other assets	458	-
Gain on foreign currency transactions	44,748	77,081
Gain on foreign currency translation	10,408	2,384
Reversal of allowance for bad debts	68,641	18,856
Reversal of provision on financial guarantee	20,693	31,725
Gain on valuation of derivatives	22,188	88,287
Gain on derivatives transactions	62,754	36,173
Gain on valuation of firm commitments	65,949	57,914
Reversal of provision for construction warranties	6,663	10,872
Gain on disposal of assets held for sale	218,592	-
Miscellaneous gains	44,568	45,274
Dividend income	834	2,169
Gain on disposal of available-for-sale financial assets	4,231	-
Reversal of overseas operations translation credit	492	6,160
Gain on liabilities exempted	-	395
	<u>572,492</u>	<u>381,159</u>

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(4) Other operating expenses

Other operating expenses for the years ended December 31, 2011 and 2010, consists of:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Bad debts expense	116,240	62,103
Loss on disposal of property, plant, and equipment	1,426	3,185
Impairment loss of property, plant, and equipment	-	3,241
Loss on disposal of intangible assets	20	12
Loss on disposal of investment property	1,765	4,392
Loss on foreign currency transactions	49,653	56,373
Loss on foreign currency translation	3,904	8,861
Loss on valuation of derivatives	71,400	54,966
Loss on derivatives transactions	42,280	13,334
Loss on valuation of firm commitments	44,038	118,734
Loss on disposal of trade receivables	24,792	3,800
Donations	5,656	3,268
Miscellaneous losses	7,973	8,619
Reversal of overseas operations translation debit	162	642
	<u>369,309</u>	<u>341,530</u>

**26. Financial income and Expenses**

Financial income for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Interest income <sup>1</sup>	50,674	47,445
Gain on foreign currency transactions	68,120	7,719
Gain on foreign currency translation	20,144	43,594
Gain on disposal of long-term financial assets	12	9,128
Gain on valuation of derivatives for trading	21,227	-
Gain on disposal of equity-method investments	2,956	1,427
Reversal of financial guarantee liabilities	44,775	3,294
	<u>207,908</u>	<u>112,607</u>

<sup>1</sup> Details of interest income for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Bank deposits	27,362	25,798
Available-for-sale financial assets	20,709	17
Other loans and receivables	2,603	21,630
	<u>50,674</u>	<u>47,445</u>



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Financial expense for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Interest expense <sup>1</sup>	40,929	72,608
Losses on foreign currency transaction	64,499	4,113
Losses on foreign currency translation	68,099	40,461
Impairment losses of long-term financial assets	-	13,700
Losses on derivative transaction	-	11,007
Losses on disposal of long-term financial assets	-	1,548
Losses on debenture repayment	-	38
Losses on disposal of equity-method investment	-	10,979
Financial guarantee expenses	83,462	33,835
	<u>256,989</u>	<u>188,289</u>

<sup>1</sup> Details of interest expense included in the financial expense for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Bank overdraft and borrowings	11,567	36,202
Debentures	29,362	36,406
	<u>40,929</u>	<u>72,608</u>

## **27. Income tax**

Income tax expense for the years ended December 31, 2011 and 2010, consists of:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Current tax:		
Current tax on profits for the year	238,810	173,525
Adjustments in respect of prior years	3,164	(3,823)
Total current tax	<u>241,974</u>	<u>169,702</u>
Deferred tax <sup>1</sup> :		
Origination and reversal of temporary differences	(157,192)	(29,629)
Total income tax expense	<u>84,782</u>	<u>140,073</u>
Deferred income tax charged to equity <sup>2</sup>	<u>51,442</u>	<u>10,174</u>
Income tax expense	<u>136,224</u>	<u>150,246</u>

<sup>1</sup> Changes in deferred income tax for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Beginning balance of deferred tax assets(liabilities)	(156,580)	(186,209)
Change in deferred income tax	157,192	29,629
Ending balance of deferred tax assets(liabilities)	612	(156,580)

