



DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements and Independent Auditor's Report

As of and For the Years Ended
December 31, 2014 and 2013

Doosan Infracore Co., Ltd.

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Independent Auditor's Report

English Translation of Independent Auditor's Report Originally Issued in Korean on March 19, 2015.

**To the Shareholders and the Board of Directors of
Doosan Infracore Co., Ltd.:**

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Doosan Infracore Co., Ltd. and subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, respectively, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows, all expressed in Korean Won, for the years ended December 31, 2014 and 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an audit opinion on these financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing ("KSAs"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2014, and 2013, respectively, and its financial performance operations and its cash flows for the years then ended in accordance with K-IFRS.

Others

We conducted our audit of consolidated financial statements of the Company as of December 31, 2013 in accordance with the former KSAs, known as auditing standards generally accepted in Korea.

Deloitte Amjin LLC

March 19, 2015

Notice to Readers

This report is effective as of March 19, 2015, the auditor's report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditor's report is read. Such events or circumstances could significantly affect the accompanying consolidated financial statements and may result in modification to the auditor's report.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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

Lee, O Kyu
Chief Executive Officer
DOOSAN INFRACORE CO., LTD.

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014 AND 2013
(In Korean Won)

<u>ASSETS</u>	<u>Notes</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
CURRENT ASSETS:			
Cash and cash equivalents	2,4,5,10	₩362,952,767,457	₩287,837,894,710
Short-term financial instruments	2,4,5,10	536,439,120,645	476,689,896,477
Short-term investment securities	2,4,6,10	7,440,999,728	10,615,626
Trade and other receivables, less allowance for doubtful accounts	2,3,4,7,10,33,35	1,238,907,952,584	1,332,548,957,307
Derivative assets	2,4,9,10	12,104,816,893	42,058,214,557
Inventories	2,8	1,705,076,985,802	1,489,497,127,395
Assets held for sale	2	-	440,866,076
Other current assets		<u>156,577,730,192</u>	<u>77,122,100,326</u>
Total Current Assets		<u>4,019,500,373,301</u>	<u>3,706,205,672,474</u>
NON-CURRENT ASSETS:			
Long-term financial instruments	2,4,5,10	2,011,500,000	2,011,500,000
Long-term investment securities	2,4,6,10	87,816,767,174	9,187,861,752
Long-term trade and other non-current receivables, less allowance for doubtful accounts	2,3,4,7,10,33,35	10,600,551,073	3,509,019,686
Non-current derivative assets	2,4,9,10	100,821,253	1,776,066,413
Investments in joint ventures and associates	2,11,33,35	121,446,546,400	154,127,200,055
Property, plant and equipment, net	2,3,12,34	2,282,571,856,345	2,256,581,320,986
Intangible assets, net	2,3,13	4,632,573,417,301	4,739,850,232,360
Investment property, net	2,14	27,374,497,403	28,306,350,354
Deferred income tax assets	2,3,30	660,480,812,191	463,420,422,875
Other non-current assets	10	<u>112,950,284,767</u>	<u>116,517,893,483</u>
Total Non-current Assets		<u>7,937,927,053,907</u>	<u>7,775,287,867,964</u>
TOTAL ASSETS		<u>₩11,957,427,427,208</u>	<u>₩11,481,493,540,438</u>

(Continued)

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
AS OF DECEMBER 31, 2014 AND 2013
(In Korean Won)

