

# **Samsung Engineering Co., Ltd. and Subsidiaries**

**Consolidated Financial Statements  
December 31, 2011 and 2010**

# Samsung Engineering Co., Ltd. and Subsidiaries

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

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## Report of Independent Auditors

To the Shareholders and Board of Directors of  
Samsung Engineering Co., Ltd

We have audited the accompanying consolidated statements of financial position of Samsung Engineering Co., Ltd. and its subsidiaries (collectively referred to as the "Group") as of December 31, 2011 and 2010, and January 1, 2010, and the related consolidated statements of income, changes in equity and cash flows for years ended December 31, 2011 and 2010, expressed in Korean won. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain subsidiaries, whose statements reflect total assets representing 20% and 15% of the consolidated total assets as of December 31, 2011 and 2010, respectively, and total sales representing 14% and 13% of the consolidated total sales for the years then ended, respectively. Those financial statements were audited by other auditors whose reports have been furnished us, and our opinion expressed herein, insofar as it relates to the amounts included for those companies, is based solely on the reports of the other auditors.

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

In our opinion based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Samsung Engineering Co., Ltd. and its subsidiaries as of December 31, 2011 and 2010, and January 1, 2010 and their financial performance and cash flows for the years ended December 31, 2011 and 2010, in conformity with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean-IFRS").

The accompanying consolidated financial statements as of December 31, 2011 and 2010, and January 1, 2010, and for the years ended December 31, 2011 and 2010, have been translated into US dollars solely for the convenience of the reader and have been translated on the basis set forth in Note 31 to the consolidated financial statements.

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

Samil PricewaterhouseCoopers

Seoul, Korea  
March 8, 2012

This report is effective as of March 8, 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.

**Samsung Engineering Co., Ltd. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2011 and 2010, and January 1, 2010**

(In thousands of Korean won, in thousands of U.S dollars (Note 31))

	Notes	December 31,	December 31,	January 1,	December 31,	December 31,	January 1,
		2011 KRW	2010 KRW	2010 KRW	2011 USD	2010 USD	2010 USD
<b>Assets</b>							
<b>Current assets</b>							
Cash and cash equivalents		560,018,146	408,701,752	518,075,404	485,579	354,376	449,211
Short-term financial instruments	4	168,250,446	637,880,784	699,638,873	145,886	553,092	606,641
Trade receivables	6	1,033,256,645	377,125,301	564,269,238	895,913	326,997	489,265
Due from customers for contract work		1,639,331,608	769,943,263	382,032,927	1,421,427	667,600	331,252
Other receivables	6	50,767,596	66,871,872	32,088,570	44,019	57,983	27,823
Held-to-maturity securities	8	974,445	959,150	1,349,760	845	832	1,170
Derivative financial instruments	16	22,543,597	27,476,631	24,790,287	19,547	23,824	21,495
Advanced payments		592,804,822	389,164,616	123,462,688	514,007	337,436	107,052
Prepaid expenses		37,734,903	84,611,725	110,335,806	32,719	73,365	95,670
Prepaid construction expenses		6,255,047	27,537,524	9,988,218	5,424	23,877	8,661
Inventories		-	-	13,212,116	-	-	11,456
Other current assets		44,887,924	41,452,242	15,397,073	38,921	35,942	13,350
		<u>4,156,825,179</u>	<u>2,831,724,860</u>	<u>2,494,640,960</u>	<u>3,604,287</u>	<u>2,455,324</u>	<u>2,163,046</u>
<b>Non-current assets</b>							
Available-for-sale financial assets	7,16	56,804,075	113,151,726	47,847,227	49,254	98,111	41,487
Held-to-maturity financial assets	8	5,321,573	3,264,840	3,921,355	4,614	2,831	3,400
Derivative financial instruments	16	885,618	5,173,553	-	768	4,486	-
Investments in associates	9	383,726	342,462	-	333	297	-
Property, plant and equipment	10,16	700,298,365	462,011,166	320,682,176	607,213	400,599	278,056
Intangible assets	11	34,183,657	29,523,944	24,199,456	29,640	25,600	20,983
Long-term deposits	21	220,540,727	82,890,578	73,196,261	191,226	71,873	63,467
Long-term prepaid expenses		5,679,679	4,641,940	1,087,723	4,925	4,025	943
Deferred income tax assets		2,177,818	2,073,207	9,936,132	1,888	1,798	8,615
Other non-current assets	4,6	5,514,401	64,862	121,498	4,781	55	106
		<u>1,031,789,639</u>	<u>703,138,278</u>	<u>480,991,828</u>	<u>894,642</u>	<u>609,675</u>	<u>417,057</u>
<b>Total assets</b>		<u>5,188,614,818</u>	<u>3,534,863,138</u>	<u>2,975,632,788</u>	<u>4,498,929</u>	<u>3,064,999</u>	<u>2,580,103</u>

**Samsung Engineering Co., Ltd. and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2011 and 2010, and January 1, 2010**

**Current liabilities**

Trade payables		1,853,267,517	904,511,998	525,389,348	1,606,926	784,282	455,553
Borrowings	12	4,344,351	20,571,033	8,084,140	3,767	17,837	7,010
Due to customers for contract work	14,21	1,355,602,226	1,155,372,013	1,305,109,878	1,175,412	1,001,797	1,131,631
Other payables		208,361,844	131,569,273	101,981,842	180,666	114,081	88,426
Derivative financial instruments	16	38,448,450	30,167,670	34,549,923	33,338	26,158	29,957
Deposits		13,061,865	32,473,255	21,723,161	11,326	28,157	18,836
Accrued expenses	14	51,329,573	44,278,492	34,949,989	44,507	38,393	30,304
Current income tax liabilities		118,650,801	81,691,923	30,601,501	102,879	70,833	26,534
Other current liabilities		1,774,146	3,889,020	342,253	1,538	3,372	297
		<u>3,644,840,773</u>	<u>2,404,524,677</u>	<u>2,062,732,035</u>	<u>3,160,359</u>	<u>2,084,910</u>	<u>1,788,548</u>

**Non-current liabilities**

Derivative financial instruments	16	2,363,113	11,019,795	-	2,049	9,555	-
Retirement benefit obligations	13	24,086,137	27,957,175	27,682,224	20,885	24,241	24,003
Provisions for other liabilities	14	32,276,096	18,305,441	30,789,543	27,986	15,872	26,697
Deferred income tax liabilities		22,929,292	11,624,647	288,438	19,881	10,079	250
Other non-current liabilities		148,762,601	104,618,311	91,634,731	128,987	90,711	79,454
		<u>230,417,239</u>	<u>173,525,369</u>	<u>150,394,936</u>	<u>199,788</u>	<u>150,458</u>	<u>130,404</u>
<b>Total liabilities</b>		<u>3,875,258,012</u>	<u>2,578,050,046</u>	<u>2,213,126,971</u>	<u>3,360,147</u>	<u>2,235,368</u>	<u>1,918,952</u>

**Equity attributable to owners of the Parent**

Capital stock	17	200,000,000	200,000,000	200,000,000	173,415	173,415	173,415
Capital surplus	17	56,624,298	56,624,298	56,624,298	49,098	49,098	49,098
Retained earnings	18	1,358,353,330	937,816,181	675,030,674	1,177,798	813,160	585,304
Other reserve	19,20	(264,338,186)	(197,489,479)	(134,476,193)	(229,203)	(171,240)	(116,602)
<b>Non-controlling interest</b>		<u>(37,282,636)</u>	<u>(40,137,908)</u>	<u>(34,672,962)</u>	<u>(32,326)</u>	<u>(34,802)</u>	<u>(30,064)</u>
<b>Total equity</b>		<u>1,313,356,806</u>	<u>956,813,092</u>	<u>762,505,817</u>	<u>1,138,782</u>	<u>829,631</u>	<u>661,151</u>
<b>Total liabilities and equity</b>		<u>5,188,614,818</u>	<u>3,534,863,138</u>	<u>2,975,632,788</u>	<u>4,498,929</u>	<u>3,064,999</u>	<u>2,580,103</u>

The accompanying notes are an integral part of these consolidated financial statements.  
The US dollar figures are provided for information purposes only and do not form part of the audited financial statements. Refer to Note 31.

**Samsung Engineering Co., Ltd. and Subsidiaries**  
**Consolidated Statements of Income**  
**Years ended December 31, 2011 and 2010**

*(In thousands of Korean won, in thousands of U.S dollars, except per share amounts) (Note 31)*

	<b>Notes</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
		<b>KRW</b>	<b>KRW</b>	<b>USD</b>	<b>USD</b>
<b>Revenues</b>	21,30	9,298,184,260	5,312,261,561	8,062,242	4,606,140
<b>Cost of sales</b>	30	8,219,469,410	4,501,886,417	7,126,914	3,903,483
<b>Gross profits</b>	30	1,078,714,850	810,375,144	935,328	702,657
Administrative expenses	23	459,729,898	381,769,364	398,621	331,023
Other operating income	24	334,535,709	188,058,458	290,068	163,061
Other operating expenses	24	236,254,397	204,410,365	204,851	177,240
<b>Operating profit</b>		<b>717,266,264</b>	<b>412,253,873</b>	<b>621,924</b>	<b>357,455</b>
Share of profit of associates	8	35,536	-	31	-
Finance income		63,904,959	69,374,712	55,410	60,153
Finance costs		94,186,545	22,602,975	81,668	19,599
<b>Profit before income tax</b>		<b>687,020,214</b>	<b>459,025,610</b>	<b>595,697</b>	<b>398,009</b>
Income tax expense	26	172,494,530	122,403,055	149,566	106,133
<b>Profit for the year</b>		<b>514,525,684</b>	<b>336,622,555</b>	<b>446,131</b>	<b>291,876</b>
<b>Profit attributable to:</b>					
Owners of the parent		513,263,058	339,297,584	445,036	294,195
Non-controlling interests		1,262,626	(2,675,029)	1,095	(2,319)
<b>Earnings per share</b>	27				
<b>Basic earnings per share</b>		₩ 13,892	₩ 9,032	\$ 12.05	\$ 7.83
<b>Diluted earnings per share</b>		13,885	9,021	12.04	7.82

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**Samsung Engineering Co., Ltd. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**Years ended December 31, 2011 and 2010**

*(In thousands of Korean won, in thousands of U.S dollars (Note 31))*

	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>KRW</b>	<b>KRW</b>	<b>USD</b>	<b>USD</b>
<b>Profit for the year</b>	514,525,684	336,622,555	446,133	291,878
<b>Other comprehensive income</b>				
Change in value of available-for-sale financial assets	(54,133,165)	64,004,719	(46,938)	55,497
Gain on valuation of currency forwards	(37,216,245)	24,998,417	(32,269)	21,676
Gain on translation of foreign operations	4,419,635	(199,542)	3,832	(173)
Share of other comprehensive income of associates	5,714	-	5	-
Impact of change in corporate tax rate on deferred tax	21,750,155	(22,800,489)	18,859	(19,770)
<b>Other comprehensive income (loss) for the year, net of tax</b>	(65,173,906)	66,003,105	(56,511)	57,230
<b>Total comprehensive income for the year</b>	449,351,778	402,625,660	389,622	349,108
<b>Attributable to:</b>				
Equity holders of the Parent Company	446,556,258	407,360,163	387,198	353,213
Non-controlling interest	2,795,520	(4,734,503)	2,424	(4,105)
<b>Total comprehensive income for the year</b>	449,351,778	402,625,660	389,622	349,108

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**Samsung Engineering Co., Ltd. and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**Years ended December 31, 2011 and 2010**

(In thousands of Korean won)

	Capital Stock	Capital Surplus	Retained Earnings	Other reserves	Total Equity holders of the Parent	Non- controlling Interest	Total Equity
<b>Balance as of January 1, 2010</b>	200,000,000	56,624,298	675,030,674	(134,476,193)	797,178,779	(34,672,962)	762,505,817
<b>Comprehensive income</b>							
Profit for the year	-	-	339,297,584	-	339,297,584	(2,675,029)	336,622,555
Change in value of available-for-sale financial assets	-	-	-	49,923,681	49,923,681	-	49,923,681
Gain on valuation of currency forwards	-	-	-	16,278,966	16,278,966	-	16,278,966
Gain on translation of foreign operations	-	-	-	2,589,734	2,589,734	(2,789,276)	(199,542)
<b>Transactions with equity holders of the Company :</b>							
Dividends	-	-	(75,837,924)	-	(75,837,924)	-	(75,837,924)
Changes in consolidation scope	-	-	(631,090)	-	(631,090)	(641)	(631,731)
Treasury stock	-	-	-	(131,836,370)	(131,836,370)	-	(131,836,370)
Absorption of loss on disposal of treasury stock	-	-	(43,063)	43,063	-	-	-
Share options scheme	-	-	-	(12,360)	(12,360)	-	(12,360)
<b>Balance as of December 31, 2010</b>	200,000,000	56,624,298	937,816,181	(197,489,479)	996,951,000	(40,137,908)	956,813,092

**Samsung Engineering Co., Ltd. and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**Years ended December 31, 2011 and 2010**

<b>Balance as of January 1, 2011</b>	200,000,000	56,624,298	937,816,181	(197,489,479)	996,951,000	(40,137,908)	956,813,092
<b>Comprehensive income</b>							
Profit for the year	-	-	513,263,058	-	513,263,058	1,262,626	514,525,684
Change in value of available-for-sale financial assets	-	-	-	(42,629,441)	(42,629,441)	-	(42,629,441)
Gain on valuation of currency forwards	-	-	-	(26,969,474)	(26,969,474)	(338)	(26,969,812)
Share of other comprehensive income of associates	-	-	-	5,713	5,713	-	5,713
Gain on translation of foreign operations	-	-	-	2,886,403	2,886,403	1,533,232	4,419,635
<b>Transactions with equity holders of the Company :</b>							
Dividends	-	-	(92,319,656)	-	(92,319,656)	-	(92,319,656)
Changes in consolidation scope	-	-	-	-	-	59,752	59,752
Treasury stock	-	-	-	202,915	202,915	-	202,915
Absorption of loss on disposal of treasury stock	-	-	(22,077)	22,077	-	-	-
Share options scheme	-	-	-	(24,915)	(24,915)	-	(24,915)
Others	-	-	(384,176)	(341,985)	(726,161)	-	(726,161)
<b>Balance as of December 31, 2011</b>	<u>200,000,000</u>	<u>56,624,298</u>	<u>1,358,353,330</u>	<u>(264,338,186)</u>	<u>1,350,639,442</u>	<u>(37,282,636)</u>	<u>1,313,356,806</u>

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

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**Samsung Engineering Co., Ltd. and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**Years ended December 31, 2011 and 2010**

*(In thousands of U.S dollars (Note 31))*

	<b>Capital Stock</b>	<b>Capital Surplus</b>	<b>Retained Earnings</b>	<b>Other Componen ts of Equity</b>	<b>Total Equity holders of the Parent</b>	<b>Non- controlling Interest</b>	<b>Total Equity</b>
<b>Balance as of January 1, 2010</b>	173,415	49,098	585,304	(116,602)	691,215	(30,064)	661,151
<b>Comprehensive income</b>							
Profit for the year	-	-	294,197	-	294,197	(2,319)	291,878
Change in value of available-for-sale financial assets	-	-	-	43,288	43,288	-	43,288
Gain on valuation of currency forwards	-	-	-	14,115	14,115	-	14,115
Gain on translation of foreign operations	-	-	-	2,245	2,245	(2,418)	(173)
<b>Transactions with equity holders of the Company :</b>							
Dividends	-	-	(65,757)	-	(65,757)	-	(65,757)
Changes in consolidation scope	-	-	(547)	-	(547)	(1)	(548)
Treasury stock	-	-	-	(114,312)	(114,312)	-	(114,312)
Absorption of loss on disposal of treasury stock	-	-	(37)	37	-	-	-
Share options scheme	-	-	-	(11)	(11)	-	(11)
<b>Balance as of December 31, 2010</b>	<u>173,415</u>	<u>49,098</u>	<u>813,160</u>	<u>(171,240)</u>	<u>864,433</u>	<u>(34,802)</u>	<u>829,631</u>