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The income tax (charged)/credited directly to equity as of December 31, 2011 and 2010, and January 1, 2010, is as follows:

*(in millions of Korean won)*

	<b>December 31, 2011</b>		
	Before tax	Tax (charge) credit	After tax
Gains on valuation of available-for-sale securities	35,087	(9,885)	25,202
Losses on valuation of available-for-sale securities	(7,855)	2,624	(5,231)
Gains on valuation of derivatives	40,930	(9,905)	31,025
Losses on valuation of derivatives	(80,344)	19,443	(60,901)
Revaluation reserve and others	287,528	(79,335)	208,193
	<u>275,346</u>	<u>(77,058)</u>	<u>198,288</u>

*(in millions of Korean won)*

	<b>December 31, 2010</b>		
	Before tax	Tax (charge) credit	After tax
Gains on valuation of available-for-sale securities	247,265	(60,690)	186,575
Losses on valuation of available-for-sale securities	(7,132)	1,569	(5,563)
Gains on valuation of derivatives	36,998	(8,140)	28,858
Losses on valuation of derivatives	(77,921)	17,143	(60,778)
Revaluation reserve and others	319,904	(78,382)	241,522
	<u>519,114</u>	<u>(128,500)</u>	<u>390,614</u>

*(in millions of Korean won)*

	<b>January 1, 2010</b>		
	Before tax	Tax (charge) credit	After tax
Gains on valuation of available-for-sale securities	278,056	(62,614)	215,442
Losses on valuation of available-for-sale securities	(19)	4	(15)
Gains on valuation of derivatives	35,034	(7,707)	27,327
Losses on valuation of derivatives	(62,904)	13,839	(49,065)
Revaluation reserve and others	334,286	(82,195)	252,091
	<u>584,453</u>	<u>(138,673)</u>	<u>445,780</u>

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

<i>(in millions of Korean won)</i>	2011	2010
Profit before tax	563,637	555,789
Tax calculated at domestic tax rates applicable to profits in the respective countries	136,374	134,475
Tax effects of:		
Income not subject to tax	(350)	(118)
Expenses not deductible for tax purposes	9,150	7,460
Tax credit	(9,480)	(14,847)
Re-measurement of deferred tax – change in the Korean tax rate	(13,731)	(1,904)
Others	14,261	25,180
Tax charge	136,224	150,246

The analysis of deferred tax assets and liabilities as of December 31, 2011 and 2010, is as follows:

<i>(in millions of Korean won)</i>	2011	2010
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	299,319	193,233
Deferred tax asset to be recovered within 12 months	143,642	140,782
	442,961	334,015
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(361,826)	(318,084)
Deferred tax liability to be recovered within 12 months	(80,523)	(172,511)
	(442,349)	(490,595)
Deferred tax assets(liabilities), net	612	(156,580)

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

<i>(in millions of Korean won)</i>	2011			
	January 1, 2011	Income statement	Equity	December 31, 2011
Deferred tax liabilities	490,595	(14,054)	(34,192)	442,349
Deferred tax assets	334,015	91,695	17,251	442,961

  

<i>(in millions of Korean won)</i>	2010			
	January 1, 2010	Income statement	Equity	December 31, 2011
Deferred tax liabilities	521,291	(23,826)	(6,870)	490,595
Deferred tax assets	335,082	(4,370)	3,303	334,015

During the year, as a result of the change in the Korean corporation tax rate from 22% to 24.2% that was substantively enacted on December 31, 2011, and that will be effective from January 1, 2012, the relevant deferred tax balances have been re-measured. Deferred tax expected to reverse after 2012, has been measured using the effective rate of 24.2% that will apply for future period.

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Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Group's ability to generate taxable income within the period during which the temporary differences reverse, the outlook of the Korean economic environment, and the overall future industry outlook. The Group's management periodically considers these factors in reaching its conclusion, and recognized both deferred income tax asset and liability, since, except for those determined not to be reversed in the foreseeable future, all the temporary differences are determined to be realizable as of December 31, 2011.