<u>LIABILITIES AND EQUITY</u>	<u>Notes</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
CURRENT LIABILITIES :			
Trade and other payables	4,10,15,35	₩1,218,877,369,478	₩1,119,257,063,688
Short-term borrowings	2,4,10,16,33,34	1,153,808,869,334	730,370,021,070
Current portion of bonds	4,10,16,33	69,931,995,390	426,872,492,128
Current portion of long-term borrowings	2,4,10,16,33,34	393,318,014,512	84,927,848,154
Income taxes payable	2,30	29,233,399,624	33,732,288,923
Derivative liabilities	2,4,9,10	20,280,675,491	1,111,137,066
Provisions	2,3,18	176,710,494,285	148,532,912,250
Other current liabilities	10	232,349,133,278	208,864,179,473
Total Current Liabilities		3,294,509,951,392	2,753,667,942,752
NON-CURRENT LIABILITIES :			
Other non-current payables	4,10,15	14,203,961,914	20,695,021,176
Bonds	4,10,16,33	1,899,812,149,246	1,764,755,744,200
Long-term borrowings	2,4,10,16,33,34	2,568,608,228,983	2,637,741,509,672
Retirement benefit obligation	2,17	617,054,600,475	564,414,857,221
Non-current derivative liabilities	2,4,9,10	477,494,787	-
Deferred income tax liabilities	2,3,30	6,150,128,883	8,002,730,726
Non-current provisions	2,3,18	3,354,817,136	5,549,688,773
Other non-current liabilities	2,10	264,967,835,211	177,645,793,637
Total Non-current Liabilities		5,374,629,216,635	5,178,805,345,405
Total Liabilities		8,669,139,168,027	7,932,473,288,157
EQUITY:			
Capital stock	1,19	1,037,276,570,000	1,037,276,570,000
Capital surplus	19	240,200,109,681	237,381,189,581
Capital securities	20	508,259,603,649	508,259,603,649
Other equity items	21	(31,315,390,978)	(26,387,480,016)
Accumulated other comprehensive loss	6,9,11,12,22	(251,078,990,355)	(83,127,632,799)
Retained earnings	23	1,295,796,676,795	1,313,453,266,948
Equity attributable to owners of the parent		2,799,138,578,792	2,986,855,517,363
Non-controlling interests		489,149,680,389	562,164,734,918
Total Equity		3,288,288,259,181	3,549,020,252,281
TOTAL LIABILITIES AND EQUITY		₩11,957,427,427,208	₩11,481,493,540,438

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

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Korean Won)

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
SALES	2,24,25,35	₩7,688,557,930,487	₩7,736,830,293,865
COST OF SALES	2,8,12,13,17,26,35	<u>(5,975,985,523,020)</u>	<u>(6,089,337,802,977)</u>
GROSS PROFIT		1,712,572,407,467	1,647,492,490,888
Selling and administrative expenses	7,12,13,17,26,27	<u>(1,259,577,970,223)</u>	<u>(1,277,992,100,880)</u>
OPERATING INCOME		452,994,437,244	369,500,390,008
Finance income	9,10,28	150,956,006,505	173,794,728,373
Finance expense	9,10,28	(580,078,979,842)	(532,454,814,457)
Other non-operating income	29	41,492,170,772	28,786,137,744
Other non-operating expense	7,29	(105,834,151,522)	(69,556,686,922)
Share of loss of joint ventures and associates	2,11	(34,746,279,417)	(8,014,965,285)
Impairment loss of investment in associates	11	<u>-</u>	<u>(19,018,488,883)</u>
LOSS BEFORE INCOME TAX BENEFIT(EXPENSE)		(75,216,796,260)	(56,963,699,422)
INCOME TAX BENEFIT(EXPENSE)	2,30	<u>99,189,007,741</u>	<u>(43,986,238,851)</u>
NET INCOME(LOSS)		<u>₩23,972,211,481</u>	<u>(₩100,949,938,273)</u>
Attributable to:			
Owners of the parent		₩41,965,483,233	(₩101,756,286,055)
Non-controlling interests		(₩17,993,271,752)	₩806,347,782
EARNINGS(LOSS) PER SHARE:	2,31		
Basic		₩202	(₩596)
Diluted		₩202	(₩596)

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

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Korean Won)