**Samsung Engineering Co., Ltd. and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**Years ended December 31, 2011 and 2010**

<b>Balance as of January 1, 2011</b>	173,415	49,098	813,159	(171,239)	864,433	(34,802)	829,631
<b>Comprehensive income</b>							
Profit for the year	-	-	445,039	-	445,039	1,094	446,133
Change in value of available-for-sale financial assets	-	-	-	(36,963)	(36,963)	-	(36,963)
Gain on valuation of currency forwards	-	-	-	(23,385)	(23,385)	-	(23,385)
Share of other comprehensive income of associates	-	-	-	5	5	-	5
Gain on translation of foreign operations	-	-	-	2,503	2,503	1,329	3,832
<b>Transactions with equity holders of the Company :</b>							
Dividends	-	-	(80,048)	-	(80,048)	-	(80,048)
Changes in consolidation scope	-	-	-	-	-	53	53
Treasury stock	-	-	-	176	176	-	176
Absorption of loss on disposal of treasury stock	-	-	(19)	19	-	-	-
Share options scheme	-	-	-	(22)	(22)	-	(22)
Others	-	-	(333)	(297)	(630)	-	(630)
<b>Balance as of December 31, 2011</b>	<u>173,415</u>	<u>49,098</u>	<u>1,177,798</u>	<u>(229,203)</u>	<u>1,171,108</u>	<u>(32,326)</u>	<u>1,138,782</u>

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**Samsung Engineering Co., Ltd. and Subsidiaries**  
**Consolidated statements of Cash Flows**  
**Years ended December 31, 2011 and 2010**

*(In thousands of Korean won, in thousands of U.S dollars (Note 31))*

	Notes	2011 KRW	2010 KRW	2011 USD	2010 USD
<b>Cash flows from operating activities</b>					
Cash generated from operations	29	241,497,885	260,050,345	209,397	225,484
Interest received		39,930,425	32,608,362	34,623	28,274
Interest paid		(11,189,883)	(3,556,501)	(9,702)	(3,084)
Dividends received		1,590,347	1,736,100	1,379	1,505
Income tax paid		(96,358,813)	(78,349,916)	(83,551)	(67,935)
<b>Net cash generated from operating activities</b>		<b>175,469,961</b>	<b>212,488,390</b>	<b>152,146</b>	<b>184,244</b>
<b>Cash flows from investing activities</b>					
Proceeds from disposal of property, plant and equipment		2,428,295	1,408,844	2,106	1,222
Proceeds from disposal of intangible assets		1,192,923	393,282	1,034	341
Decrease of deposits		45,309,060	35,247,509	39,286	30,562
Net increase of current financial assets		469,630,338	61,758,088	407,206	53,549
Collection of current portion of held-to-maturity financial assets		959,150	1,349,760	832	1,170
Proceeds from disposal of available-for-sale financial assets		37,767,005	-	32,747	-
Decrease of other non-current assets		9,419	56,691	8	49
Acquisition of available-for-sale financial assets		-	(1,300,327)	-	(1,127)
Proceeds from subsidiary		-	(631,731)	-	(548)
Acquisition of held-to-maturity financial assets		(100,800)	(302,635)	(87)	(262)
Acquisition of shares of associates		(14)	(342,462)	-	(297)
Acquisition of property, plant and equipment		(267,415,444)	(169,823,243)	(231,870)	(147,250)

**Samsung Engineering Co., Ltd. and Subsidiaries**  
**Consolidated statements of Cash Flows**  
**Years ended December 31, 2011 and 2010**

Acquisition of intangible assets	(10,186,965)	(9,357,891)	(8,833)	(8,114)
Increase of deposits	(182,409,197)	(46,440,675)	(158,163)	(40,268)
Increase of other non-current assets	(6,312,129)	-	(5,473)	-
<b>Net cash used in investing activities</b>	<b>90,871,641</b>	<b>(127,984,790)</b>	<b>78,793</b>	<b>(110,973)</b>
<b>Cash flows from financing activities</b>				
Proceeds from exercise of share options	150,500	45,720	130	-
Acquisition of subsidiary	59,751	-	52	10,827
Net decrease from borrowings	(16,226,681)	12,486,892	(14,070)	(65,757)
Dividends paid	(92,319,430)	(75,837,906)	(80,048)	(114,369)
Acquisition of treasury stock	-	(131,901,498)	-	-
<b>Net cash used in financing activities</b>	<b>(108,335,860)</b>	<b>(195,206,792)</b>	<b>(93,936)</b>	<b>(169,299)</b>
Changes on cash and cash equivalents due to translating currency	2,599,040	710,105	2,254	616
Net (decrease)/increase in cash and cash equivalents	160,604,782	(109,993,087)	139,257	(95,412)
Beginning of the year	408,701,752	518,075,404	354,376	449,211
Exchange gains(losses) on cash and cash equivalents	(9,288,388)	619,435	(8,054)	537
End of the year	<b>560,018,146</b>	<b>408,701,752</b>	<b>485,579</b>	<b>354,336</b>

The accompanying notes are an integral part of these consolidated financial statements.  
The US dollar figures are provided for information purposes only and do not form part of the audited financial statements. Refer to Note 31.

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**1. General Information**

In accordance with Korean International Financial Reporting Standards ("Korean IFRS") 1027, *Consolidated and Separate Financial Statements*, Samsung Engineering Co., Ltd ("SECL") created consolidated financial statements. The SECL, as the controlling company, consolidated its 20 subsidiaries (collectively referred to as "the Group") including two associates and joint venture as described in Note 1.

**Company overview**

Samsung Engineering Co., Ltd. ("SECL" or "Parent Company") was established on January 20, 1970 under the Commercial Law of the Republic of Korea to engage in the engineering services for plant and other construction. The Company listed its shares on the Korea Stock Exchange on December 24, 1996. The address of registered office is Seoul, Korea. As of December 31, Capital stock of The company is 200,000,000 thousands of Korean won, the largest shareholder is Cheil Industries Inc which has 13 % of total equity.

As of December 31, 2011, the list of major shareholders is as follows:

Name of Shareholder	Number of Shares	Ownership (%)
Cheil Industries Inc.	5,238,299	13.10
National Pension Service	3,846,299	9.62
Samsung SDI Co., Ltd.	2,036,966	5.09
Korea Investment Trust Management Co., Ltd.	1,748,374	4.37
Fidelity Funds	1,667,782	4.17

**Consolidated subsidiaries**

As of December 31, 2011, details on subsidiaries are stated below :

Name of Subsidiaries	Number of shares owned by SECL	Number of shares owned by subsidiaries	Total	Ownership (1)	Fiscal year end	Location
Samsung Saudi Arabia Co., Ltd.	3,800	200	4,000	100.00%	December 31	Saudi Arabia
Samsung EPC Company Ltd.	-	37,500	37,500	75.00%	December 31	Saudi Arabia
Samsung Engineering Construction (Shanghai) Co., Ltd.	-	-	-	100.00%	December 31	China
Samsung Ingenieria Manzanillo S.A. de C.V.	99,900	-	99,900	99.90%	December 31	Mexico
Samsung Engineering Trinidad Co., Ltd.	-	-	-	100.00%	December 31	Trinidad and Tobago
Samsung Engineering India Private Ltd.	15,749,990	-	15,749,990	100.00%	March(3) 31	India
Samsung Engineering America Inc.	2,500,000	-	2,500,000	100.00%	December 31	USA
SEA Construction LLC	-	-	-	100.00%	December 31	USA
Grupo Samsung Ingenieria Mexico S.A. de C.V.	19,999	-	19,999	100.00%	December 31	Mexico
Samsung Engineering Kazakhstan LLP	-	-	-	100.00%	December 31	Kazakhstan
Samsung Engineering Japan Co., Ltd.	900	-	900	100.00%	December 31	Japan
Samsung Engineering(Malaysia)SDN.,	250,000	-	250,000	100.00%	December 31	Malaysia

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BHD

Samsung Engineering Magyarorszag KFT	-	-	-	100.00%	December 31	Hungary
Samsung Ingenieria Minatitlan, S.A. de C.V.	49,950	-	49,950	99.90%	December 31	Mexico
Samsung Engineering Australia Pty Limited	100,000	-	100,000	100.00%	December 31	Australia
KEPC Co., Ltd.(2)	82,500	167,460	249,960	43.80%	December 31	Thailand
Samsung Thai Engineering Co., Ltd.(2)	20,458	40	20,498	16.12%	December 31	Thailand
Samsung Ingenieria Energia S.A. de C.V.	9,999	-	9,999	99.99%	December 31	Mexico
Samsung Engineering America Do Sul Projecto E Consultoria Ltda.	699,930	-	699,930	99.99%	December 31	Brazil
Muharraaq Wastewater Services Company W.L.L.	260	-	260	65%	December 31	Bahrain

(1) The interest of subsidiaries is considered the interest of the Group in the subsidiaries.

(2) Minority shareholders entrusted their voting right to appoint and dismiss directors of the company. As a result, the Company holds the majority in these subsidiaries.

(3) Unlike SECL, the fiscal year end of Samsung Engineering India Private Ltd. is March 31. The company considered financial statements of Samsung Engineering India Private Ltd as of December 31 in the consolidated financial statements.

A summary of financial information of subsidiaries as of and for the years ended December 31, 2011, follows:

*(In thousands of Korean won)*

Name of Subsidiaries	Assets	Liabilities	Equity	Sales	Net income (losses)	Total comprehensive income
Samsung Saudi Arabia Co., Ltd.	399,472,648	333,704,558	65,768,090	512,813,601	54,903,531	57,111,200
Samsung Engineering Construction (Shanghai) Co., Ltd.	52,372,150	20,694,734	31,677,416	178,744,158	14,013,623	16,093,637
Samsung Ingenieria Manzanillo S.A. de C.V.	12,529,237	21,988,502	(9,459,265)	145,517,725	(16,349,274)	(15,681,463)
Samsung Engineering Trinidad Co., Ltd.	14,360,964	18,464,265	(4,103,301)	59,006,052	7,497,949	8,011,373
Samsung Engineering India Private Ltd.	33,641,937	38,210,146	(4,568,209)	41,071,486	6,497,667	7,569,922
Samsung Engineering America Inc.	85,560,761	85,823,213	(262,452)	86,294,134	(1,944,353)	(2,050,269)
Grupo Samsung Ingenieria Mexico S.A. de C.V.	1,086,538	139,715	946,823	3,400,812	307,566	241,182
Samsung Engineering Kazakhstan LLP	2,977,302	5,065,920	(2,088,618)	4,346,692	(470,953)	(486,455)
Samsung Engineering Japan Co., Ltd.	5,013,865	2,215,398	2,798,467	5,364,361	2,330,538	2,521,726
Samsung Engineering(Malaysia)SDN., BHD	31,897,384	30,113,858	1,783,526	69,890,172	2,453,751	2,128,275
Samsung Engineering Magyarorszag KFT	5,048,049	3,517,659	1,530,390	25,924,910	9,087,735	8,931,701
Samsung Ingenieria Minatitlan, S.A. de C.V.	428,081	5,674,476	(5,246,395)	14,396,669	(966,637)	(491,304)
Samsung Engineering	27,879	23,385	4,494	-	(35,876)	15,241

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Australia Pty Limited						
KEPC Co., Ltd.	273,984	75,117,156	(74,843,172)	-	(1,251,805)	(3,709,602)
Samsung Thai Engineering Co., Ltd.	6,626,608	417,523	6,209,085	7,042,402	2,364,992	2,512,746
Samsung Ingenieria Energia S.A. de C.V.	16,653,869	22,052,281	(5,398,412)	95,950,926	(2,474,236)	(5,407,684)
Samsung Engineering America Do Sul	208,377	9,865	198,512	364,552	(251,208)	(272,609)
Muharraq Wastewater Services Company W.L.L.	61,180	-	61,180	-	-	298

A summary of financial information of subsidiaries as of and for the years ended December 31, 2010, follows:

*(In thousands of Korean won)*

Name of Subsidiaries	Assets	Liabilities	Equity	Sales	Net income (losses)	Total comprehensive income
Samsung Saudi Arabia Co., Ltd.	187,568,959	167,703,483	19,865,476	299,694,278	(3,636,691)	(4,169,537)
Samsung Engineering Construction (Shanghai) Co., Ltd.	26,435,232	10,590,541	15,844,691	54,509,290	3,455,206	3,707,925
Samsung Ingenieria Manzanillo S.A. de C.V.	49,188,551	42,902,815	6,285,736	254,092,475	4,683,483	4,747,021
Samsung Engineering Trinidad Co., Ltd.	6,509,480	18,388,054	(11,878,574)	8,348,098	(9,559,011)	(9,322,911)
Samsung Engineering India Private Ltd.	29,002,602	41,276,209	(12,273,607)	20,115,723	(3,156,898)	(3,292,374)
Samsung Engineering America Inc.	3,966,213	2,227,009	1,739,204	23,328,852	(488,018)	(536,632)
Grupo Samsung Ingenieria Mexico S.A. de C.V.	826,107	86,163	739,944	1,841,423	(535,732)	(501,429)
Samsung Engineering Kazakhstan LLP	2,337,414	3,931,066	(1,593,652)	10,858,085	(1,981,719)	(1,973,207)
Samsung Engineering Japan Co., Ltd.	851,929	559,633	292,296	4,240,738	154,509	170,064
Samsung Engineering (Malaysia)SDN., BHD	363,260	740,082	(376,822)	-	(66,986)	(97,901)
Samsung Engineering Magyarorszag KFT	24,183,466	12,478,452	11,705,014	52,763,223	8,811,967	8,153,045
Samsung Ingenieria Minatitlan,S.A. de C.V.	827,660	5,687,644	(4,859,984)	3,861,527	(1,361,145)	(1,466,037)
Samsung Engineering Australia Pty Limited	335,681	5,413	330,268	-	(760,192)	(711,002)
KEPC Co., Ltd.	5,421,699	81,972,385	(76,550,686)	428,363	(4,322,246)	(9,739,362)
Samsung Thai Engineering Co., Ltd.	4,670,612	669,963	4,000,649	2,423,503	(297,054)	7,256

**Changes in consolidation scope**

The subsidiaries newly included from the consolidated financial statements as of December 31, 2011, are as follows:

Subsidiaries	Remark
Samsung Ingenieria Energia S.A. de C.V.	Newly incorporated
Samsung Engineering America Do Sul Projeto E Consultoria Ltda.	Newly incorporated
	Newly incorporated

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Muharraq Wastewater Services Company W.L.L.	Newly incorporated
Samsung EPC Company Ltd.	Newly incorporated

There was no subsidiary excluded during the year.

**Joint-venture investment**

The list of joint-venture is as follows:

*(In thousands of Korean won)*

Joint-venture investment	Location	December 31, 2011		December 31, 2010	January 1, 2010
		Ownership(%)	Book value	Book value	Book value
TSJ limited	Malta	45.00	67,333	67,333	-

The consolidated financial information relating to interest of the Group in a joint venture is as follows:

*(In thousands of Korean won)*

	2011	2010
Current assets	365,753,977	167,155,575
Non-current assets	8,660,195	1,882,355
Total assets	374,414,172	169,037,930
Current liabilities	354,946,493	147,872,159
Non- current liabilities	3,067,198	-
Total liabilities	358,013,691	147,872,159
Total asset, net	16,400,481	21,165,771
Sales	146,617,569	1,234,933
Cost of sales	144,702,840	1,186,972
Other operating income	10,627,057	13,434,134
Other operating expenses	3,892,990	5,918,644
Operating income	8,564,635	7,563,452

**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 conformity 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.

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

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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 3.

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 2.4.

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 derecognized as a result of a transaction that occurred before the date of transition to Korean-IFRS. This amendment is effective for the Group as of January 1, 2012.

- 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.

- 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.

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- 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.

- 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-IFRS1101 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within Korean-IFRSs. This amendment will be effective for the Group as of January 1, 2013.

The Group expects that amended standards which are not early amended, except for Korean-IFRS 1019 Employee Benefits, would not have an impact on the financial statements.