**28. Expenses by Nature**

Expenses by nature for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Labor cost	757,473	625,161
Materials	2,685,096	2,275,368
Outsourcing	3,619,051	3,307,260
Employee benefits	141,542	121,803
Bad debts expense	124,424	43,517
Rent	94,012	70,752
Changes in inventories	(23,480)	96,928
Others	1,259,222	1,285,762
	<u>8,657,340</u>	<u>7,826,551</u>

**29. Related Parties**

Related parties as of December 31, 2011, are as follows:

<b>Relationship</b>	<b>Related parties</b>
Associates	Major Development Co., Ltd, Sacheon Resort co, Ltd., GS E&C Thai Co., Ltd., GS PP Development Co., Ltd., LG Properties(S'PORE) Pte., Ltd., GL Project Financing Vehicle 1 Ltd., GS-HP Corp.

Significant transactions, which occurred in the normal course of business with related parties for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>Sales</b>		<b>Purchases</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Associates	226,209	89,012	-	523

Year-end balances arising from sales and purchases of goods and services as of December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>Receivables</b>		<b>Payables</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Associates	653,241	369,480	-	-

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Changes in loans to related parties for the year ended December 31, 2011, are as follows:

(in millions of Korean won and thousands of U.S. dollar)	Annual interest rate (%) at December 31, 2011	Maturity date	Beginning	Increase	Decrease	Effects of changes in foreign exchange rates	Ending	Interest income
GS PP Development Co., Ltd.	6M Libor + 1	2012.11.13	183,315 (USD 160,958)	694 (USD 642)	(34,506) (USD 29,094)	3,316	152,819 (USD 132,506)	5,822
LG Properties (S'PORE) PTE., Ltd.	6M Libor + 2.5	2012.10.4 ~ 2012.11.27	14,760 (USD 12,960)	-	-	187	14,947 (USD 12,960)	88
Sacheon Resort Co, Ltd.	CD + 4.7	2012.2.29	-	21,456	(20,300)	-	1,156	1,270
GL Project Financing Vehicle 1 Ltd.	3.3~3.7	2011.12.25	-	13,706	(13,706)	-	-	74
GS-HP Corp.	6M Libor + 1.75	-	1,669 (USD 1,465)	-	(569) (USD 500)	13	1,113 (USD 965)	49
			199,744	35,856	(69,081)	3,516	170,035	7,303

Allowance for doubtful accounts and bad debts expense on receivables of related parties as of December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	Allowance for doubtful accounts		Bad debt expense	
	2011	2010	2011	2010
GS PP Development Co., Ltd.	105,996	66,101	46,099	48,151
LG Properties (S'PORE) PTE., Ltd.	19,476	19,290	186	19,053
Sacheon Resort Co, Ltd.	10,056	-	10,056	-
	135,528	85,391	56,341	67,204

Allowance for doubtful accounts on receivables of related parties includes allowance for doubtful accounts of short and long-term loans, construction receivables, unearned income and other.

Details of payment guarantees that the Group provides to the related parties as of December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	Type	2011	2010
Major Development Co., Ltd.	Payment guarantees	153,263	156,057
Sacheon Resort co, LTD.	Payment guarantees	-	21,062
GL Project Financing Vehicle 1 Ltd.	Payment guarantees	-	569,000

The compensation paid or payable to key management for employee services as of December 31, 2011 and 2010, is shown below:

(in millions of Korean won)	2011	2010
Salaries	37,295	36,805
Severance benefits	5,814	5,239
	43,109	42,044

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**30. Cash Generated from Operations**

Cash generated from operations for the years ended December 31, 2011 and 2010, are as follows:

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
<b>Profit for the year</b>	<u>427,412</u>	<u>405,543</u>
<b>Adjustments for:</b>		
Income tax	136,224	150,246
Interest expenses	40,929	72,608
Interest income	(50,674)	(47,445)
Dividend income	(834)	(2,169)
Depreciation	56,678	44,151
Depreciation of investment property	4,985	4,061
Amortization	772	753
Bad debts expense	240,664	105,620
Reversal of bad debts expenses	(68,641)	(18,856)
Provision for severance benefits	48,193	44,924
Gains on disposal of trade receivables	24,792	3,800
Gains on foreign currency translation	41,451	3,344
Gains and losses on disposal of property, plant and equipments	1,194	(668)
Gains on disposal of investment property	724	4,376
Gains and losses on valuation of derivatives	27,985	(33,321)
Losses on derivatives transaction	(20,474)	(11,832)
Gains and losses on valuation of firm commitments	(21,911)	60,820
Financial guarantee expenses	103,521	43,091
Reversal of provision for financial guarantee	(65,468)	(35,019)
Construction warranty expenses	22,714	48,302
Reversal of provision for construction warranties	(6,663)	(10,872)
Gains on disposal of other assets	(458)	2
Gains on disposal of assets held for sale	(218,592)	-
Gains on disposal of financial assets	(4,243)	(9,128)
Gain on Currency translation differences	162	642
Loss on Currency translation differences	(492)	(6,160)
Income and expenses from investment in associates	(14,640)	1,528
Others	5,687	23,150
	<u>283,585</u>	<u>435,948</u>
<b>Changes in operating assets and liabilities</b>		
Trade and other receivables	(460,614)	(322,878)
Inventories	(27,486)	80,893
Settlement of derivatives transaction	41,481	69,961
Other current assets	(167,294)	(90,859)
Trade and other payables	35,897	219,823
Other current payables	(334,636)	(326,717)
Non-current provision	(25,017)	(19,429)
Payment of severance benefits	(44,495)	(51,152)
Other current liabilities	3,848	(8,216)
Other non-current assets	(2,128)	742
Gains and losses on overseas operations translation	3,677	(2,978)
	<u>(976,767)</u>	<u>(450,810)</u>
<b>Cash generated from operations</b>	<u>(265,770)</u>	<u>390,681</u>

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**Significant Non-Cash Transactions**

<i>(in millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Reclassification from long-term bonds payable to short-term bonds payable	100,000	511,980
Reclassification from long-term borrowings to short-term borrowings	80,053	22,926
Reclassification of construction-in-progress to property, plant and equipment	68,437	20,687
Reclassification from receivables and others to investment properties	17,000	15,978
Reclassification from non-current membership guarantee deposits to current membership guarantee deposits	191,546	-

**31. Financial Risk Management**

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

**31.1 Financial risk**

*(a) Market risk*

i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group's principal monetary assets and liabilities denominated in currencies other than its functional currency as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(in millions of Korean won, in thousands of foreign currency)</i>	<b>December 31, 2011</b>			
	<b>Financial assets</b>		<b>Financial liabilities</b>	
	<b>Foreign currency</b>	<b>Korean won equivalent</b>	<b>Foreign currency</b>	<b>Korean won equivalent</b>
USD	484,298	558,541	1,073,941	1,238,576
EUR	13,002	19,426	37,110	55,445
KWD	34,494	142,779	496	2,054
JPY	11,967	178	3,447,078	51,196
SGD	9,163	8,122	269	238

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(in millions of Korean won,  
in thousands of foreign  
currency)

**December 31, 2010**

	<b>Financial assets</b>		<b>Financial liabilities</b>	
	<b>Foreign currency</b>	<b>Korean won equivalent</b>	<b>Foreign currency</b>	<b>Korean won equivalent</b>
USD	453,162	516,106	691,316	787,340
EUR	4,006	6,063	19,032	28,807
JPY	268,112	3,746	943,586	13,183
SGD	2,055	1,816	-	-

(in millions of Korean won,  
in thousands of foreign  
currency)