	2014	2013
NET INCOME(LOSS)	₩23,972,211,481	(₩100,949,938,273)
OTHER COMPREHENSIVE INCOME(LOSS)		
Items not reclassified subsequently to profit or loss:		
Re-measurements of net defined benefit liabilities	(48,738,698,530)	142,313,920,280
Revaluation of property, plant and equipment	(191,889,997)	165,989,215,006
Items reclassified subsequently to profit or loss:		
Loss on valuation of available-for-sale financial assets	(891,617,273)	(23,922,052)
Increase(decrease) in equity of associates	390,346,555	(720,654,126)
Loss on foreign operations translation	(161,995,289,277)	(48,571,548,795)
Gain(loss) on valuation of cash flow hedge derivatives	(42,156,769,467)	(20,125,528,559)
Total other comprehensive income(loss)	(253,583,917,989)	238,861,481,754
TOTAL COMPREHENSIVE INCOME(LOSS)	(₩229,611,706,508)	₩137,911,543,481
Owners of the parent	(₩168,389,447,709)	₩122,039,587,370
Non-controlling interests	(₩61,222,258,799)	₩15,871,956,111

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

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Korean Won)

	Capital stock	Capital surplus	Capital securities	Other equity items	Accumulated other comprehensive income (loss)	Retained earnings	Non- controlling interests	Total
Balance at January 1, 2013	₩843,290,170,000	₩14,254,797,512	₩508,259,603,649	(₩30,403,879,853)	(₩177,960,866,635)	₩1,299,786,309,414	₩551,573,179,966	₩3,008,799,314,053
Total comprehensive loss:								
Net income(loss)	-	-	-	-	-	(101,756,286,055)	806,347,782	(100,949,938,273)
Remeasurements of net defined benefit liabilities	-	-	-	-	-	128,656,116,582	13,657,803,698	142,313,920,280
Revaluation and disposal of property, plant and equipment	-	-	-	-	164,526,295,394	306,523,007	1,156,396,605	165,989,215,006
Gain(loss) on valuation of available-for-sale financial assets	-	-	-	-	(23,922,052)	-	-	(23,922,052)
Increase in equity of associates	-	-	-	-	(720,654,126)	-	-	(720,654,126)
Gain(loss) on translation of foreign operations	-	-	-	-	(48,822,956,821)	-	251,408,026	(48,571,548,795)
Gain(loss) on valuation of derivatives	-	-	-	-	(20,125,528,559)	-	-	(20,125,528,559)
Sub total	-	-	-	-	94,833,233,836	27,206,353,534	15,871,956,111	137,911,543,481
Capital transactions with shareholders:								
Capital increase	193,986,400,000	219,628,416,169	-	-	-	-	-	413,614,816,169
Extinguishment of share options	-	3,497,975,900	-	(3,497,975,900)	-	-	-	-
Share-based payment	-	-	-	2,233,974,578	-	-	-	2,233,974,578
Capital increase with consideration in subsidiaries	-	-	-	(2,448,078,041)	-	-	2,448,078,041	-
Business transfer amongst consolidated entities	-	-	-	7,728,479,200	-	-	(7,728,479,200)	-
Dividends	-	-	-	-	-	(13,539,396,000)	-	(13,539,396,000)
Sub total	193,986,400,000	223,126,392,069	-	4,016,399,837	-	(13,539,396,000)	(5,280,401,159)	402,309,394,747
Balance at December 31, 2013	₩1,037,276,570,000	₩237,381,189,581	₩508,259,603,649	(₩26,387,480,016)	(₩83,127,632,799)	₩1,313,453,266,948	₩562,164,734,918	₩3,549,020,252,281

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DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Korean Won)