## **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 (including special purpose entities) over which the Company 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 Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. 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 acquisition date 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.

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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 to 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.

**(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.

The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in retained earnings is recognized in retained earnings 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.

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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.

(e) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties (venturers) exercise joint control. As with associates, investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in jointly controlled entities includes goodwill identified on acquisition, net of accumulated impairment loss. The Group does not recognize its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

## **2.3 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 and qualifying net investment hedges.

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

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:

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- 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 borrowings designated for hedging the investment and other currency instruments 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 Group 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### **2.4. Critical Accounting Estimates and Judgments**

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

##### **(a) Recognition of income**

The Group recognizes revenue associated with construction contracts using the percentage of completion methods. In the percentage of completion methods, the Group estimates ratio of actual incurred contract costs to total estimated costs. Present amount of revenue can be changed by volatility in early construction, the change in scope of construction performance, costs, plan by client and relating factors.

##### **(b) Provisions for construction warranties**

As described in Note 14, the Group recognizes provisions for construction warranties. The amounts are estimated based on historical data.

##### **(c) Post-employment obligations**

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 13.

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(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

(e) 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.

## **2.5 Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (Note 30). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

## **2.6 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. Bank overdrafts are included as an component of short borrowing in the statement of financial position.

## **2.7 Financial Assets and liabilities**

(a) Classification

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

(1) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities 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.

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(2) 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', 'short term financial instruments' and 'trade and other receivables' in the statement of financial position.

(3) 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.

(4) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group intends and is able to hold to maturity and are classified as 'held-to-maturity financial investments' in the statements of financial position. If the Group were to sell other than an insignificant amounts of held-to-maturity investments, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity investments are included in non-current assets, except for those with maturities of less than 12 months after the end of the reporting period, which are classified as current assets.

(5) 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 payables' and 'other payables' 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.

(b) 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 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

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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 expenses'.

Interest on available-for-sale and held-to-maturity securities calculated using the effective interest method is recognized in the income statement as part of 'financial income'. 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.

**(c) Offsetting financial instruments**

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

**(d) 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. If the risk and rewards of ownership of transferred assets have not been substantially transferred, the Group reviews the level of control retained over that asset and the extent of its continuing involvement to determine if transfers do not qualify for derecognition.

Collaterals (trade receivables and other) provided in transactions of discount and factoring of trade receivables do meet the requirements for asset derecognition if risks and rewards substantially transfer in the event the debtor defaults.

**(e) Impairment of Financial Assets**

**(1) 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;
- Breaches such as delinquency or default 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

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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.

**(2) 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 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 consolidated income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

**2.8 Trade Receivables**

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

**2.9 Property, Plant and Equipment**

All property, plant and equipment are stated at historical cost less depreciation. 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.

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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:

	Estimated useful lives
Buildings	20 - 40 years
Structures	20 - 40 years
Machinery	6 - 10 years
Tools and equipment	3 - 20 years
Vehicles	4 years
Construction heavy equipment	10 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(expenses) ' in the income statement.

## **2.10 Intangible Assets**

### **(a) Membership rights**

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

### **(b) Software**

Software is stated as amount of historical cost, and amortized using straight-line method over four years of estimated useful lives. If there is an indication of impairment, the Group evaluates the book value of software. And the Group reduces the book value of asset to recoverable amount in case of book value is over recoverable amount.

## **2.11 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.

## **2.12 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.

## **2.13 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.

## **2.14 Employee Benefits**

### **(a) Defined benefit liability**

Group companies operate a defined benefit plan. A defined benefit plan is a pension plan that is not a defined contribution plan under which the Group pays fixed contributions into a separate entity. 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 actuarial gains and losses and 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 inflows 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.

Exceeded amount over 10% of fair value of plan assets or 10% of present value of defined benefit liability among Actuarial gains and losses arising from difference between experience adjustments and changes in actuarial assumptions is recognized as income or expenses for expected average number of employment years

### **(b) Share-based payments**

The Group operates equity-settled, share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted with considerations to market performance conditions and non-vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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**2.15 Provisions and contingent liabilities**

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.

The Group measures provisions as present value of expected expenditure for settle the obligation. The discount rate for calculating present value is before-tax interest rate considering inherent risk of obligation and valuation in present market for time value of money. Increase of provision arising from past time is recognized as interest expenses.

And also, the Group recognizes contingent liabilities in Note 14 when a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

**2.16 Derivative Financial Instruments and Hedging Activities**

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The resulting gain or loss is recognized in 'other operating income(expenses)' according to the nature of transactions.

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(expenses)'.

Amounts accumulated in other comprehensive income are reclassified to profit or loss in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement within 'other operating income (expenses)'.

The Group designates certain derivatives as either:

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

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 16. Movements on the hedging reserve in other comprehensive income are shown in Note 16. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining

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hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

**(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. The Group applies fair value hedge accounting for hedging exchange risk with buying materials relating to firm commitment.

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

**(b) Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within 'other operating income (expenses)'.

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 sale that is hedged takes place). To hedge the exchange risk arising from the procurement of materials, the Group holds commodity derivatives accounted for as cash flow hedges. The gain or loss relating to the effective portion of commodity forwards is recognized in the income statement within 'cost of sales' whereas the ineffective portion within 'other operating income (expenses)'.

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 (expenses)'.

## **2.17 Share Capital**

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 Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received is included in equity attributable to the Company's equity holders.

## **2.18 Dividend Distribution**

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

## **2.19 Revenue Recognition**

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

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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 contracts are contracts specifically negotiated for the construction of an asset according to Korean-IFRS 1011(construction contracts).

When the outcome of a construction contract can be estimated reliably, the Group recognizes contract revenue associated with the construction contract as revenue respectively by reference to the stage of completion of the contract activity at the end of the reporting period. the stage of completion of the contract activity is calculated as ratio of contract costs incurred for work performed to the estimated total contract costs.

Costs that relate directly to a contract and are incurred in securing the contract are also included as prepaid construction expenses if they can be separately identified and measured reliably and it is probable that the contract will be obtained. Those prepaid construction expenses is transferred to contracts costs after starting construction.

(b) 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.

(c) Dividend income

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

**2.20 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. In current period, capitalized borrowing cost is ₩ 8,766 million using weighted average borrowing interest rate for current term.

**2.21 Government Grants**

Grants from a government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs or income that they are intended to compensate.

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**2.22 Current and Deferred Income Tax**

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the 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.

**2.23 Approval of Issuance of the Financial Statements**

The issuance of the December 31, 2011 consolidated financial statements of the Group was approved by the Board of Directors on February 24, 2012.

**3. Conversion to Korean-IFRS**

The conversion date of the Group is January 1, 2010, and the first-time adoption date is January 1, 2011. The Group restated the statement of financial position as of January 1, 2010, the reporting date is December 31, 2011.

The Group elected particular exemptions and related compulsory exceptions which Korean-IFRS is not completely retroactively adopted under Korean IFRS 1101(first-time adoption of international financial Reporting Standards).

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(A) Significant differences of accounting policies

The significant differences between the policies under the Korean-IFRS and before the Korean-IFRS are as follows:

(1) The first-time adoption of Korean-IFRS

Electively adopted exemptions from Korean IFRS are as follows:

- 1) Business combination : the Group did not adopt Korean-IFRS 1103(business combinations) for business combinations before conversion date (January 1, 2010)
- 2) Cumulative translation differences : the Group considered all of cumulative translation differences as 'zero' as of conversion date(January 1, 2010)
- 3) Employee benefits : the Group recognized all of accumulated actuarial gains and losses as of conversion date (January 1, 2010)
- 4) Decommissioning liabilities included in the cost of property, plant and equipment: the Group adopted exemption for changes in existing decommissioning, restoration and similar liabilities under Korean-IFRS 1101 which is about Korean-IFRS 2101.

(2) Employee benefits

The Group recognized the total amount of post-employment benefits for employees to working for at least a year, as provisions for post-employment benefits. Under Korean-IFRS, the Group recognized liabilities for post-employment benefits using actuarial method.

(3) Change in depreciation method of property, plant and equipment and intangible assets

The Group depreciated certain property, plant and equipment and intangible assets using declining - balance method under the previous K-GAAP. Under Korean-IFRS, the Group changed the depreciation method from declining –balance method to straight – line method.

(4) Financial instruments

The Group recognized allowance account for credit losses as amount of expected losses for financial assets calculated using reasonable and objective standards. Under Korean-IFRS, the Group assessed impairment individually for individually significant financial assets. If there is no objective evidence of individual impairment, the Group assessed impairment for significant financial assets included in groups of financial assets which has similar credit risk.

Also, the Group measured financial instruments using the transaction price under the previous K-GAAP. Under Korean-IFRS, financial instruments are assessed by present value discounted using appropriate market interest rate.

(5) Assets and liabilities relating to revenue recognized under the percentage of completion method

The Group recognized due from customers for contract work and due to customers for contract work as net amount for each contract, under Korean –IFRS, recognized for gross amount.

(6) Provision for construction warranties

Under the previous K-GAAP, the Group recognized provision for construction warranties as of

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construction closing date. Under Korean IFRS, provision for construction warranties are recognized by the percentage of completion method.

(7) Deferred income tax

Under the previous K-GAAP, the Group classified deferred tax liabilities and assets into current and non-current according to the classification of relating item. If deferred tax liabilities and assets are not related with items on the statement of financial position, the Group classified deferred tax items according to period the item is expected to reverse. Under Korean –IFRS, deferred liabilities and assets are classified as non-current item.

(B) Changes in consolidation scope

Under the previous K-GAAP, the Group excluded subsidiaries which total assets of the prior period(In case of newly incorporated – capital stock when established) are under the ₩ 10,000 million according to 'the Enforcement Decree of the Act on External Audit of Stock Companies' Under Korean-IFRS, the Group includes all subsidiaries, over which it has actual control, in the consolidation.

As of conversion date, the change of scope according to adoption of Korean-IFRS is as follows :

Consolidation scope before Korean-IFRS	Consolidation scope under Korean-IFRS
Samsung Saudi Arabia Co., Ltd.,	Samsung Saudi Arabia Co. Ltd.,
Samsung Engineering Construction (Shanghai) Co., Ltd.	Samsung Engineering Construction (Shanghai) Co. Ltd., KEPC Co. Ltd.,
Samsung Engineering Trinidad Co., Ltd.,	Samsung Engineering MagyarorszagKFT
Samsung Ingenieria Manzanillo S.A. de C.V.	Samsung Engineering Trinidad Co. BHD,
	Samsung Ingenieria Manzanillo S.A. de C.V.
	Samsung Engineering (Malaysia) SDN.
	Samsung Ingenieria Mexico S.A.de C.V.
	Samsung Ingenieria Minatitlan S.A. De C.V.,
	Samsung Thai Engineering Co. Ltd.,
	Samsung Engineering India Private Ltd.
	Grupo Samsung Ingenieria Mexico Sa De C.V.
	Samsung Engineering America Inc.
	Samsung Engineering Kazakhstan LLP
	Samsung Engineering Japan Co. Ltd.,
	Samsung Ingenieria Tampico, S.A. De C.V

(C) The impact on financial statements, operating performance and cash flows

(1) As of January 1, 2010(conversion date) the adjustments are as follows:

<i>(In thousands of Korean won)</i>	Assets	Liabilities	Equity
Before Korean-IFRS	2,700,009,201	1,925,926,197	774,083,004
Adjustments:			
Employee benefits	-	16,662,421	(16,662,421)
Change of depreciation methods on property, plant and equipment and intangible assets	10,267,116	-	10,267,116
Measurement on assets and liabilities relating to sales	235,350,176	235,350,176	-

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recognized using the percentage of completion method

Valuation of financial instrument as fair value	1,010,316	3,082,609	(2,072,293)
Change in consolidation scope	34,529,819	42,005,355	(7,475,536)
Others	-	(2,865,506)	2,865,506
Income tax effect on adjustments	(5,533,840)	(7,034,281)	1,500,441
Total adjustments	<u>275,623,587</u>	<u>287,200,774</u>	<u>(11,577,187)</u>
Under Korean-IFRS	<u>2,975,632,788</u>	<u>2,213,126,971</u>	<u>762,505,817</u>

(2) As of and for the year ended December 31, 2010(conversion date), the adjustments are as follows:

<i>(In thousands of Korean won)</i>	Assets	Liabilities	Equity	Net income	Comprehensive net income
Before Korean-IFRS	<u>3,189,646,550</u>	<u>2,201,617,686</u>	<u>988,028,864</u>	<u>354,885,002</u>	<u>417,848,667</u>
Adjustments:					
Employee benefits	122,492	11,206,970	(11,084,478)	5,577,942	5,577,942
Change of depreciation methods on property, plant and equipment and intangible assets	8,385,489	-	8,385,489	(1,881,628)	(1,881,628)
Measurement on assets and liabilities relating to sales recognized using the percentage of completion method	146,138,863	146,138,863	-	-	-
Provision for construction warranties	-	487,687	(487,687)	(487,687)	(487,687)
Valuation of financial instrument as fair value	652,750	3,025,781	(2,373,031)	(526,809)	(300,737)
Change in consolidation scope	50,247,472	80,456,599	(30,209,127)	(18,139,347)	(15,276,244)
Interest in Investment associated with joint venture	147,872,159	147,872,159	-	-	-
Others	-	(13,066)	13,066	(2,852,439)	(2,852,439)
Income tax effect on adjustments	(8,202,637)	(12,742,633)	4,539,996	47,521	(2,215)
Total adjustments	<u>345,216,588</u>	<u>376,432,360</u>	<u>(31,215,772)</u>	<u>(18,262,447)</u>	<u>(15,223,008)</u>
Under Korean-IFRS	<u>3,534,863,138</u>	<u>2,578,050,046</u>	<u>956,813,092</u>	<u>336,622,555</u>	<u>402,625,659</u>

(3) Adjustments to cash flows in 2010

Under Korean-IFRS, the Group adjusted cash flows relating to income(expenses) and assets(liabilities) to recognize 'interest received', 'interest paid', 'dividend received', 'income tax paid' separately on the statements of cash flows. There are no other significant differences between the previous K-GAAP and the Korean -IFRS. And also, the Group recognized the effect on exchange rate changes on cash and cash equivalents separately from cash flows from operating activities, investing activities, and financing activities.

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**4. Financial instruments subject to withdrawal restrictions**

Short and long-term financial instruments subject to withdrawal restrictions as of December 31, 2011, and 2010, and January 1, 2010, consist of the following:

<i>(In thousands of Korean won)</i>	<u>Dec. 31, 2011</u>	<u>Dec. 31, 2010</u>	<u>Jan. 1, 2010</u>
(1) Cash and cash equivalents			
Guarantees of indebtedness	14,880,389	184,374	-
(2) Short-term financial instruments			
Government grant	2,258,356	3,185,287	4,286,976
Guarantees of indebtedness	250,359	299,996	20,584,974
(3) Long-term financial instruments			
Cash and bank deposits	17,500	35,578	36,107
<b>Total</b>	<u>17,406,604</u>	<u>3,705,235</u>	<u>24,908,057</u>

As of December 31, 2011, the Group has deposited ₩10,600 million (2010 : ₩5,500 million) into the bank as a fund for a subcontractor.

**5. Financial instruments by category**

(a) Categorizations of financial instruments as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

<i>(In thousands of Korean won)</i>	<u>December 31, 2011</u>					<b>Total</b>
	<b>Assets at fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Financial Assets as available-for-sale</b>	<b>Held-to-maturity investments</b>	<b>Derivatives designated as hedges</b>	
<b>Financial Assets</b>						
Cash and cash equivalents	-	560,018,146	-	-	-	560,018,146
Short-term financial instruments	-	168,250,446	-	-	-	168,250,446
Trade receivables	-	1,033,256,645	-	-	-	1,033,256,645
Due from customers for contract work	-	1,639,331,608	-	-	-	1,639,331,608
Other accounts and notes receivable	-	50,767,596	-	-	-	50,767,596
Financial assets as available-for-sale	-	-	56,804,075	-	-	56,804,075
Held-to-maturity investments	-	-	-	6,296,018	-	6,296,018
Foreign currency forward	3,610,640	-	-	-	6,502,621	10,113,261
Other financial assets(*)	-	236,438,029	-	-	-	236,438,029
<b>Total</b>	<u>3,610,640</u>	<u>3,688,062,470</u>	<u>56,804,075</u>	<u>6,296,018</u>	<u>6,502,621</u>	<u>3,761,275,824</u>

(\*) Other financial assets consist of long-term deposits, other current assets and other non-current assets that are presented on the statement of financial position.