**January 1, 2010**

	<b>Financial assets</b>		<b>Financial liabilities</b>	
	<b>Foreign currency</b>	<b>Korean won equivalent</b>	<b>Foreign currency</b>	<b>Korean won equivalent</b>
USD	600,029	700,594	417,810	487,835
EUR	9,540	15,972	4,353	7,287
JPY	697,360	8,806	887,154	11,203
SGD	13,478	11,204	-	-

As of December 31, 2011, and 2010, and January 1, 2010, if the Group's functional currency had weakened / strengthened by 5% against foreign currencies with all other variables held constant, profit before income tax would have been affected as follows:

(in millions of  
Korean won)

	<b>December 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>	
	<b>5% increase</b>	<b>5% decrease</b>	<b>5% increase</b>	<b>5% decrease</b>	<b>5% increase</b>	<b>5% decrease</b>
USD	(34,002)	34,002	(13,562)	13,562	10,638	(10,638)
EUR	(1,801)	1,801	(1,137)	1,137	434	(434)
KWD	7,036	(7,036)	-	-	-	-
JPY	(2,551)	2,551	(472)	472	(120)	120
SGD	394	(394)	91	(91)	560	(560)

ii) Interest rate risk

The Group's interest rate risk arises from borrowings issued at variable rates, and related interest expense is exposed to interest risk. As of December 31, 2011, the financial liabilities that are exposed to interest risk are the borrowings issued at variable rates amounting to ₩973,943 million (2010: ₩692,944 million).

As of December 31, 2011, and 2010, and January 1, 2010, if interest rates had been fluctuated by 100bp with all other variables held constant, interest expenses would have been affected as follows:

(in millions of  
Korean won)

	<b>December 31, 2011</b>		<b>December 31, 2010</b>		<b>January 1, 2010</b>	
	<b>100bp increase</b>	<b>100bp decrease</b>	<b>100bp increase</b>	<b>100bp decrease</b>	<b>100bp increase</b>	<b>100bp decrease</b>
Interest expenses	14,457	(14,457)	3,668	(3,668)	6,364	(6,364)



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iii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the statement of financial position as available-for-sale. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group. The Group's investments in equity of other entities that are publicly traded are included in KOSPI equity index.

The table below summarizes the impact of increases of stock prices on the Group's after-tax profit for the year and on equity. The analysis is based on the assumption that the stock price had increased by 10%.

(in millions of Korean won)	Impact on post-tax profit		Impact on other components of equity	
	2011	2010	2011	2010
Stock price	2,370	-	3,126	-

(b) Credit Risk

The credit risk occurs in the ordinary course of business and investment activities of the Group when the customers or counterparties could not keep the obligations of the contract. To manage the credit risk, the Group evaluates the credit of customers periodically. 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.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to primary customers, including outstanding receivables and committed transactions.

The Group's credit risk is managed in accordance with the Group's credit policy with the purpose of minimizing possible loss through efficient credit risk management, support of rapid decision making and preparation of safety measures on the Group's accounts receivables.

Details of exposure to credit risk as of December 31, 2011 and 2010, January 1, 2010, are as follows:

(In millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	1,441,683	1,460,289	1,451,464
Trade and other receivables	4,626,771	4,415,056	4,243,264
Short-term financial assets	292,223	268,782	433,229
Long-term financial assets <sup>1</sup>	17,149	8,303	20,690
Long-term other receivables	448,279	395,865	338,227
Non-current provision <sup>2</sup>	3,550,323	4,054,982	4,138,459

<sup>1</sup> Excludes equity securities.

<sup>2</sup> The maximum exposure to credit risk is the principal amount of contractual cash flow from the PF,

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redevelopment projects, SOC, overseas operations and others that are subject to provision of non-current liabilities.

**(c) Liquidity Risk**

The Group's liquidity risk arises when it does not have sufficient cash to fulfill payment obligations from financial liabilities or to meet operational needs.

Cash flow forecasting is performed in the operating entities of the Group. The Group monitors rolling forecasts of the Group'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.