	Capital stock	Capital surplus	Capital securities	Other equity items	Accumulated other comprehensive income (loss)	Retained earnings	Non- controlling interests	Total
Balance at January 1, 2014	₩1,037,276,570,000	₩237,381,189,581	₩508,259,603,649	(₩26,387,480,016)	(₩83,127,632,799)	₩1,313,453,266,948	₩562,164,734,918	₩3,549,020,252,281
Total comprehensive loss:								
Net income(loss)	-	-	-	-	-	41,965,483,233	(17,993,271,752)	23,972,211,481
Remeasurements of net defined benefit liabilities	-	-	-	-	-	(42,403,573,386)	(6,335,125,144)	(48,738,698,530)
Revaluation and disposal of property, plant and equipment	-	-	-	-	(86,389,693)	-	(105,500,304)	(191,889,997)
Gain(loss) on valuation of available-for-sale financial assets	-	-	-	-	(891,617,273)	-	-	(891,617,273)
Increase in equity of associates	-	-	-	-	390,346,555	-	-	390,346,555
Gain(loss) on translation of foreign operations	-	-	-	-	(125,206,927,678)	-	(36,788,361,599)	(161,995,289,277)
Gain(loss) on valuation of derivatives	-	-	-	-	(42,156,769,467)	-	-	(42,156,769,467)
Sub total	-	-	-	-	(167,951,357,556)	(438,090,153)	(61,222,258,799)	(229,611,706,508)
Capital transactions with shareholders:								
Extinguishment of share options	-	2,818,920,100	-	(2,818,920,100)	-	-	-	-
Share-based payment	-	-	-	2,061,052,408	-	-	-	2,061,052,408
Capital increase with consideration in subsidiaries	-	-	-	(154,722,560)	-	-	154,722,560	-
Capital securities dividends	-	-	-	-	-	(17,218,500,000)	-	(17,218,500,000)
Consideration in subsidiaries dividends	-	-	-	-	-	-	(11,199,500,000)	(11,199,500,000)
Additional acquisition of investment in subsidiaries	-	-	-	(4,015,320,710)	-	-	(748,018,290)	(4,763,339,000)
Sub total	-	2,818,920,100	-	(4,927,910,962)	-	(17,218,500,000)	(11,792,795,730)	(31,120,286,592)
Balance at December 31, 2014	<u>₩1,037,276,570,000</u>	<u>₩240,200,109,681</u>	<u>₩508,259,603,649</u>	<u>(₩31,315,390,978)</u>	<u>(₩251,078,990,355)</u>	<u>₩1,295,796,676,795</u>	<u>₩489,149,680,389</u>	<u>₩3,288,288,259,181</u>

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

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Korean Won)

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	36		
Cash generated from operations		₩555,151,322,498	₩760,438,890,834
Net income(loss)		23,972,211,481	(100,949,938,273)
Adjustments		631,606,364,813	737,408,867,508
Changes in operating assets and liabilities		(100,427,253,796)	123,979,961,599
Interest received		19,973,052,924	21,276,076,828
Interest paid		(287,634,670,235)	(285,422,726,836)
Dividends received		358,725,586	1,027,636,796
Income tax paid		<u>(56,552,683,396)</u>	<u>(15,385,152,127)</u>
Net Cash Provided by Operating Activities		<u>231,295,747,377</u>	<u>481,934,725,495</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash inflows from investing activities			
Disposal of long-term financial instruments		328,177,201	173,836,508
Decrease in loans		-	23,940,469,187
Disposal of property, plant and equipment		7,744,237,289	2,615,395,505
Disposal of intangible assets		1,792,441,522	-
Disposal of investment properties		<u>1,486,728,579</u>	<u>-</u>
Sub-total		<u>11,351,584,591</u>	<u>26,729,701,200</u>
Cash outflows for investing activities:			
Increase in short-term financial assets		52,165,520,823	254,395,216,473
Acquisition of investment in joint ventures and associates		-	35,000,000,000
Acquisition of long-term investment securities		86,515,394,647	24,258,582
Increase in loans		2,871,717,946	-
Acquisition of property, plant and equipment		214,804,217,376	239,329,631,970
Acquisition of intangible assets		<u>83,517,187,372</u>	<u>93,328,023,190</u>
Sub-total		<u>(439,874,038,164)</u>	<u>(622,077,130,215)</u>
Net Cash Used in Investing Activities		<u>(₩428,522,453,573)</u>	<u>(₩595,347,429,015)</u>