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<i>(In thousands of Korean won)</i> <b>Financial liabilities</b>	<b>December 31, 2011</b>			
	<b>Liabilities at fair value through profit and loss</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Derivatives designated as hedges</b>	<b>Total</b>
Trade payables	-	1,853,267,517	-	1,853,267,517
Other accounts payable	-	208,361,844	-	208,361,844
Short-term borrowings	-	4,344,351	-	4,344,351
Foreign Currency Forward	3,190,648	-	32,449,376	35,640,024
Other financial liabilities(*)	-	200,092,174	-	200,092,174
<b>Total</b>	<b>3,190,648</b>	<b>2,266,065,886</b>	<b>32,449,376</b>	<b>2,301,705,910</b>

(\*) Other financial liabilities consist of accrued expense and other non-current liabilities.

<i>(In thousands of Korean won)</i> <b>Financial Assets</b>	<b>December 31, 2010</b>					
	<b>Assets at fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Financial Assets as available-for-sale</b>	<b>Held-to-maturity investment:</b>	<b>Derivatives designated as hedges</b>	<b>Total</b>
Cash and cash equivalents	-	408,701,752	-	-	-	408,701,752
Short-term financial instruments	-	637,880,784	-	-	-	637,880,784
Trade receivables	-	377,125,301	-	-	-	377,125,301
Due from customers for contract work	-	769,943,263	-	-	-	769,943,263
Other accounts and notes receivable	-	66,871,872	-	-	-	66,871,872
Financial assets as available-for-sale	-	-	113,151,726	-	-	113,151,726
Held-to-maturity investments	-	-	-	4,223,990	-	4,223,990
Foreign currency forward	63,436	-	-	-	20,506,240	20,569,676
Other financial assets	-	84,866,050	-	-	-	84,866,050
<b>Total</b>	<b>63,436</b>	<b>2,345,389,022</b>	<b>113,151,726</b>	<b>4,223,990</b>	<b>20,506,240</b>	<b>2,483,334,414</b>

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<i>(In thousands of Korean won)</i> <b>Financial liabilities</b>	<b>December 31, 2010</b>			
	<b>Liabilities at fair value through profit and loss</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Derivatives designated as hedges</b>	<b>Total</b>
Trade payables	-	904,511,998	-	904,511,998
Other accounts payable	-	131,569,273	-	131,569,273
Short-term borrowings	-	20,571,033	-	20,571,033
Foreign currency forward	1,523,340	-	36,328,184	37,851,524
Other financial liabilities	-	148,896,803	-	148,896,803
<b>Total</b>	<b>1,523,340</b>	<b>1,205,549,107</b>	<b>36,328,184</b>	<b>1,243,400,631</b>

<i>(In thousands of Korean won)</i> <b>Financial Assets</b>	<b>January 1, 2010</b>					
	<b>Assets at fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Financial Assets as available-for-sale</b>	<b>Held-to-maturity investments</b>	<b>Derivatives designated as hedges</b>	<b>Total</b>
Cash and cash equivalents	-	518,075,404	-	-	-	518,075,404
Short-term financial instruments	-	699,638,873	-	-	-	699,638,873
Trade receivables	-	564,269,238	-	-	-	564,269,238
Due from customers for contract work	-	382,032,927	-	-	-	382,032,927
Other accounts and notes receivable	-	32,088,570	-	-	-	32,088,570
Financial assets as available-for-sale	-	-	47,847,227	-	-	47,847,227
Held-to-maturity investments	-	-	-	5,271,115	-	5,271,115
Foreign currency forward	3,331,512	-	-	-	-	3,331,512
Other financial assets	-	73,317,759	-	-	-	73,317,759
<b>Total</b>	<b>3,331,512</b>	<b>2,269,422,771</b>	<b>47,847,227</b>	<b>5,271,115</b>	<b>-</b>	<b>2,325,872,625</b>

<i>(In thousands of Korean won)</i> <b>Financial liabilities</b>	<b>January 1, 2010</b>			
	<b>Liabilities at fair value through profit and loss</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Derivatives designated as hedges</b>	<b>Total</b>
Trade payables	-	525,389,348	-	525,389,348
Other accounts payable	-	101,981,842	-	101,981,842

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Short-term borrowings	-	8,084,140	-	8,084,140
Foreign currency forward	34,549,923	-	-	34,549,923
Other financial liabilities	-	126,584,720	-	126,584,720
<b>Total</b>	<b>34,549,923</b>	<b>762,040,050</b>	<b>-</b>	<b>796,589,973</b>

(b) The following tables present the assets and liabilities that are measured at fair value at December 31, 2011 and 2010, and January 1, 2010.

(In thousands of Korean won)	2011			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets as available-for-sale	27,194,955	1,825,000	10,998,854	40,018,809
Foreign currency forward	-	10,113,261	-	10,113,261
<b>Liabilities</b>				
Foreign currency forward	-	35,640,024	-	35,640,024

(In thousands of Korean won)	2010			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets as available-for-sale	82,508,354	2,400,000	-	84,908,354
Foreign currency forward	-	20,569,676	-	20,569,676
<b>Liabilities</b>				
Foreign currency forward	-	37,851,524	-	37,851,524

(In thousands of Korean won)	2010. 1. 1			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Financial assets as available-for-sale	18,729,707	1,174,000	-	19,903,707
Foreign currency forward	-	3,331,512	-	3,331,512
<b>Liabilities</b>				
Foreign currency forward	-	34,549,923	-	34,549,923

The levels of the fair value hierarchy and its application to financial assets and liabilities are described below

- Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 : Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of 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 comprise primarily listed equity investments classified as trading securities or available-for-sale.

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 fair value 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.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments. As for trade and other receivables, the book value approximates a reasonable estimate of fair value.

(c) The fluctuation of the financial instruments on level 3, December 31, 2011 and 2010, are as follows:

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
<b>Balance as of January 1</b>	-	-
Transfers into Level 3	10,031,789	-
Profit or loss recognized as other comprehensive income /expense	967,065	-
<b>Balance as of December 31</b>	<b>10,998,854</b>	<b>-</b>

Yong-in Clean Water Co., Ltd., which is a non-listed equity, was recorded at the fair value determined by an independent external institution calculated using reasonable model and appropriate estimation. Dividend discount model was used in the calculation of fair value. In preparing pro-forma financial statements, economic indicators and situations were taken into consideration and it was presumed that major business structures of the investee do not change.

(d) The following table presents financial instruments that are valued at historical cost as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

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*(In thousands of Korean won)*

		<b>2011</b>	<b>2010</b>	<b>2010. 1. 1</b>
Available for sale	Non-listed equities	11,758,603	23,216,709	22,936,857
financial assets	Investments in partnerships	5,026,663	5,026,663	5,006,663
<b>Total</b>		<b>16,785,266</b>	<b>28,243,372</b>	<b>27,943,520</b>

Among non-listed equities and investments in partnerships, financial instruments whose range of cash flow estimate is significant and the probabilities of the various estimates cannot be reasonably assessed are measured at cost. The Company does not have any plans to dispose the above-mentioned equities and investments in partnerships in the near future. These instruments will be measured at fair value when the Company can develop a reliable estimate of the fair value. Non-listed equity of Purun Anseong Co., Ltd. was disposed of during the current year and the recorded book value was ₩1,419,960 thousand. There is no gain or loss on disposal (Note 7).

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

*(In thousands of Korean won)*

	<b>2011</b>	<b>2010</b>
<b>Financial Assets as available-for-sale</b>		
Gain(Loss) on valuation (Other comprehensive income or loss)	(54,133,165)	64,004,719
Dividend income	1,590,347	1,063,167
<b>Loans and receivables</b>		
Interest income	21,660,126	49,573,857
Bad debts expense	-	17,419,947
Other bad debts expense	6,372	68,106
Reversal of allowance for bad debts	5,816,180	-
Loss on disposal of trade receivables	14,059,206	8,112,538
Gain on foreign currency transactions	170,514,731	101,091,760
Loss on foreign currency transactions	138,694,391	92,875,610
Gain on foreign currency translation	34,384,210	6,888,154
Loss on foreign currency translation	30,046,179	13,650,226
<b>Held-to-maturity investments</b>		
Interest income	315,427	130,911
Gain on foreign currency translation	283,554	-
Loss on foreign currency translation	94,846	-
<b>Financial assets and liabilities at fair value through profit or loss and derivatives designated as</b>		
Gain on valuation of foreign exchange forward contracts	3,039,478	10,333,709
Loss on valuation of foreign exchange forward contracts	7,626,986	28,862,424
Gain on foreign exchange forward transactions	34,052,669	27,560,470
Loss on foreign exchange forward transactions	15,601,530	30,025,318

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Gain(Loss) on valuation of foreign exchange forward contracts (Other comprehensive income or loss)	(37,216,245)	24,998,417
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**Financial liabilities measured at amortized cost**

Income expenses	4,334,892	4,227,508
Gain on foreign currency transactions	44,428,507	26,028,461
Loss on foreign currency transactions	89,043,104	21,676,550
Gain on foreign currency translation	5,300,383	5,240,324
Loss on foreign currency translation	10,171,886	1,536,347

**6. Trade and Other Receivables**

Trade and other receivables of December 31, 2011, and 2010, and January 1, 2010, are as follows:

*(In thousands of Korean won)*

**December 31, 2011**

	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Long-term loans(*)</b>
Receivables not past due	1,036,256,295	51,784,158	6,660,668
Impaired receivables	18,241,650	638,034	-
	<u>1,054,497,945</u>	<u>52,422,192</u>	<u>6,660,668</u>
Allowance for bad debts	(21,241,300)	(1,654,596)	-
Present value discount account	-	-	(1,163,768)
	<u>1,033,256,645</u>	<u>50,767,596</u>	<u>5,496,900</u>

(\*) Long-term loans are included in other non-current assets on the statement of financial position.

*(In thousands of Korean won)*

**December 31, 2010**

	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Long-term loans</b>
Receivables not past due	386,614,661	67,013,774	47,361
Impaired receivables	19,011,572	2,508,579	471,583
	<u>405,626,233</u>	<u>69,522,353</u>	<u>518,944</u>
Allowance for bad debts	(28,500,932)	(2,650,481)	(471,583)
	<u>377,125,301</u>	<u>66,871,872</u>	<u>47,361</u>

*(In thousands of Korean won)*

**January 1, 2010**

	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Long-term loans</b>
Receivables not past due	570,710,596	32,732,117	103,998
Impaired receivables	4,639,627	1,938,827	471,583
	<u>575,350,223</u>	<u>34,670,944</u>	<u>575,581</u>
Allowance for bad debts	(11,080,985)	(2,582,374)	(471,583)
	<u>564,269,238</u>	<u>32,088,570</u>	<u>103,998</u>

The aging analysis of trade and other receivables as of December 31, 2011 and 2010, and January 1, 2010, is as follows:

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<i>(In thousands of Korean won)</i>	December 31, 2011			Total
	Less than 1 year overdue	1 year to 2 years overdue	Over 2 years overdue	
Trade receivables	985,356,220	16,288,224	52,853,501	1,054,497,945
Other receivables	23,502,242	27,113,568	1,806,382	52,422,192
Long-term loans	6,660,668	-	-	6,660,668

<i>(In thousands of Korean won)</i>	December 31, 2010			Total
	Less than 1 year overdue	1 year to 2 years overdue	Over 2 years overdue	
Trade receivables	347,118,082	30,614,459	27,893,692	405,626,233
Other receivables	56,018,084	4,809,273	8,694,996	69,522,353
Long-term loans	-	47,361	471,583	518,944

<i>(In thousands of Korean won)</i>	January 1, 2010			Total
	Less than 1 year overdue	1 year to 2 years overdue	Over 2 years overdue	
Trade receivables	423,390,201	143,926,142	8,033,880	575,350,223
Other receivables	21,287,447	5,476,451	7,907,046	34,670,944
Long-term loans	-	103,998	471,583	575,581

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

<i>(In thousands of Korean won)</i>	2011			Balance as of December 31
	Balance as of January 1	Provision for receivables impairment	Unused amounts reversed and others	
Trade receivables	(28,500,932)	-	7,259,632	(21,241,300)
Other receivables	(2,650,481)	-	995,885	(1,654,596)
Long-term loans	(471,583)	-	471,583	-

  

<i>(In thousands of Korean won)</i>	2010			Balance as of December 31
	Balance as of January 1	Provision for receivables impairment	Unused amounts reversed and others	
Trade receivables	(11,080,985)	(17,419,947)	-	(28,500,932)
Other receivables	(2,582,374)	(68,107)	-	(2,650,481)
Long-term loans	(471,583)	-	-	(471,583)

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**7. Available-for-sale financial assets**

The changes of available-for-sale financial assets for the years ended December 31, 2011 and 2010, are as follows:

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
<b>Balance as of January 1</b>	113,151,726	47,847,227
Acquisition	-	1,300,327
Disposals	(44,296,407)	-
Valuation	(12,044,887)	64,004,719
Others	(6,357)	(547)
<b>Balance as of December 31</b>	<b>56,804,075</b>	<b>113,151,726</b>

Financial assets as available-for-sale as of December 31, 2011 and 2010, and January 1, 2010, consist of the following:

<i>(In thousands of Korean won)</i>	<b>Detail</b>	<b>2011</b>		<b>2010</b>	<b>2010. 1.1</b>
		<b>Acquisition Cost</b>	<b>Recorded Book Value</b>	<b>Recorded Book Value</b>	<b>Recorded Book Value</b>
Listed equities (Excludes equity-method investments)	1)	9,835,155	27,194,955	82,508,354	18,729,707
Non-listed equities (Excludes equity-method investments)	2)	24,814,457	24,582,457	25,616,709	24,110,857
Investments in partnerships	3)	5,026,663	5,026,663	5,026,663	5,006,663
<b>Total</b>		<b>39,676,275</b>	<b>56,804,075</b>	<b>113,151,726</b>	<b>47,847,227</b>

(1) Listed equities

<i>(In thousands of Korean won)</i>	<b>2011</b>			<b>2010</b>	<b>2010. 1. 1</b>
	<b>Number of Shares Owned</b>	<b>Ownership (%)</b>	<b>Acquisition Cost</b>	<b>Recorded Book Value</b>	<b>Recorded Book Value</b>
Samsung Fine Chemicals Co.,Ltd	219,946	0.85	7,812,505	13,416,707	18,233,523
Samsung Heavy Industries Co.,Ltd	302,159	0.13	1,765,847	8,430,236	12,448,951
I Market Korea Inc.	323,660	0.90	161,830	5,243,292	51,680,000
Daeyoung Packing Co.,Ltd	280,000	0.29	94,973	104,720	145,880
<b>Total</b>			<b>9,835,155</b>	<b>27,194,955</b>	<b>82,508,354</b>

The difference between the acquisition cost and the current fair value of the above listed equities is recognized in other components of equity as part of accumulated other comprehensive gains (gain or loss on valuation of financial assets as available for sale) after taking the tax which is recognized

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directly in equity into consideration (Note 7).