Major commitments related to the credit limit of domestic financial institutions as of December 31, 2011 and 2010, are as follows:

(In millions of Korean won)	Financial institutions	2011		2010	
		Limited amount	Used amount	Limited amount	Used amount
Trade and other payables	-	-	1,734,422	-	1,680,265
Long-term and short-term financial liability <sup>1</sup>	Korea Eximbank and others	2,633,347	1,965,509	1,943,977	1,478,797

<sup>1</sup> Excludes firm commitment liability.

The analyses of the Group's liquidity risk as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(In millions of Korean won)	Book value	Contract on cash flow	December 31, 2011			
			Less than 1 year	Between 1 year and 2 year	Between 2 year and 3 year	Over 3 years
Trade and other payables	1,734,422	1,734,422	1,734,422	-	-	-
Long(short)-term financial liability <sup>1</sup>	1,965,509	2,140,168	993,689	438,763	686,681	21,035
Non-current provision <sup>2</sup>	211,208	3,550,324	2,180,643	696,586	285,755	387,340
	<u>3,911,139</u>	<u>7,424,914</u>	<u>4,908,754</u>	<u>1,135,349</u>	<u>972,436</u>	<u>408,375</u>

(In millions of Korean won)	Book value	Contract on cash flow	December 31, 2010			
			Less than 1 year	Between 1 year and 2 year	Between 2 year and 3 year	Over 3 years
Trade and other payables	1,680,265	1,680,265	1,680,265	-	-	-
Long(short)-term financial liability <sup>1</sup>	1,478,797	1,529,783	967,194	236,981	229,451	96,157
Non-current provision <sup>2</sup>	173,432	4,054,982	2,613,708	687,427	592,188	161,659
	<u>3,332,494</u>	<u>7,265,030</u>	<u>5,261,167</u>	<u>924,408</u>	<u>821,639</u>	<u>257,816</u>

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(In millions of Korean won)

	Book value	Contract on cash flow	January 1, 2010			
			Less than 1 year	Between 1 year and 2 year	Between 2 year and 3 year	Over 3 years
Trade and other payables	1,494,978	1,497,978	1,497,978	-	-	-
Long(short)-term financial liability <sup>1</sup>	1,694,892	1,787,295	801,989	684,137	253,465	47,704
Non-current provision <sup>2</sup>	150,314	4,138,459	2,980,844	723,288	433,927	400
	<u>3,340,184</u>	<u>7,423,732</u>	<u>5,280,811</u>	<u>1,407,425</u>	<u>687,392</u>	<u>48,104</u>

<sup>1</sup> Excludes firm commitment liability.

<sup>2</sup> The contractual cash flow is the principal amount from the PF, redevelopment projects, SOC, overseas operations and others that are subject to provision of non-current liabilities.

### 31.2 Capital Management

The Group's objectives when managing capital are to safeguard the Group'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.

The gearing ratios as of December 31, 2011 and 2010, and January 1, 2010, were as follows:

(In millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Total liabilities	7,140,506	7,275,003	7,519,516
Total equity	3,958,038	3,771,355	3,487,285
Deposit	1,441,683	1,460,289	1,451,464
Borrowings	1,775,465	1,322,557	1,478,970
Debt ratio	180%	193%	216%
Net borrowings ratio	8%	-4%	1%

### 31.3 Fair Value Estimation

The Group has applied below classification levels by input information to the financial instruments which are carried at the fair value.

- 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 or indirectly (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value as of December 31, 2011.

(In millions of Korean won)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Available-for-sale financial assets	31,265	-	-	31,265
Derivatives assets	-	232,158	-	232,158
<b>Total assets</b>	<u>31,265</u>	<u>232,158</u>	<u>-</u>	<u>263,423</u>
<b>Liabilities</b>				

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Derivatives liabilities	-	201,751	-	201,751
Total liabilities	-	201,751	-	201,751

The following table presents the Group's assets and liabilities that are measured at fair value as of December 31, 2010.