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DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Korean Won)

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash inflows from financing activities:		
Increase of borrowings	₩2,526,270,552,169	₩357,841,063,250
Issuance of bonds	219,341,462,000	620,430,083,500
Capital increase	-	413,614,816,169
Sub-total	2,745,612,014,169	1,391,885,962,919
Cash outflows for financing activities:		
Repayment of borrowings	1,969,400,189,912	974,225,224,303
Repayment of bonds	461,663,758,616	480,000,000,000
Dividends	17,218,500,000	17,862,000,000
Consideration in subsidiaries dividends	11,199,500,000	-
Additional acquisition of investment in subsidiaries	4,763,339,000	-
Sub-total	(2,464,245,287,528)	(1,472,087,224,303)
Net Cash Provided by used in Financing Activities	281,366,726,641	(80,201,261,384)
EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS	(9,025,147,698)	18,957,567,185
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	75,114,872,747	(174,656,397,719)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	287,837,894,710	462,494,292,429
CASH AND CASH EQUIVALENTS, END OF THE YEAR	₩362,952,767,457	₩287,837,894,710

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

DOOSAN INFRACORE CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

1. ORGANIZATION AND DESCRIPTION OF THE BUSINESS

(1) Parent company

Doosan Infracore Co., Ltd. (“DI” or the “Parent”) was incorporated on October 23, 2000 through a spin-off from Daewoo Heavy Industries Ltd. (“DHI”) under the Corporate Restructuring Agreement dated January 20, 2000 between DHI and its creditors, approved by DHI’s shareholders on June 27, 2000. DI operates and manages DHI’s manufacturing, selling, and construction businesses of industrial machinery and equipment.

In connection with the spin-off, effective September 30, 2000, DHI transferred to DI certain assets and liabilities amounting to ₩2,494 billion and ₩2,806 billion, respectively.

DI was listed on the stock market of Korean Exchange on February 2, 2001, and changed its name to Doosan Infracore Co., Ltd. from Daewoo Heavy Industries & Machinery Ltd. on April 29, 2005. DI’s common stock as of December 31, 2013 amounts to ₩1,037,277 million, of which 36.40% is owned by Doosan Heavy Industries and Construction Co., Ltd.

(2) Consolidated Subsidiaries

1) DI’s consolidated subsidiaries as of December 31, 2014 and 2013 are as follows:

Subsidiaries	Type of business	Location	Proportion of ownership interests held by DI and immediate parents (%)		Proportion of ownership interests held by non-controlling interests (%)		Financial closing date
			2014 (Note)	2013 (Note)	2014 (Note)	2013 (Note)	
Doosan Infracore China Co., Ltd. (DICC)	Manufacturing, Sales	China	80.00	80.00	20.00	20.00	December 31
Doosan Infracore Machine Tools Yantai Co., Ltd.	Manufacturing, Sales	China	100.00	100.00	0.00	0.00	December 31
Doosan Infracore (China) Investment Co., Ltd.	Holdings	China	100.00	100.00	0.00	0.00	December 31
Doosan Infracore Suzhou Co., Ltd.	Sales	China	100.00	100.00	15.00	15.00	December 31
Doosan Infracore (Shandong) Co., Ltd.	Manufacturing, Sales	China	100.00	92.22	13.00	21.10	December 31
Doosan Infracore Germany GmbH.	Purchases, Sales	Germany	100.00	100.00	0.00	0.00	December 31
Doosan Infracore America Corp.	Purchases, Sales	U.S.A	100.00	100.00	0.00	0.00	December 31
Doosan Infracore Japan Corp.	Purchases	Japan	100.00	100.00	0.00	0.00	December 31
Doosan International Mexico S.A. de C.V.	Sales	Mexico	100.00	100.00	0.00	0.00	December 31
Doosan Bobcat Chile S.A.	Sales	Chile	100.00	100.00	0.00	0.00	December 31
Bobcat Corp.	Sales	Japan	100.00	100.00	0.00	0.00	December 31
Doosan Infracore India Private Ltd.	Manufacturing, Sales	India	100.00	100.00	0.00	0.00	March 31
Doosan Infracore Norway AS.	Manufacturing, Sales	Norway	100.00	100.00	0.00	0.00	December 31
Doosan Infracore South America Industria E Comercio De Maquinas De Construção LTDA	Manufacturing, Sales	Brazil	99.99	99.99	0.01	0.01	December 31
Doosan Infracore Bobcat Ireland Ltd.	Other Service	Ireland	100.00	100.00	0.00	0.00	
Doosan Infracore Bobcat Holdings Co., Ltd.	Holdings	Korea	100.00	100.00	0.00	0.00	December 31