(2) Non-listed equities

(In thousands of Korean won)	2011			2010		2010. 1. 1
	Number of Shares Owned	Ownership	Acquisition Cost	Recorded Book Value(Market value)	Recorded Book Value	Recorded Book Value
Yong-in Clean Water Co., Ltd.	2,006,358	19.90	10,031,789	10,998,854	10,031,789	9,832,590
Samsung Veolia	1,436,298	19.90	7,181,490	7,181,490	7,181,490	7,181,490
Dongbu Environment Co., Ltd.	392,040	19.80	1,960,200	1,960,200	1,960,200	1,960,200
Hwasung Enviro Co., Ltd.	293,398	19.80	1,466,990	1,466,990	1,466,990	1,466,990
Purun Anseong Co., Ltd.	-	-	-	-	1,419,960	1,419,960
KGETS Co., Ltd.	50,141	2.78	1,997,750	962,682	962,682	962,682
Entech Enc. Co., Ltd.	51,000	9.61	294,218	26,847	26,847	26,847
Veolia Samsung Operating Co., Ltd.	1,990	19.90	9,950	9,950	9,950	9,950
Incheon United Football Club	2,000	0.01	5,000	104	104	104
Samsung Chemical (Thailand) Co., Ltd..	40,400	40.56	146,733	146,733	152,631	71,441
(Membership Right)						
Shinwon C.C.	5	-	1,716,730	1,825,000	2,400,000	1,174,000
K&H golf membership	1	-	3,607	3,607	4,066	4,603
<b>Total</b>			<b>24,814,457</b>	<b>24,582,457</b>	<b>25,616,709</b>	<b>24,110,857</b>

(3) Investments in Partnerships

(In thousands of Korean won)	2011			2010		2010. 1. 1
	Number of Shares Owned	Ownership (%)	Acquisition Cost	Recorded Book Value(Market value)	Recorded Book Value	Recorded Book Value
Construction Guarantee	4,429	0.11	4,828,995	4,828,995	4,828,995	4,828,995
Plant & Medichanical Contractors						
Financial Cooperative of Korea	74	0.01	67,192	67,192	67,192	67,192
Electronic Contractors'						
Financial Cooperative	300	0.01	57,941	57,941	57,941	57,941
Information & Communication Financial Cooperative	100	0.01	20,967	20,967	20,967	20,967

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Korea Electric Engineers Association	200	0.12	20,000	20,000	20,000	20,000
Engineering Financial Cooperative	113	0.02	11,568	11,568	11,568	11,568
Fire Guarantee, Seoul Division	40	0.02	20,000	20,000	20,000	-
<b>Total</b>			<b>5,026,663</b>	<b>5,026,663</b>	<b>5,026,663</b>	<b>5,006,663</b>

Non-listed equities and investments in partnerships under available-for-sale securities have been valued using the cost method of accounting as their fair values were not determinable. The Company has recognized impairment loss on the investments whose book values are not expected to recover in the near future. Details of accumulated impairment losses on available-for-sales securities as of December 31, 2011, are as follows:

<i>(In thousands of Korean won)</i>	<b>Accumulated Impairment Losses</b>
KGETS Co., Ltd.	1,035,068
Entech Enc. Co., Ltd.	267,371
Incheon United Football Club	4,896
<b>Total</b>	<b>1,307,335</b>

Changes in gain and loss from available-for-sale securities recorded as other comprehensive income in 2011 and 2010 are as follows:

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
<b>Balance as of January 1</b>	56,603,274	6,679,593
Valuation Amount	(12,044,887)	64,004,719
Realization as income/loss	(42,088,278)	-
Deferred income tax	11,503,723	(14,081,038)
<b>Balance as of December 31</b>	<b>13,973,832</b>	<b>56,603,274</b>

## **8. Held-To-Maturity Securities**

Held-to-maturity securities consist of government and public bonds. Details of held-to-maturity securities as of December 31, 2011 and 2010, and January 1, 2010 are as follows:

<i>(In thousands of Korean won)</i>		<b>2011</b>	<b>2010</b>	<b>2010. 1. 1</b>
	<b>Maturity</b>			
Government and public bonds	Within a year	974,445	959,150	1,349,760
	Over 1 year and within 7 years	5,321,573	3,264,840	3,921,355
<b>Total</b>		<b>6,296,018</b>	<b>4,223,990</b>	<b>5,271,115</b>

## **9. Investments in Associates**

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Investments in associates as of December 31, 2011 and 2010, and January 1, 2010, consist of the following:

(In thousands of Korean won)

Investee	Region	2011		2010		2010. 1. 1	
		Ownership (%)	Recorded Book Value	Ownership (%)	Recorded Book Value	Ownership (%)	Recorded Book Value
Muharraq STP Company B.S.C(*)	Bahrain	5.08	383,712	45.00	342,462	-	-
Muharraq Holding Company 1 Limited	Bahrain	45.00	14	-	-	-	-
<b>Total</b>			<b>383,726</b>		<b>342,462</b>		<b>-</b>

(\*) Although the Company holds less than 20% of the equity shares of Muharraq STP Company B.S.C, the equity method was applied as the Company can exert influence through its seat in the investee's board of directors.

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

(In thousands of Korean won)	2011		
	Muharraq STP Company B.S.C	Muharraq Holding Company 1 Limited	Total
<b>At January 1</b>	342,462	-	342,462
Acquisition	-	14	14
Disposal	-	-	-
Share of profit	35,537	-	35,537
Others	5,713	-	5,713
<b>At December 31</b>	<b>383,712</b>	<b>14</b>	<b>383,726</b>

  

(In thousands of Korean won)	2010		
	Muharraq STP Company B.S.C	Muharraq Holding Company 1 Limited	Total
<b>At January 1</b>	-	-	-
Acquisition	342,462	-	342,462
Disposal	-	-	-
Share of profit	-	-	-
Others	-	-	-
<b>At December 31</b>	<b>342,462</b>	<b>-</b>	<b>342,462</b>

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Financial information of associates as of and for the years ended December 31, 2011 and 2010, are as follows:

*(In thousands of  
Korean won)*

<b>Investee</b>	<b>2011</b>			
	<b>Assets</b>	<b>Liabilities</b>	<b>Sales</b>	<b>Net Income for the year</b>
Muharraq STP Company B.S.C	78,805,791	70,006,750	63,735,133	1,950,282
Muharraq Holding Company 1 Limited	31	-	-	-

*(In thousands of  
Korean won)*

<b>Investee</b>	<b>2010</b>			
	<b>Assets</b>	<b>Liabilities</b>	<b>Sales</b>	<b>Net Income for the year</b>
Muharraq STP Company B.S.C	755,198	-	-	-

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**10. Property, Plant and Equipment**

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

(In thousands of Korean won)	<b>2011</b>									
	<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Machinery</b>	<b>Vehicles</b>	<b>Furniture &amp; Fixtures</b>	<b>Construction Equipment</b>	<b>Leasehold improvements</b>	<b>Construction in Progress</b>	<b>Total</b>
Balance as of January 1, 2011	151,254,250	90,400,984	84,124	11,637,195	8,164,343	26,112,773	33,467,382	81,842	140,808,273	462,011,166
Acquisition	843,431	6,646,258	33,500	9,932,775	7,504,989	30,522,390	23,574,145	2,368,070	188,357,956	269,783,514
Transfer	-	70,963,143	-	-	-	3,938,732	-	-	(70,963,144)	3,938,731
Disposal	-	(11,871)	-	(706,753)	(664,809)	(1,004,241)	(629,184)	-	-	(3,016,858)
Depreciation	-	(5,837,437)	(6,310)	(3,129,169)	(3,100,398)	(15,713,927)	(5,232,266)	(1,168,102)	-	(34,187,609)
Others(*)	-	2,687,847	-	70,711	(63,273)	262,382	-	-	(1,188,246)	1,769,421
Balance as of December 31, 2011	<u>152,097,681</u>	<u>164,848,924</u>	<u>111,314</u>	<u>17,804,759</u>	<u>11,840,852</u>	<u>44,118,109</u>	<u>51,180,077</u>	<u>1,281,810</u>	<u>257,014,839</u>	<u>700,298,365</u>

  

(In thousands of Korean won)	<b>2010</b>									
	<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Machinery</b>	<b>Vehicles</b>	<b>Furniture &amp; Fixtures</b>	<b>Construction Equipment</b>	<b>Leasehold improvements</b>	<b>Construction in Progress</b>	<b>Total</b>
Balance as of January 1, 2011	151,254,250	91,609,726	90,294	15,829,485	7,000,850	21,464,646	-	584,954	32,847,971	320,682,176
Acquisition	-	2,270,902	-	4,330,243	4,187,257	15,487,835	34,854,455	-	108,692,551	169,823,243
Disposal	-	-	-	(144,867)	(714,457)	(655,776)	-	-	-	(1,515,100)
Depreciation	-	(3,488,197)	(6,170)	(8,276,555)	(2,360,798)	(9,958,775)	(1,387,073)	(503,112)	-	(25,980,680)
Others(*)	-	8,553	-	(101,111)	51,491	(225,158)	-	-	(732,248)	(998,473)
Balance as of December 31, 2011	<u>151,254,250</u>	<u>90,400,984</u>	<u>84,124</u>	<u>11,637,195</u>	<u>8,164,343</u>	<u>26,112,772</u>	<u>33,467,382</u>	<u>81,842</u>	<u>140,808,274</u>	<u>462,011,166</u>

(\*) Others include amounts from changes in foreign exchange rates

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**11. Intangible Assets**

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

(In thousands of Korea won)

	2011			
	Membership	Other Intangible Assets	Software	Total
<b>At January 1, 2011</b>	20,581,744	73,052	8,869,148	29,523,944
Acquisition	3,314,709	279	6,871,977	10,186,965
Disposal	(1,328,040)	-	-	(1,328,040)
Amortization	-	(73,423)	(4,166,966)	(4,240,389)
Others(*)	(29,295)	65,677	4,795	41,177
<b>Balance as of December 31, 2011</b>	<b>22,539,118</b>	<b>65,585</b>	<b>11,578,954</b>	<b>34,183,657</b>

(\*) Others include amounts from changes in foreign exchange rates

(In thousands of Korea won)

	2010			
	Membership	Other Intangible Assets	Software	Total
<b>At January 1, 2011</b>	17,847,713	71,503	6,280,240	24,199,456
Acquisition	3,211,947	557	6,145,387	9,357,891
Disposal	(481,381)	-	-	(481,381)
Amortization	-	(74,291)	(3,556,198)	(3,630,489)
Others	3,465	75,283	(281)	78,467
<b>Balance as of December 31, 2011</b>	<b>20,581,744</b>	<b>73,052</b>	<b>8,869,148</b>	<b>29,523,944</b>

**12. Short-term Borrowings**

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

(In thousands of Korean won)	Financial Institutions	Annual Interest Rates (%)	2011	2010	2010. 1. 1
		2011			
<b>Short-term Borrowings</b> Bank borrowings	Shinhan Bank	7.90	4,340,679	-	1,365,570
	HSBC Mexico, S.A. Institucion de Banca Multiple	-	-	1,993,585	1,994,109
	Banco Nacional de Mexico, S.A.	-	-	18,577,448	4,724,461
	Others	-	3,672	-	-
	<b>Total</b>		<b>4,344,351</b>	<b>20,571,033</b>	<b>8,084,140</b>

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**13. Defined benefit liability**

Defined benefit liability recognized on the statements of finance position as of December 31, 2011, 2010 and January 1, 2010 are as follows:

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>	<b>2010. 1. 1</b>
Present value of defined benefit obligation	178,523,017	121,560,532	86,912,124
Fair value of plan assets	(109,716,039)	(74,656,974)	(59,229,900)
Subtotal	68,806,978	46,903,558	27,682,224
Unrecognized actuarial gains(losses)	(44,720,841)	(18,946,383)	-
Liability on the statement of financial position	24,086,137	27,957,175	27,682,224
Defined benefit liability adjustments	(15,930,387)	(7,804,877)	-
Defined benefit asset adjustments	(588,725)	(366,111)	-

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

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
Beginning balance	121,560,532	86,912,124
Current service cost	32,580,354	22,274,734
Interest expense	7,573,544	6,211,342
Benefits paid	(11,701,931)	(9,469,083)
Actuarial gains and losses	25,737,270	18,580,272
Transfer from(to) affiliates	2,789,600	(2,937,950)
Others(*)	(16,352)	(10,907)
Ending balance	178,523,017	121,560,532

(\*) Others include amounts from changes in foreign exchange rates.

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

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
Beginning balance	74,656,974	59,229,900
Expected return on plan assets	3,391,417	2,936,265
Employer contribution	36,031,099	20,008,429
Benefits paid	(4,689,683)	(5,407,362)
Actuarial gains and losses	(588,725)	(366,111)
Transfer from(to) affiliates	914,957	(1,744,147)
Ending balance	109,716,039	74,656,974

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Details of Unrecognized actuarial gains or losses for the years ended December 31, 2011 and 2010, are as follows:

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
Balance as of the beginning of the year	(18,946,383)	-
Increase of the year	(26,325,995)	(18,946,383)
Decrease of the year	551,537	-
Balance as of the ending of the year	(44,720,841)	(18,946,383)

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

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
Current service cost	32,580,354	22,037,639
Interest cost	7,573,544	6,211,342
Expected return on plan assets	(3,391,417)	(2,936,265)
Actuarial gains and losses	551,537	-
Others(*)	1,180,564	81,766
<b>Total</b>	<b>38,494,582</b>	<b>25,394,482</b>
Cost of sales	21,615,424	16,904,490
Selling and administrative expenses	16,496,897	8,181,988
Construction in progress	382,261	308,004
<b>Total</b>	<b>38,494,582</b>	<b>25,394,482</b>

(\*) Others are due to the hiring local employees.

The principal assumptions of defined benefit liability as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	<b>2011</b>	<b>2010</b>	<b>2010. 1. 1</b>
Discount rate	6.00%	6.50%	7.50%
Average salary increases	8.22%	8.14%	8.14%
Expected return on plan assets	4.00%	4.08%	4.50%
Death rate	Depending on age	Depending on age	Depending on age
Quit rate	Depending on age	Depending on age	Depending on age
Retirement age	55~65	55~65	55~65

Plan assets as of December 31, 2011 and 2010, and January 1, 2010, consist of:

	<b>2011</b>	<b>2010</b>	<b>2010. 1. 1</b>
Bond	99.71%	99.63%	99.42%
Others	0.29%	0.37%	0.58%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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**14. Provisions for Liabilities and Charges**

The changes in the main liability provisions during the 12 month period ended December 31, 2011, are as follows:

<i>(In thousands of Korean won)</i>		<b>Jan 1, 2011</b>	<b>Increase</b>	<b>Decrease</b>	<b>Others(*)</b>	<b>Dec 31, 2011</b>
Provision for construction losses	A)	12,458,904	3,204,953	(12,504,356)	354,906	3,514,407
Provision for construction warranties	B)	13,345,571	5,261,120	(5,075,908)	(27,866)	13,502,917
Long-term incentives	C)	18,069,178	12,406,285	(9,939,281)	-	20,536,182
Provision for restoration	-	3,155,949	2,447,139	-	-	5,603,088

(\*) Others include amounts from changes in foreign currency exchange rates.

<i>(In thousands of Korean won)</i>		<b>Jan 1, 2010</b>	<b>Increase</b>	<b>Decrease</b>	<b>Others</b>	<b>Dec 31, 2010</b>
Provision for construction losses	A)	14,398,869	7,629,190	(9,480,273)	(88,882)	12,458,904
Provision for construction warranties	B)	17,375,752	2,449,260	(6,328,037)	(151,404)	13,345,571
Long-term incentives	C)	13,475,136	7,667,000	(3,072,958)	-	18,069,178
Provision for restoration	-	3,090,254	65,695	-	-	3,155,949

- A) The Group accrued provision for construction losses for the estimated losses of construction contracts. Provision for construction losses are recognized in due from customers for contract and due to customer for contract.
- B) The Group accrued provisions for construction warranties for the estimated costs of future repairs, based on historical experience.
- C) The Group has a long-term incentive plans for its executives based management performance criteria and has made a provision (accrued expense for the cost paid within a year) for the estimated incentive cost for the accrued period.

**15. Financial risk management**

The Group's financial risk management focuses on minimizing market risk, credit risk and liquidity risk arising from Group's activities. The Group has a risk management program and policy in place to monitor and actively manage such risks.

Financial Risk management is carried out by a department for financial supporting and the Group identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

Moreover, staff for financial management is dispatched to the specific area (Saudi, Mexico, UAE, etc.) to manage global financial risk.