<i>(In millions of Korean won)</i>	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Derivatives assets	-	239,822	-	239,822
Total assets	-	239,822	-	239,822
<b>Liabilities</b>				
Derivatives liabilities	-	183,910	-	183,910
Total liabilities	-	183,910	-	183,910

The following table presents the Group's assets and liabilities that are measured at fair value as of January 1, 2010.

<i>(In millions of Korean won)</i>	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Derivatives assets	-	406,869	-	406,869
Total assets	-	406,869	-	406,869
<b>Liabilities</b>				
Derivatives liabilities	-	256,136	-	256,136
Total liabilities	-	256,136	-	256,136

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in 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 Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 consist primarily of listed equity investments classified as available for sale securities.

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. If all significant inputs required to measure fair value of an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Among available-for-sale securities, equity securities, which cannot be reliably measured at fair value, are measured at cost (Note 10).

## **32. Transition to Korean IFRS**

### **32.1 First-time Adoption of Korean IFRS**

The Group's transition date to Korean IFRS is January 1, 2010, and adoption date is January 1, 2011. In preparing consolidated financial statements in accordance with Korean IFRS 1101 (First-

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time Adoption of Korean International Financial Reporting Standards), the Group has applied the mandatory exceptions and certain optional exemptions allowed by Korean IFRS.

The Group elected to apply the following optional exemptions from full retrospective application.

*(1) Business combinations*

The Group elected to apply the exemption for business combinations allowed under Korean IFRS 1101 and has not retrospectively applied Korean IFRS 1103 to past business combinations that occurred before the transition date.

*(2) Fair value or revaluation as deemed cost*

The Group elected to use the revaluations of certain land prior to the date of transition to Korean IFRS as deemed cost at the transition date.

*(3) Investment in subsidiaries and associates*

For the investments in subsidiaries and associates as of the transition date to the Korean IFRS, the Group elected to use their book values recorded in accordance with the previous K-GAAP as their deemed costs.

**32.2 Reconciliations Previous K-GAAP to Korean IFRS**

*(1) Effects on the financial position and financial performance*

Effects of Korean IFRS adoption on the Group's total assets, liabilities and equity as of January 1, 2010, the date of Korean IFRS transition, are as follows:

<i>(In millions of Korean won)</i>	<b>Total assets</b>	<b>Total liabilities</b>	<b>Total equity</b>
Reported amount under previous K-GAAP	9,899,988	6,363,868	3,536,120
<b>Adjustments for:</b>			
Transfer of trade receivables <sup>1</sup>	117,178	116,750	428
Revenue recognition and others for construction contracts <sup>2</sup>	1,015,539	1,017,111	(1,572)
Financial guarantee contract <sup>3</sup>	34,021	25,509	8,512
Long-term employee benefit obligations <sup>4</sup>	-	9,028	(9,028)
Impairment on property, plant and equipment <sup>5</sup>	(73,093)	-	(73,093)
Defined benefit liabilities <sup>6</sup>	(453)	(73)	(380)
Others	10,834		10,834
Deferred tax effect <sup>7</sup>	(6,531)	(15,634)	9,103
Changes in scope of consolidation	9,318	2,957	6,361
<b>Total adjustments</b>	<b>1,106,813</b>	<b>1,155,648</b>	<b>(48,835)</b>
<b>Adjusted amount under Korean IFRS</b>	<b>11,006,801</b>	<b>7,519,516</b>	<b>3,487,285</b>

<sup>1</sup> The factoring of trade receivables with no transfer of risk and rewards are treated as borrowings.

<sup>2</sup> Recognition of expected warranty costs by reference to the stage of completion of the contract activity, gross amount due from customers for contract work and gross amount due to customers for contract work

<sup>3</sup> Recognition of assets and liabilities in relation to the financial guarantee contracts.

<sup>4</sup> Other employee benefit obligations are expensed when earned.

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<sup>5</sup> Recognition of difference from fair value as impairment loss.

<sup>6</sup> Defined benefit liabilities is calculated by using an actuarial method.