Subsidiaries	Type of business	Location	Proportion of ownership interests held by DI and immediate parents (%)		Proportion of ownership interests held by non-controlling interests (%)		Financial closing date
			2014	2013	2014	2013	
Doosan Infracore International, Inc.	Holdings	U.S.A	88.41	88.41	11.59	11.59	December 31
Clark Equipment Co.	Manufacturing, Sales	U.S.A	100.00	100.00	11.59	11.59	December 31
Bobcat Equipment Ltd.	Sales	Canada	100.00	100.00	11.59	11.59	December 31
Doosan Holdings Europe Ltd.	Holdings	Ireland	78.27	78.27	21.73	21.73	December 31
Doosan Holdings International Ltd.	Holdings	Ireland	100.00	100.00	21.73	21.73	December 31
Doosan Infracore Europe S.A.	Manufacturing, Sales	Belgium	100.00	100.00	21.73	21.73	December 31
Bobcat Bensheim GmbH.	Sales	Germany	100.00	100.00	21.73	21.73	December 31
Doosan Holdings France S.A.S.	Holdings	France	100.00	100.00	21.73	21.73	December 31
Doosan Techno Holding Co., Ltd.(Ireland)	Management	Ireland	100.00	100.00	21.73	21.73	December 31
Doosan Benelux SA.	Sales	Belgium	100.00	100.00	21.73	21.73	December 31
Doosan International Portable Power of Netherlands BV	Sales	Netherlands	100.00	100.00	21.73	21.73	December 31
Doosan International Italia S.r.L	Sales	Italia	100.00	100.00	21.73	21.73	December 31
CJSC Doosan International Russia	Sales	Russia	100.00	100.00	21.73	21.73	December 31
Doosan International UK Ltd.	Sales	England	100.00	100.00	21.73	21.73	December 31
Doosan International Australia Pty Ltd.	Sales	Australia	100.00	100.00	21.73	21.73	December 31
Doosan Infracore Portable Power (Shanghai) Co., Ltd.	Sales	China	100.00	100.00	21.73	21.73	December 31
Doosan International China Co., Ltd.	Sales	China	100.00	100.00	21.73	21.73	December 31
Doosan International Manufacturing China Co., Ltd.	Sales	China	100.00	100.00	21.73	21.73	December 31
Doosan International South East Asia Pte. Ltd.	Sales	Singapore	100.00	100.00	21.73	21.73	December 31
Doosan International South Africa Ltd.	Sales	South Africa	100.00	100.00	21.73	21.73	December 31
Doosan Bobcat Manufacturing s.r.o.	Manufacturing	Czech	100.00	100.00	21.73	21.73	December 31
Doosan Bobcat Engineering s.r.o.	Research and development	Czech	100.00	100.00	21.73	21.73	December 31
Doosan Trading Ltd.	Shared service	Ireland	100.00	100.00	21.73	21.73	December 31
Bobcat Lyon SAS	Sales	France	100.00	100.00	21.73	21.73	December 31
Bobcat France S.A.	Manufacturing, Sales	France	100.00	100.00	21.73	21.73	December 31
Montabert	Manufacturing, Sales	France	100.00	100.00	21.73	21.73	December 31
Geith International Ltd.	Manufacturing, Sales	Ireland	100.00	100.00	21.73	21.73	December 31
Doosan International Luxembourg	Management	Luxemburg	100.00	100.00	21.73	21.73	December 31