The Group's financial assets that are under financial risk management are composed of cash and

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cash equivalents, short-term financial instruments, available-for-sale financial assets and trade and other receivables. The Group's financial liabilities under financial risk management are composed of trade and other payables.

*(a) Market risk*

**(1) Foreign exchange risk**

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, EU's EURO and Japanese Yen. To minimize foreign exchange risk arising from operating activities, the Group's foreign exchange management policy requires all normal business transactions to be in local currency, or cash- in currency be matched up with cash-out currency.

Moreover, to minimize change of projected gains or losses caused by foreign exchange rate fluctuation, the Group use forward contracts and decides bid price in reasonable exchange rate reflecting cash flow of each project.

The Group limits all speculative foreign exchange transactions and manages, evaluates and reports s foreign exchange risk of each subsidiary.

A summary of foreign financial assets and liabilities of the Group as of December 31, 2011 and 2010 is as follows:

*(In millions of Korean won)*

	2011				2010			
	USD	EUR	JPY	Other	USD	EUR	JPY	Other
Foreign financial assets	958,394	15,716	23,349	587,941	443,381	4,974	10,230	308,938
Foreign financial liabilities	606,544	31,466	21,307	333,870	412,045	68,250	76,450	137,784

The effect of foreign currency risk to net income is a sum of net foreign currency fluctuations of Korean won against other foreign currency fluctuations. Foreign currency exposure to financial assets and liabilities of a 5% currency rate change against the Korean won are presented below.

	2011		2010	
	Increase	Decrease	Increase	Decrease
<i>(In millions of Korean won)</i>				
Foreign financial assets	79,270	(79,270)	38,376	(38,376)
Foreign financial liabilities	(49,659)	49,659	(34,726)	34,726
Net effect	29,611	(29,611)	3,650	(3,650)

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(2) Price risk

The Group's investment portfolio for strategic objectives consists of investments in listed and non-listed securities. The market values for the Group's equity investments (excludes equity-method investments) for the years ended December 31, 2011 and 2010, are ₩27,195 million and ₩82,508 million, respectively (Note 7).

If there is a change in the market price of equity investments that are included in level 1 by 1%, the amount of other comprehensive income (after considering deferred income tax) for the years ended December 31, 2011 and 2010, changes ₩206 million and ₩625 million, respectively.

(3) Interest rate risk

Interest rate risk is defined as the risk that the fair value of a financial instrument or future cash flows of interest revenue and expense will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk mainly arising from deposit and the Group's policy includes interest risk management to minimize uncertainty caused by interest rate fluctuation and financial expenses.

In order to avoid interest rate risk, the Group maintains minimum external borrowing by facilitating cash pooling systems on a regional and global basis. The Group manages exposed interest rate risk via periodic monitoring and handles risk factors on a timely basis.

At the reporting date, the interest rate profile of the Group's interest bearing assets and liabilities is presented in the table below:

(In millions of Korean won)	2011		2010	
	Fixed rate	Floating rate	Fixed rate	Floating rate
Financial assets	168,250	274,753	634,695	406,782
Financial liabilities	-	4,344	-	20,571

At the reporting date, change of income before income taxes expense as a result of 1% increase in interest rate is presented below.

(In millions of Korean won)	2011	2010
Increase of interest rate	2,704	3,862
Decrease of interest rate	(2,704)	(3,862)

(b) Credit risk

Credit risk arises during the normal course of transactions and investing activities, where clients or other party fails to discharge an obligation. The Group monitors and sets the counterparty's credit limit on a periodic basis based on the counterparty's financial conditions, default history and other important factors. In order to avoid credit risk, the Group receives letter of guarantee from banks which have great credit rating.

Credit risk arises from cash and cash equivalents, savings and derivative instruments transactions with financial institutions. To minimize such risk, the Group transacts only with banks which have

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strong international credit rating, and all new transactions with financial institutions with no prior transaction history are approved, managed and monitored by the Group's finance team and the local financial center.

The Group requires separate approval procedure for contracts with restrictions.

*(c) Liquidity risk*

The Group's business requires a lot of cost and therefore, maintaining adequate liquidity is important. To maintaining adequate liquidity, the Group manages liquidity risk forecasting funds receipts and disbursement and required cash amount.

The Group forecasts future cash flow periodically to manage liquidity risk in advance. Therefore, the Group makes finance plan to be prepared for the risk caused by lack of funds and matches up spending plan with maturity of financial assets taking into consideration forecasting cash flow.

Beyond effective working capital and cash management, the Group mitigates liquidity risk by contracting with financial institutions with respect to bank overdrafts or banking facility agreement.

The following table below is an undiscounted cash flow analysis for financial liabilities and foreign currency forward that are presented on the statement of financial position according to their remaining contractual maturity.

<i>(In millions of Korean won)</i>	2011				Total
	Less than 6 months	~1 years	~2 years	More than 2 years	
Financial liabilities measured at amortized cost	1,901,460	364,606	-	-	2,266,066
Foreign currency Forward <sup>1</sup>	751,485	304,466	66,506	-	1,122,457
<b>Total</b>	<b>2,652,945</b>	<b>669,072</b>	<b>66,506</b>	<b>-</b>	<b>3,388,523</b>

<sup>1</sup> Foreign currency forward is the total amount paid.

<i>(In millions of Korean won)</i>	2010				Total
	Less than 6 months	~1 years	~2 years	More than 2 years	
Financial liabilities measured at amortized cost	1,160,272	45,277	-	-	1,205,549
Foreign currency Forward <sup>1</sup>	230,076	165,047	157,566	5,720	558,409
<b>Total</b>	<b>1,390,348</b>	<b>210,324</b>	<b>157,566</b>	<b>5,720</b>	<b>1,763,958</b>

*(d) Capital risk management*

The object of capital management is to maintain sound capital structure. Consistent with others in the industry, the Group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as debt divided by equity.

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To achieve optimal capital structure, the Group may improve financial structure monitoring financial ratio such as debts ratio or net borrowings ratio each month. During the prior year, the AA<sup>-</sup> credit rating which is above previous credit rating A<sup>+</sup> has been maintained throughout the period from Korea Investors Service, Inc., Korea Ratings Corporation and NICE Investors Service Co., Ltd.

The debt to equity ratios at 31 December 2011 and 2010 were as follows:

<i>(In millions of Korean won)</i>	<b>2011</b>	<b>2010</b>
Total debt	3,875,258	2,578,050
Total equity	1,313,357	956,813
Debt to equity ratio	295.07%	269.44%

**16. Commitments and Contingencies**

(A) SECL pledged a blank Note and 12 notes with an aggregate face value of ₩35,395 million to customers as collaterals for performance guarantees and construction warranties as of December 31, 2011.

(B) As of December 31, 2011, the Group has bank overdraft facilities with Korea Exchange Bank and others amounting to ₩31,032 million and a letter of credit facility agreement with Woori Bank and others with an aggregate credit limit of USD 192 million and EUR 2,015 thousand. Also, with respect to the payment from customers, the Group has contractual agreements for invoice discounting with Korea Exchange Bank amounting to ₩200,000 million.

(C) The Group has entered into foreign currency forward contracts to hedge the exposure to fluctuations in foreign exchange rates with Korea Exchange Bank and other 18 banks.

Details of foreign currency forwards outstanding as of December 31, 2011, which were entered into with banks, are as follows:

<i>(In transaction currency)</i>					
<b>Banks</b>	<b>Selling</b>		<b>Buying</b>		<b>Forward rate</b>
	<b>Currency</b>	<b>Amount</b>	<b>Currency</b>	<b>Amount</b>	
Korea Exchange Bank	USD	3,246,973	CAD	3,217,000	0.9766-1.0046
	USD	10,714,161	EUR	7,482,242	1.3452-1.4375
	USD	3,863,743	GBP	2,409,096	1.5663-1.6341
	USD	7,835,128	JPY	693,796,000	86.0192-90.2199
Woori Bank	USD	14,119,779	EUR	10,147,883	1.2923-1.4296
	USD	1,692,486	GBP	1,069,400	1.5523-1.5979
	USD	19,900,000	MXN	247,414,910	11.6856-11.893
Calyon Bank	USD	72,950,298	EUR	53,473,458	1.2924-1.4884
	USD	564,754	JPY	44,000,000	77.91-77.91
	USD	6,347,759	SEK	44,502,000	7.0004-7.033
	EUR	334,100	USD	450,233	1.3576-1.3576
	USD	15,604,284	MXN	206,368,000	13.0935-13.33

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	USD	119,075,816	EUR	84,531,818	1.293-1.4851
Citibank	USD	26,211	SEK	181,770	6.935-6.935
	USD	17,775,989	MXN	225,682,720	12.956-13.051
	USD	25,616,355	EUR	18,237,406	1.40379-1.40789
	USD	5,590,022	JPY	421,860,000	74.82-76.23
Shinhan Bank	USD	6,464,827	SEK	45,674,000	7.065-7.065
	USD	12,299,082	MXN	165,786,000	13.3737-13.7346
	SAR	25,725,309	EUR	5,089,891	4.8944-5.2233
	USD	76,470,100	EUR	58,178,690	1.2392-1.4345
HSBC	USD	6,198,738	GBP	3,961,700	1.5286-1.5988
	EUR	27,020,330	USD	33,500,000	1.2392-1.2403
	USD	44,432,445	EUR	31,096,350	1.2926-1.4402
SC First Bank	USD	3,319,248	GBP	2,054,000	1.5523-1.6244
	USD	10,015,403	JPY	880,942,000	75.94-92.75
NH	USD	24,258,752	EUR	18,090,106	1.3004-1.4133
Hana Bank	USD	24,953,380	EUR	18,063,341	1.2922-1.4375
	USD	9,343,183	GBP	5,685,657	1.6398-1.6474
	USD	12,161,506	EUR	8,579,461	1.3006-1.4394
BNP Paribas	USD	6,197,655	JPY	495,613,094	76.43-80.54
	SAR	51,755,107	EUR	9,959,306	5.1786-5.2122
Banca Akros	CHF	9,900,000	EUR	7,526,861	1.2375-1.312
	EUR	45,000,000	USD	61,585,500	1.3685-1.3686
BBVA	JPY	1,011,080,000	USD	11,500,000	87.72-88.18
	USD	20,000,000	USD	27,370,000	1.3685-1.3685
Credit Agricole	EUR	28,279,249	USD	35,000,000	1.2364-1.2383
Intesa San Paolo	EUR	36,300,941	USD	45,000,000	1.2375-1.241
	USD	9,950,000	MXN	125,232,571	11.6815-11.9005
KB Bank	JPY	1,011,048,000	USD	16,500,000	87.8787-88.6
	USD	32,261,664	USD	40,000,000	1.2348-1.2422
Mashreq	EUR	5,000,000	USD	6,940,000	1.388-1.388
Monte Paschi Siena	JPY	443,300,000	USD	5,000,000	88.66-88.66
	EUR	30,000,000	USD	40,492,000	1.3495-1.3502
Santander	GBP	3,100,000	USD	4,859,900	1.566-1.5696
Unicredit	EUR	51,176,730	USD	63,500,000	1.238-1.2439

The valuation of foreign currency forwards and firm commitment for 2011 and 2010, are as follows :

(In thousands of Korean won)

2011							
Trading purpose		Hedging purpose			Firm commitment		
Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation	Accumulated Other Comprehensive Income	Gain and loss on valuation of firm commitment	Firm commitment	Foreign currency forwards
801,907	890,241	2,237,571	6,736,745	(10,690,508)	4,315,728	8,144,416	25,526,763

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2010							
Trading purpose		Hedging purpose			Firm commitment		
Gain on valuation	Loss on valuation	Gain on valuation	Loss on valuation	Accumulated Other Comprehensive Income	Gain and loss on valuation of firm commitment	Firm commitment	Foreign currency forwards
3,546,041	2,698,802	6,787,668	23,923,726	16,278,966	(6,885,619)	8,744,568	(17,281,848)

History of gain/loss on valuation of foreign currency forwards for hedging purpose during the year of 2011 and 2010 are as follows:

(In thousands of Korean won)	Jan 1, 2011	valuation	Dec 31, 2011
Gain and loss on valuation of derivatives for hedging purpose	24,998,417	(37,216,245)	(12,217,828)
Transferred to minority interest	-	338	338
Transferred to deferred income tax	(8,719,451)	10,246,433	1,526,982
<b>Transferred to comprehensive income</b>	<b>16,278,966</b>	<b>(26,969,474)</b>	<b>(10,690,508)</b>

  

(In thousands of Korean won)	Jan 1, 2010	valuation	Dec 31, 2010
Gain and loss on valuation of derivatives for hedging purpose	-	24,998,417	24,998,417
Transferred to deferred income tax	-	(8,719,451)	(8,719,451)
<b>Transferred to comprehensive income</b>	<b>-</b>	<b>16,278,966</b>	<b>16,278,966</b>

The Group expects the maximum period of derivatives contracts for hedging purpose exposed to cash flow fluctuation risk is December 19, 2013. For expiry of maturity, the expected amount of gain and loss on valuation of derivatives which is expected to be transferred to expense from accumulated other comprehensive income in 12 months on December 31, 2011 is 5,693,284 thousands of Korean won. That amount is considering differed income tax charged on equity.

(D) Based on the agreement entered on August 24, 1999 with respect to Samsung Motor Inc.'s ("SMI") bankruptcy proceedings, Samsung Motor Inc.'s creditors ("the Creditors") filed a civil action against Mr. Kun Hee Lee, former chairman of the Company, and 28 Samsung Group associates including The Company under joint and several liability for failing to comply with such agreement. Under the suit, the Creditors have sought ₩2,450 billion (approximately \$1.95 billion) for loss of principal on loans extended to SMI, a separate amount for breach of the agreement, and an amount for default interest. 2011. Samsung Life Insurance Co., Ltd ("SLI") completed its Initial Public Offering ("IPO") on May 7, 2010. After disposing of 2,277,787 shares and paying the principal balance owed to the Creditors, ₩878 billion (approximately \$ 0.80 billion) was deposited in to an escrow account. That remaining balance was to be used to pay the Creditors interest due to the delay in the SLI IPO. On January 11, 2011, the Seoul High Court ordered Samsung

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Group associates to pay ₩600 billion (approximately \$ 0.53 billion) to the Creditors and pay 5% annual interest for the period between May 8, 2010 and January 11, 2011, and pay 20% annual interest for the period after January 11, 2011 until the amounts owed to the Creditors are paid. In accordance with the Seoul High Court order, ₩620.4 billion (which includes penalties and interest owed) was paid to the Creditors from the funds held in escrow during January 2011. On February 7, 2011, the Samsung Group associates and the Creditors appealed the Seoul High Court' ruling to the Korean Supreme Court and the appeal is currently in progress.

Except for above, as of December 31, 2011, The Company was informed as a defendant in legal actions filed by 3 companies and the amount claimed against the Company in these cases totals ₩ 4,374 million, and EXE c&t Co., Ltd was also informed as a defendant in legal actions and the amount claimed against in that case ₩ 160 million. The Company's management believes that, although the amount and timing of the matters are uncertain, the conclusions of these matters will not have a material adverse effect on the financial position of The Company as of December 31, 2011.

**(E) Litigation**

As of December 31, 2010, the Company is involved in two lawsuits as the defendant, excluding the Samsung Motors Inc. case mentioned above , amounting to approximately ₩3,003,8890 thousand.

The company's management believes that although the outcome of these cases is uncertain, the outcome will not have a material adverse effect on the operations or financial position of the company.

(F) As of December 31, 2011, the Company's land and building amounting to ₩40,764,784 thousand have been provided as collaterals for the leasehold deposits with KB Bank and others.

(G) As of December 31, 2011, Samsung Veolia Incheon Waste Water Co., Ltd. securities amounting to ₩7,181,490 thousand have been provided as collaterals for projects financed by Hana Bank, an agent of the creditors.

(H) As of December 31, 2010, Dongbu Environment Co., Ltd. securities amounting to ₩1,960,200 thousand have been provided as collaterals for projects financed by KB Bank and Pusan Bank.