<sup>7</sup> Deferred tax effects from the above adjustments and reclassification of deferred tax assets and deferred tax liabilities to non-current items.

Effects of Korean IFRS adoption on the Group's total assets, liabilities and equity as of December 31, 2010, are as follows:

<i>(In millions of Korean won)</i>	<b>Total assets</b>	<b>Total liabilities</b>	<b>Total equity</b>
Reported amount under previous K-GAAP	10,449,661	6,624,914	3,824,747
<b>Adjustments for:</b>			
Revenue recognition and others for construction contracts <sup>1</sup>	674,846	666,635	8,211
Financial guarantee contract <sup>2</sup>	46,969	25,511	21,458
Long-term employee benefit obligations <sup>3</sup>	-	11,312	(11,312)
Impairment on property, plant and equipment <sup>4</sup>	(73,093)	-	(73,093)
Defined benefit liabilities <sup>5</sup>	-	9,536	(9,536)
Others	9,513	-	9,513
Deferred tax effect <sup>6</sup>	-	12,005	(12,005)
Changes in scope of consolidation	(61,538)	(74,910)	13,372
<b>Total adjustments</b>	<b>596,697</b>	<b>650,089</b>	<b>(53,392)</b>
<b>Adjusted amount under Korean IFRS</b>	<b>11,046,358</b>	<b>7,275,003</b>	<b>3,771,355</b>

<sup>1</sup> Recognition of expected warranty costs by reference to the stage of completion of the contract activity, gross amount due from customers for contract work and gross amount due to customers for contract work

<sup>2</sup> Recognition of assets and liabilities in relation to the financial guarantee contracts.

<sup>3</sup> Other employee benefit obligations are expensed when earned.

<sup>4</sup> Recognition of difference from fair value as impairment loss.

<sup>5</sup> Defined benefit liabilities is calculated by using an actuarial method.

<sup>6</sup> Deferred tax effects from the above adjustments and reclassification of deferred tax assets and deferred tax liabilities to non-current items.

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Effects of Korean IFRS adoption on the Group's profit and comprehensive income for the year ended December 31, 2010, are as follows:

<i>(In millions of Korean won)</i>	<b>Profit</b>	<b>Comprehensive income</b>
Reported amount under previous K-GAAP	410,723	341,541
Revenue recognition and others for construction contracts <sup>1</sup>	9,784	9,784
Recognition of financial guarantee contracts <sup>2</sup>	12,947	12,947
Long-term employee benefit obligations <sup>3</sup>	(2,284)	(2,284)
Defined benefit liabilities <sup>4</sup>	9,003	(5,379)
Others	(26,238)	(25,241)
Deferred tax effect <sup>5</sup>	(15,799)	(16,496)
Changes in scope of consolidation	7,407	20,259
Total adjustments	(5,180)	(6,410)
Adjusted amount under Korean IFRS	405,543	335,131

<sup>1</sup> Recognition of expected warranty costs by reference to the stage of completion of the contract activity, gross amount due from customers for contract work and gross amount due to customers for contract work.

<sup>2</sup> Recognition of assets and liabilities in relation to the financial guarantee contracts.

<sup>3</sup> Other employee benefit obligations are expensed when earned.

<sup>4</sup> Defined benefit liabilities is calculated by using an actuarial method.

<sup>5</sup> Deferred tax effects from the above adjustments and reclassification of deferred tax assets and deferred tax liabilities to non-current items.

*(4) Effects on the cash flows*

On adoption of Korean IFRS, cash flows from interest received, interest paid, dividends received, and income taxes paid, which had not been separated presented, are presented separately on the statement of cash flows. In order to accommodate the change, cash flows related to relevant income/expenses, assets/liabilities have been adjusted. The effects of the change in exchange rate on cash and cash equivalents in a foreign currency are presented separately from cash flows from operating, investing and financing activities. Also, other Korean IFRS transition effects are reflected on cash flows where they have an effect on cash flows.