(I) As of December 31, 2011, the Company has been provided with guarantees in the amounts of ₩6,620,949 million, from various financial institutions in regard to construction contract performance, warranties and others.

(J) In relation to fulfilling construction contracts, the Company maintains insurance policies for the performance of its construction work for up to ₩10,678,593 million and its cargoes for up to ₩2,182,314 million.

**17. Capital Stock**

Under its Articles of Incorporation, SECL is authorized to issue 60,000,000 shares with a par value of ₩5,000 per share, of which 3,500,000 shares are cumulative, participating preferred stock that are non-voting and entitled to a cash dividend approved by the Board of Directors, or a committee

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authorized by the Board of Directors, with a minimum cash dividend at 1% of par value. As of December 31, 2011, 40,000,000 shares of common stock are issued.

SECL is authorized, subject to the Board of Directors' approval, to retire treasury stock in accordance with applicable laws up to the maximum amount of certain undistributed earnings.

In addition, SECL is authorized to issue to investors, other than current shareholders, convertible debentures and debentures with warrants with face values of up to ₩100 billion each. The convertible debentures amounting to ₩60 billion and ₩40 billion are assigned to common stock and preferred stock, respectively. The debentures with warrants amounting to ₩60 billion and ₩40 billion are likewise assigned to common stock and preferred stock, respectively. As of December 31, 2011, there is no outstanding preferred stock or debenture issued on these terms.

SECL is also authorized, subject to the Board of Directors' approval, to issue shares of common or preferred stock to investors, other than current shareholders, for the exercise of stock option, general public subscription, urgent financing with financial institutions, and strategic alliance up to 30% of number of shares authorized.

SECL has a stock option plan under which options to purchase shares of common stock may be granted to key employees or directors who have contributed or are expected to contribute to the management and technological innovation of SECL. There are 18,600 shares of stock options granted and outstanding as of December 31, 2011 (Note 19).

## **18. Retained Earnings**

### **Legal Reserve**

The Commercial Code of the Republic of Korea requires the Company to appropriate as a legal reserve, an amount equal to a minimum of 10% of annual cash dividends declared, until the reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock by the resolution of the Board of Directors or used to reduce accumulated deficit, if any, with the ratification of the shareholders.

### **Reserve under the Special Tax Treatment Control Law**

The Company appropriates a certain portion of its retained earnings as a reserve for research and human resource development under the Special Tax Treatment Control Law. This reserve may be transferred to discretionary reserve and distributed as dividends.

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

<i>(In thousands of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Appropriated			
Legal reserve	115,000,000	85,000,000	55,000,000

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Discretionary reserve	733,500,000	486,500,000	333,500,000
Reserve for research and human resource development	302,000,000	202,000,000	169,000,000
Reserve for investment	429,500,000	282,500,000	162,500,000
Reserve for loss on disposal of treasury stock	2,000,000	2,000,000	2,000,000
Unappropriated	509,853,330	366,316,181	286,530,674
Total	<u>1,358,353,330</u>	<u>937,816,181</u>	<u>675,030,674</u>

The Company declared year-end cash dividends to shareholders of common stock for the years ended December 31, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Number of shares eligible for dividends:		
Common stock (In a share)	36,957,362	36,927,862
Dividend rate	60%	50%
Dividend amount(In thousands of Korean won)	110,872,086	92,319,655
Dividend payout ratio		
(Dividends/Controlling interest in net income)	21.55%	27.43%
Dividend yield ratio		
(Dividend per share/Market price)	1.49%	1.30%

## 19. Share-Based Payments

The Company has a stock option plan that provides for the granting of stock purchase options to employees or directors who have contributed or are expected to contribute to the management and technological innovation of the Company.

Details of stock options granted follow:

	<u>Date of Grant</u> <u>February 27, 2004</u>
Shares granted	75,000
Exercise price per share(*1)	5,200
Exercise period from the date of the grant(*2)	2~10 years

(\*1) The exercise price can be adjusted in the case of the issuance of new shares, stock dividends, stock splits, or stock mergers. Shares to be issued for stock options are nominative common stock and the shares will be granted through issuance of shares or distribution of treasury shares.

(\*2) The options will be fully vested after two years of continuous employment from the date of grant.

The fair value of each option grant was estimated using the Black-Scholes option-pricing model based on the date of the grant using the following assumptions:

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	<b>Date of the Grant February 27, 2004</b>
Risk-free interest rates	5.33%
Expected stock price volatility	4.2721%
Expected life	8 years
Expected dividend yield	-

Changes in stock options in 2011 and 2010 are as follows:

	<b>2011</b>		<b>2010</b>	
	<b>Stock Options</b>	<b>Weighted-average Exercise Price</b>	<b>Stock Options</b>	<b>Weighted-average Exercise Price</b>
Beginning	48,100	5,140	57,000	5,139
Exercise	(29,500)	5,068	(8,900)	5,137
Ending	18,600	5,200	48,100	5,140

The weighted-average market price per share measured on the exercise date is ₩197,373 and the weighted-average remaining period from December 31, 2011 to expiration, is 2.16 years

The Company had fully recognized the compensation expenses of stock options.

## **20. Other components of equity**

Other components of equity as of December 31, 2011 and 2010, and January 1, 2010 consist of the following:

<i>(In thousands of Korean won)</i>	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Other Capital surplus	11,782,903	12,124,887	12,124,887
Treasury stock <sup>1</sup>	(284,826,578)	(285,115,629)	(153,301,336)
Loss on disposal of treasury stock	(86,136)	(22,077)	(43,063)
Stock option	26,451	51,366	63,726
Unrealized holding gains on available-for-sale financial assets	13,973,832	56,603,274	6,679,593
Share of associates and joint ventures accumulated other comprehensive gains	5,713	-	-
Gains on valuation of foreign currency forwards	5,842,449	17,585,929	-
Losses on valuation of foreign currency forwards	(16,532,957)	(1,306,963)	-
Foreign-currency translation differences	5,476,137	2,589,734	-
Total	(264,338,186)	(197,489,479)	(134,476,193)

As of December 31, 2011, the Company holds 3,042,638 common shares purchased at the market price, recorded as treasury stock under the capital adjustment account. The Company intends to distribute the treasury shares upon exercise of stock options or to dispose of depending on the market conditions.

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**21. Engineering Contracts**

Engineering and construction contract balances and related revenues recognized in 2011 and 2010, are as follows:

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
Beginning balance	12,428,280,016	13,420,986,259
Amendments	1,566,429,473	136,208,389
New contracts	10,559,029,908	4,183,346,929
<b>Total</b>	<b>24,553,739,397</b>	<b>17,740,541,577</b>
Construction revenue	9,298,184,260	5,312,261,561
Ending balance	15,255,555,137	12,428,280,016

The Company is responsible for contract performances and construction warranties related to the contracts. The Company has also been provided with guarantees by financial institutions with respect to the contracts (Note 16). The Company recognized ₩ 13,503 million as a provision for construction warranties representing estimated costs of future repairs, as well as provision for construction losses amounting to ₩ 3,514 million for the estimated losses of construction contracts (Note 14).

Details of the engineering and construction contracts outstanding as of December 31, 2011, are as follows:

<i>(In thousands of Korean won)</i>	<b>Domestic contracts</b>	<b>Overseas contracts</b>	<b>Total</b>
Cumulated construction cost	4,621,509,497	13,403,080,230	18,024,589,727
Cumulated construction income	575,154,699	1,910,575,847	2,485,730,546
Advances from construction contracts	519,536,156	829,774,349	1,349,310,505
Reserved from construction contracts	-	135,935,597	135,935,597

As of December 31, 2011, construction losses are estimated at ₩3,514,407 thousand, the details of which are as follows:

<i>(In thousands of Korean won)</i>	<b>Expected Construction Revenue</b>	<b>Expected Construction Cost</b>	<b>Expected Loss</b>
Construction of 4th section of Kyoungchun electric railway	7,119,070	9,155,757	2,036,687
A9T9 ATM Project of Intel Co	2,944,864	3,850,000	905,136
Construction of sinter facility of Hyundai Steel	963,211	1,206,913	243,702
PETROTRIN NHT&CCR Plat former	501,252	567,445	66,193
Almaty USKO Logistics Center	337,633	375,406	37,773

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Kayan Amines	316,506,588	316,688,891	182,303
Kayan PP	504,434	533,424	28,990
Ras Tanura Refinery DHT	1,029,878	1,043,501	13,623
<b>Total</b>	<b>329,906,930</b>	<b>333,421,337</b>	<b>3,514,407</b>

The Company recognized a provision for expected construction loss (Note 14).

The major joint-engineering projects as of December 31, 2011, are as follows:

	<b>Total Contract amount</b>	<b>Contract amount of the Company's Share</b>	<b>Share of the Company (%)</b>	<b>Lead Party</b>
<i>(In thousands of Korean won)</i>				
Yongin sewage treatment facility	468,960,006	243,859,203	52.00%	The Company
Transfer of Korea Armed Forces Athletic Corps	282,254,545	51,902,896	18.00%	Daelim Industrial Co., Ltd.
Transfer of automobile inspection facility in Yongsan district	263,407,586	93,063,776	35.00%	Samsung C&T Co.
Reclamation of land and appurtenant work in metropolitan area #3	256,301,300	197,370,470	77.00%	The Company
Construction of roadbed of Honam KTX railway area #4-1	229,696,364	22,969,636	10.00%	Samsung C&T Co.
Construction of office of Kyoung-chun line railway	194,594,000	82,392,660	42.00%	The Company
Construction of Goyang KTX depot facility	172,784,314	67,385,882	39.00%	The Company
Kyungchun Railroad Const. (4 Section of Works)	152,490,768	62,108,472	39.80%	The Company
Construction for WorldCup Big Bridge	164,006,000	31,964,712	20.00%	Samsung C&T Co.
Sewerage extension construction of Daechung dam	143,691,867	33,621,272	23.00%	Ssangyong Engineering & Construction Co., Ltd.

## 22. Expenses by Nature

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

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
Materials and outside order cost	7,102,144,984	3,759,367,699
Wages and salaries	692,761,333	489,173,713
Post employment benefits	38,112,321	25,086,478
Employee fringe benefits	108,996,808	95,023,686

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Travel	60,725,180	39,459,767
Rent	53,630,760	37,096,962
Depreciation	34,187,609	25,980,680
Amortization	4,240,389	3,630,489
Transportation expense	121,580,995	55,712,973
Commissions and fees	324,979,134	260,645,583
Bad debts expense	-	17,419,947
Other expenses	137,839,793	75,057,806
Total(*)	<u>8,679,199,306</u>	<u>4,883,655,783</u>

(\*) Total amount consist of Cost of sales and Selling and administrative expenses in income statements.

### 23. Selling and Administrative Expenses

Selling and administrative expenses in 2011 and 2010 are as follows:

*(In thousands of Korean won)*

	<b>2011</b>	<b>2010</b>
Salaries and wages	226,124,735	176,251,875
Post employment benefits	16,496,897	8,181,988
Employee fringe benefits	35,089,585	36,085,563
Travel	18,008,238	11,914,817
Communication expenses	4,196,535	2,937,741
Water, light and heating expenses	9,087,794	5,468,928
Taxes and dues	5,784,622	4,087,072
Rent	20,978,621	18,341,268
Depreciation	17,445,542	19,946,292
Amortization	4,013,697	3,458,534
Repairs and maintenance expenses	1,653,728	1,230,865
Insurance premium	2,381,965	1,665,136
Entertainment and social expenses	3,773,720	2,504,919
Advertising expenses	4,497,063	3,560,819
Commission expenses	34,286,469	20,557,854
Supplies	2,228,494	1,836,847
Conference expenses	5,031,065	3,964,969
vehicle expenses	1,552,458	1,299,840
Training expenses	11,433,056	8,961,114
Event	5,158,738	4,512,466
Outside processing expenses	25,287,136	18,419,920
Miscellaneous Expenses	3,475,266	7,146,862
Bad debt expenses	-	17,419,947
Others	1,744,474	2,013,728
Total	<u>459,729,898</u>	<u>381,769,364</u>

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**24. Other operating income and expense**

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

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
Dividend income	1,590,347	1,736,100
Commission income	10,160,213	6,783,544
Gain on disposal of intangible assets	-	14,000
Gain on disposal of property, plant and equipment	219,369	242,473
Reversal of allowance for doubtful accounts	6,734,068	-
Rent	5,543,639	4,433,994
Gain on foreign currency transactions	185,008,955	112,388,970
Gain on foreign currency translation	27,973,024	7,189,785
Gain on foreign currency forwards transactions	34,052,669	27,560,470
Gain on valuation of foreign currency forwards	3,039,478	10,333,709
Gain on valuation of firm commitment	14,673,528	8,381,771
Gain on disposal of available-for-sale financial assets	35,558,875	-
Reversal of provision for construction warranties	1,447,079	2,363,142
Reversal of provision for lawsuit	73,049	-
Miscellaneous income	8,461,416	6,630,500
<b>Total</b>	<b>334,535,709</b>	<b>188,058,458</b>

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

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
Provision for other doubtful accounts	730,692	4,165,698
Commission expense	1,943,010	606,193
Loss on disposal of account receivables	14,059,206	8,112,538
Loss on disposal of intangible assets	135,117	102,099
Loss on disposal of property, plant and equipment	807,933	348,728
Donations	4,916,813	4,090,510
Loss on foreign currency transactions	157,139,895	100,495,976
Loss on foreign currency translation	21,058,858	10,867,291
Loss on foreign currency forwards transactions	15,601,530	30,025,318
Loss on valuation of currency forwards	7,626,986	28,862,424
Loss on valuation of firm commitment	10,357,800	15,267,390
Transfer to provision for construction warranties	66,193	-
Transfer to provision for lawsuit	1,355,207	850,000
Miscellaneous expense	455,157	616,200
<b>Total</b>	<b>236,254,397</b>	<b>204,410,365</b>

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

Under the former accounting standards, operating income(loss) was calculated as gross profit net of distribution costs and selling and administrative expenses. Under Korean-IFRS, distribution costs, selling and administrative expenses, other net income(loss), and other income and expenses. Hence operating income (loss) amount differs between previous K-GAAP to Korean-IFRS by the amount of other net income(loss), and other income and expenses (Note 24).

Calculation of operating income (loss) is as follows :

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
Reported amount under previous K-GAAP	618,984,952	428,605,780
Adjusted:		
Other operating income	334,535,709	188,058,458
Other operating expense	236,254,397	204,410,365
Korean-IFRS Operating income	<u>717,266,264</u>	<u>412,253,873</u>

**26. Income Tax**

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

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
Current taxes :	146,915,230	117,445,706
Current tax on profits for the year	161,447,072	123,968,188
Adjustments in respect of current years	(14,531,842)	(6,522,482)
Deferred income taxes - temporary difference	11,200,034	19,199,134
Items charged directly to equity(*)	14,379,267	(14,241,785)
Income tax expense	<u>172,494,531</u>	<u>122,403,055</u>

(\*) Deferred income taxes charged directly to equity as of December 31, 2011 and 2010, consist of the following:

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
Charged to deferred tax assets/liabilities		
Other capital surplus	(726,160)	-
Gain on valuation of available-for-sale financial assets	11,503,723	(14,181,621)
Gain on valuation of foreign currency forwards	(206,818)	(484,474)
Loss on valuation of foreign currency forwards	3,781,022	417,262
Total	<u>14,351,767</u>	<u>(14,248,833)</u>
Charged on tax		
Loss on disposal of treasury stock	27,500	7,048
Total	<u>14,379,267</u>	<u>(14,241,785)</u>

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The following table reconciles the expected amount of income tax expense based on statutory rates to the actual amount of taxes recorded by the Company for the years ended December 31, 2011 and 2010:

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
Income before tax	687,020,214	459,025,610
Expected taxes at statutory rate	179,950,485	128,306,012
Adjusted :		
Permanent difference	10,257,725	1,769,081
Temporary differences for which no deferred income tax was recognized	-	1,373
Income tax refunds	(14,531,842)	(6,522,482)
Tax credit	(4,216,727)	(1,348,353)
Impact of Changes in tax rates	1,136,851	197,424
Others	(101,961)	-
Actual taxes	172,494,531	122,403,055
Effective tax rate	25.11%	26.67%

Deferred income tax assets and liabilities from the tax effects of temporary differences as of December 31, 2011, are as follows:

<i>(In thousands of Korean won)</i>	<b>Accumulated Temporary differences</b>			<b>Deferred income tax assets (liabilities)</b>		
	<b>Beginning Balance</b>	<b>Increase (Decrease)</b>	<b>Ending Balance</b>	<b>Beginning Balance</b>	<b>Increase (Decrease)</b>	<b>Ending Balance</b>
<b>Deferred tax arising from temporary differences</b>						
Reserve for technology Development	(3,333,333)	(81,666,667)	(85,000,000)	(843,333)	(19,726,667)	(20,570,000)
Severance insurance deposits	(71,666,860)	(32,293,069)	(103,959,929)	(15,766,709)	(9,391,594)	(25,158,303)
Gain and loss on valuation of Equity method investments	(8,543,133)	-	(8,543,133)	(1,879,489)	(187,949)	(2,067,438)
Depreciation costs	(5,657,824)	(4,871,084)	(10,528,908)	(1,244,721)	(1,303,275)	(2,547,996)
Others	(31,040,149)	19,918,630	(11,121,519)	(7,330,989)	4,639,581	(2,691,408)
Subtotal	(120,241,299)	(98,912,190)	(219,153,489)	(27,065,241)	(25,969,904)	(53,035,145)
Provision for severance and retirement benefits	70,116,571	25,531,888	95,648,459	15,425,645	7,721,282	23,146,927
Allowance for vacation	12,634,767	4,535,713	17,170,480	3,057,614	1,097,642	4,155,256
Provision for construction warranties	3,074,107	4,933,986	8,008,093	676,304	1,261,655	1,937,959
Gain and loss on valuation of foreign currency forwards	28,633,466	(18,436,126)	10,197,340	6,773,737	(4,305,981)	2,467,756
Provision for construction losses	7,370,109	630,492	8,000,601	1,621,424	314,721	1,936,145
Long-term incentives	18,671,000	3,527,700	22,198,700	4,107,620	1,264,465	5,372,085
Acceptances and Guarantees for foreign	1,716,245	7,686,246	9,402,491	377,574	1,897,829	2,275,403

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Provisions for contingencies	3,648,950	9,451,000	13,099,950	883,046	2,287,142	3,170,188
Others	42,533,188	(31,955,060)	10,578,128	5,529,600	(11,354,754)	(5,825,154)
Subtotal	188,398,403	5,905,839	194,304,242	38,452,564	184,001	38,636,565
Subtotal of Accumulated Temporary differences	68,157,104	(93,006,351)	(24,849,247)	11,387,323	(25,785,903)	(14,398,580)
Items charged directly to shareholders' equity	(96,065,895)	69,911,436	(26,154,459)	(20,938,763)	14,585,869	(6,352,894)
Total	(27,908,791)	(23,094,915)	(51,003,706)	(9,551,440)	(11,200,034)	(20,751,474)

(In thousands of Korean won)	Accumulated Temporary differences			Deferred income tax assets (liabilities)		
	Beginning	Increase	Ending	Beginning	Increase	Ending
	Balance	(Decrease)	Balance	Balance	(Decrease)	Balance

**Deferred tax arising from temporary differences**

Accrued income	(8,643,381)	(14,932,629)	(23,576,010)	(2,091,698)	(3,613,696)	(5,705,394)
Severance insurance deposits	(56,787,030)	(14,879,830)	(71,666,860)	(12,493,147)	(3,273,562)	(15,766,709)
Gain and loss on valuation of Equity method investments	(8,543,133)	-	(8,543,133)	(1,879,489)	-	(1,879,489)
Depreciation cost	(8,493,673)	2,835,849	(5,657,824)	(1,868,608)	623,887	(1,244,721)
Others	(34,866,543)	23,449,873	(11,416,670)	(7,780,640)	5,175,489	(2,605,151)
Subtotal	(117,333,760)	(3,526,737)	(120,860,497)	(26,113,582)	(1,087,882)	(27,201,464)
Provision for severance and retirement benefits	61,268,520	8,848,051	70,116,571	13,479,075	1,946,570	15,425,645
Allowance for vacation	12,180,931	453,836	12,634,767	2,947,785	109,829	3,057,614
Gain and loss on valuation of foreign currency forwards	13,783,468	14,849,998	28,633,466	3,335,599	3,438,138	6,773,737
Excess of limit in allowance account for credit losses	8,323,123	16,771,862	25,094,985	2,003,925	4,058,790	6,062,715
Provision for construction Losses	14,398,869	(7,757,101)	6,641,768	3,484,526	(1,877,218)	1,607,308
Provision for construction Warranties	9,860,485	(2,490,376)	7,370,109	2,169,307	(547,883)	1,621,424
Long-term incentives	14,155,600	4,515,400	18,671,000	3,114,232	993,388	4,107,620
Others	49,714,960	(29,860,025)	19,854,935	12,017,246	(12,084,522)	(67,276)
Subtotal	183,685,956	5,331,645	189,017,601	42,551,695	(3,962,908)	38,588,787
Subtotal of Accumulated Temporary differences	66,352,196	1,804,908	68,157,104	16,438,113	(5,050,790)	11,387,323
Items charged directly to shareholders' equity	(30,774,609)	(65,291,286)	(96,065,895)	(6,790,419)	(14,148,344)	(20,938,763)
Total	35,577,587	(63,486,378)	(27,908,791)	9,647,694	(19,199,134)	(9,551,440)

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2011 and 2010, and January 1, 2010, is as follows:

(In thousands of Korean won)	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Deferred tax liabilities			
Deferred tax liability to be recovered	(59,661,780)	(26,106,417)	(23,810,123)

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after more than 12 months			
Deferred tax liability to be recovered within 12 months	(1,758,427)	(5,732,056)	(2,091,698)
	<u>(61,420,207)</u>	<u>(31,838,473)</u>	<u>(25,901,821)</u>
Deferred tax assets			
Deferred tax asset to be recovered after more than 12 months	33,727,428	5,625,143	17,175,112
Deferred tax asset to be recovered within 12 months	6,941,305	16,661,890	18,374,403
	<u>40,668,733</u>	<u>22,287,033</u>	<u>35,549,515</u>
Total	<u>(20,751,474)</u>	<u>(9,551,440)</u>	<u>9,647,694</u>

**27. Earnings per share**

Earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the year.

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

<i>( Korean won and number of shares )</i>	<b>2011</b>	<b>2010</b>
Controlling interest in net income as reported on the statements of income	513,263,057,609	339,297,583,733
Weighted average number of common stock outstanding	<u>36,947,405</u>	<u>37,564,746</u>
Basic earnings per share (In Korean won)	<u>13,892</u>	<u>9,032</u>

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

<i>(Korean won and number of shares)</i>	<b>2011</b>	<b>2010</b>
Controlling interest in net income as reported on the statements of income	513,263,057,609	339,297,583,733
Adjustment:		
Compensation expense for stock options	-	-
Net income available for common stock and common equivalent shares	513,263,057,609	339,297,583,733
Weighted-average number of shares of common stock and common equivalent shares outstanding(*)	<u>36,965,572</u>	<u>37,611,019</u>
Diluted earnings per share (In Korean won)	<u>13,885</u>	<u>9,021</u>

(\*) Common equivalent shares:

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	<b>2011</b>		
	<b>Number of Shares</b>	<b>Weight</b>	<b>Common Stock Equivalent</b>
Stock options	6,630,955	365/365	18,167

  

	<b>2010</b>		
	<b>Number of Shares</b>	<b>Weight</b>	<b>Common Stock Equivalent</b>
Stock options	16,889,645	365/365	46,273

The number of dilutive shares of outstanding stock options is calculated by applying the treasury stock method. The company has stock options as common equivalent shares.

Under the treasury stock method, the proceeds from the exercise of the stock options are assumed to be used to purchase common stock at the average market price. The incremental number of shares which is the difference between the number of shares assumed to be issued and the number of shares assumed to be purchased, is included in the denominator in calculating diluted earnings per share.

**28. Related party transactions**

Associates	Muharraq STP Company B.S.C. Muharraq Holding Company 1 Limited
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Transactions with associates for the years ended December 31, 2011, 2010, and the related receivables and payables as of December 31, 2011 and 2010, are as follows:

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
<b>Inter-company transactions</b>		
Sales	17,821,786	-
Purchases	16,570,531	-
<b>Receivables and Payables</b>		
Receivables	9,476,955	-
Payables	6,086,403	-

The compensation paid or payable to key management for employee services is as follows :

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
Short-term employee benefits	23,415,479	22,499,911
Long-term employee benefits	12,863,200	7,667,000
Post-employment benefits	2,569,097	2,054,238

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**29. Cash Generated from Operations**

Cash flows from operating activities as of December 31, 2011 and 2010, consist of the following:

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
Adjustments for:		
Depreciation expenses	34,187,609	25,980,680
Amortization expenses	4,240,389	3,630,489
Post-employment benefits	37,314,018	25,312,716
Bad debt losses	-	17,419,947
Other bad debt losses	730,692	4,165,698
Loss on foreign currency translation	40,312,911	15,186,573
Loss on disposal of property, plant and equipment	807,933	348,728
Loss on disposal of account receivables	14,059,206	8,112,538
Loss on disposal of intangible assets	135,117	102,099
Interest expense	13,101,300	4,227,508
Income tax	172,494,531	122,403,055
Loss on valuation of currency forwards	7,626,986	28,862,424
Loss on valuation of firm commitment	10,357,800	15,267,390
Gain on foreign currency translation	(39,968,147)	(12,128,478)
Gain on disposal of property, plant and equipment	(219,369)	(242,473)
Gain on disposal of intangible asset	-	(14,000)
Gain on disposal of available-for-sales securities	(35,558,875)	-
Gain on valuation of equity method	(35,537)	-
Reversal of allowance for doubtful accounts	(6,734,068)	-
Interest income	(21,975,553)	(49,704,766)
Dividend income	(1,590,347)	(1,736,100)
Gain on valuation of currency forwards	(3,039,478)	(10,333,709)
Gain on valuation of firm commitment	(14,673,528)	(8,381,771)
Reversal of provision for construction warranties	(1,447,079)	(2,363,142)
<b>Total</b>	<b>210,126,511</b>	<b>186,115,406</b>
Changes in assets and liabilities:		
Decrease(Increase) in trade receivables	(663,509,883)	155,578,986
Decrease(Increase) in due from customers for contract	(869,388,345)	(387,910,336)
Decrease(Increase) in other receivables	17,098,158	(34,851,407)
Decrease(Increase) in advances	(208,385,625)	(269,768,911)
Decrease(Increase) in prepaid contract expenses	21,282,477	(17,549,306)
Decrease(Increase) in prepaid expenses	50,638,930	28,690,066
Decrease(Increase) in inventories	-	13,212,116
Decrease(Increase) in other current assets	(27,271,178)	(7,369,253)
Decrease(Increase) in long-term prepaid expenses	(1,037,739)	(3,554,217)
Decrease(Increase) in foreign currency forwards	(33,558,836)	(7,466,861)
Decrease(Increase) in firm commitment	4,915,880	5,828,589
Decrease(Increase) in trade payable	949,934,303	381,777,988
Decrease(Increase) in other payable	76,792,770	29,586,496
Decrease(Increase) in due to customers for	200,230,213	(149,737,865)

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contract		
Decrease(Increase) in dividends payable	-	1,086,361
Decrease(Increase) in advanced income	(1,493,102)	(592,966)
Decrease(Increase) in deposits	(20,497,750)	10,750,095
Decrease(Increase) in accruals	2,383,331	(6,997)
Decrease(Increase) in provision for construction warranties	5,835,840	(8,596,797)
Decrease(Increase) in provision for long-term incentives	11,557,772	7,550,007
Decrease(Increase) in deposits withheld	42,487,178	15,683,455
Decrease in retirement benefit obligation	(41,168,704)	(25,026,859)
Changes in net working capital, total	<u>(483,154,310)</u>	<u>(262,687,616)</u>

Significant transactions not affecting cash flows for the years ended, 2011 and 2010, are as follows:

<i>(In thousands of Korean won)</i>	<b>2011</b>	<b>2010</b>
Transfer of held-to-maturity securities to current portion of held-to maturity securities	974,445	959,150
Transfer of accounts payables to current portion of accounts payables	4,667,750	9,335,500
Loss on disposal of treasury stock	113,636	29,125
Acquisition of provision for restoration costs	2,368,070	-
Decrease(Increase) in gain on valuation of available-for-sale securities(other comprehensive income/expenses)	(42,629,441)	49,923,681
Decrease(Increase) in gain on valuation of foreign currency forwards(other comprehensive income/expenses)	(11,743,480)	17,585,929
Decrease(Increase) in loss on valuation of currency forwards(other comprehensive income/expenses)	(15,225,995)	(1,306,963)

### 30. Segment Information

The Company has three reportable operating segments. General information on segments of the Company as of December 31, 2011, is as follows:

<b>Line</b>	<b>Products</b>	<b>Major Customers</b>
Energy business	Oil refinery, Upstream and others	Saudi Arabian Oil Company, SONATRACH Spa, Abu Dhabi Oil Refining Company, Petronas Carigali Sdn. Bhd etc
Hydrocarbon business	Petrochemical, Gas and others	ONGC Petro additions limited, Abu Dhabi Polymers Co. Ltd., Abu Dhabi Gas Development Co., Ltd. , Saudi Arabian Oil CompanyRuweis Fertilizer Industries etc
I&I business	Industrial plants and others	Samsung Electronics Co., Ltd., Samsung Mobile Display, Samsung Corning Precision Materials Co., Ltd., Saudi Arabian Oil Company, Ma'aden Rolling

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Financial information by segments as of December 31, 2011 and 2010, is as follows:

<i>(In millions of Korean won)</i>	<b>2011</b>			
	<b>Energy business</b>	<b>Hydrocarbon business</b>	<b>I&amp;I business</b>	<b>Total</b>
Sales	3,532,877	2,372,790	3,392,517	9,298,184
Gross profit	372,594	325,272	380,849	1,078,715
Depreciation	11,282	10,599	12,307	34,188
Amortization	1,484	1,569	1,187	4,240
Operating income	241,172	275,635	200,459	717,266
Total assets	1,622,907	1,876,446	1,689,262	5,188,615

  

<i>(In millions of Korean won)</i>	<b>2010</b>			
	<b>Energy business</b>	<b>Hydrocarbon business</b>	<b>I&amp;I business</b>	<b>Total</b>
Sales	2,576,237	1,316,888	1,419,136	5,312,261
Gross profit	291,336	344,076	174,963	810,375
Depreciation	10,653	8,314	7,014	25,981
Amortization	1,452	1,343	835	3,630
Operating income	155,900	221,412	34,942	412,254
Total assets	1,417,726	1,334,496	782,641	3,534,863

Segment information in 2010 is restated to reconcile with the current policies.

Details of primary customers and products which generate income in each area are as follows:

<b>Segmentation (Area)</b>	<b>Products</b>	<b>Major Customers</b>
Domestic	Oil refinery,Petrochemical,	Samsung Electronics Co., Ltd., Samsung Mobile Display, S-oil, Hyundai Steel etc
America	Oil refinery, Gas,	Terminal KMS de GNL, PETROTRIN, KST Electric Power Company etc
Asia	Oil refinery, Upstream, Petrochemical,	ONGC Petro additions limited, Petronas Carigali Sdn, Bhd, Mobil Cepu Limited etc
Europe and Africa	Oil refinery, Gas,	SONATRACH Spa, Hankook Tire Budapest Kereskedemi KFT etc
Middle east and Others	Oil refinery, Gas, Petrochemical,	Saudi Arabian Oil Company, Abu Dhabi Oil Company, Ma'aden Oiling Company etc