(Note) The proportion of ownership interests held by DI and immediate parents represents the aggregation of proportion of ownership interests directly held by DI and immediate parents in the subject entities. However, the proportion of ownership interests held by non-controlling interests represents that of ownership interests held by non-controlling interests, which do not belong to the DI's ownership interests, directly and indirectly. Accordingly, the proportion of ownership interests held by non-controlling interests shown in the above table would differ from those subtracting the proportion of ownership interests held by DI and immediate parents from the whole of the ownership interests in the subject entity.

2) Condensed financial information of DI's significant consolidated subsidiaries as of and for the year ended December 31, 2014 is as follows (in millions of Korean Won):

Subsidiaries	Asset	Liability	Sales	Net income (loss)	Total comprehensive income(loss)
DICC	₩1,609,582	₩1,102,594	₩673,319	(₩90,237)	(₩84,222)
Doosan Infracore Machine Tools Yantai Co., Ltd.	147,432	105,559	146,162	(974)	(348)
Doosan Infracore (China) Investment Co., Ltd.	215,430	6,790	12,155	3,128	6,187
Doosan Infracore (Shandong) Co., Ltd.	112,039	109,886	84,178	(15,134)	(15,310)
Doosan Infracore Germany GmbH.	85,698	54,766	168,888	2,527	(141)
Doosan Infracore America Corp.	324,113	185,511	297,348	1,169	4,292
Doosan Infracore South America Industria E Comercio De Maquinas De Construc�ao LTDA	142,759	163,466	32,909	(58,016)	(56,168)
Doosan Infracore Bobcat Ireland Ltd.	441,804	441,771	-	32	33
Doosan Infracore Bobcat Holdings Co., Ltd.	2,645,870	37,844	6,194	6,589	6,598
Doosan Infracore International, Inc.	3,747,311	2,329,208	-	(109,522)	(28,904)
Clark Equipment Co.	2,135,789	881,204	2,683,791	277,488	327,576
Bobcat Equipment Ltd.	97,805	44,703	239,912	2,890	516
Doosan Holdings Europe Ltd.	2,643,717	1,450,338	-	(111,801)	(64,618)
Doosan Holdings International Ltd.	2,793,376	431,904	-	26,443	120,808
Doosan Infracore Europe S.A.	199,776	93,014	322,057	(11,855)	(22,930)
Bobcat Bensheim GmbH.	126,770	109,335	116,764	(4,549)	(8,615)
Doosan Holdings France S.A.S	289,326	58,175	-	85,763	73,237
Doosan Techno Holding Co., Ltd.(Ireland)	667,681	456,091	-	(1,723)	(20,750)
Doosan Benelux SA.	558,539	569,431	673,188	(12,561)	(12,816)
Doosan International UK Ltd.	81,131	55,825	192,454	6,914	3,665
Doosan Bobcat Manufacturing s.r.o.	102,852	38,743	199,821	3,511	(2,667)
Doosan Trading Ltd.	293,227	3,187	-	1,194	(24,742)
Bobcat France S.A.	42,739	21,601	84,315	1,440	(949)
Montabert	72,344	29,888	111,826	10,733	(400)
Doosan International Luxemburg	838,357	660,235	52,779	(2,692)	(19,219)

3) As of December 31, 2014, non-controlling interests in subsidiary having material impact to DI are as follows (in millions of Korean Won):

Subsidiaries	Net income(loss) allocated to non- controlling interests	Non-controlling interests	Dividends allocated to non-controlling interests
DICC	(₩5,521)	₩105,395	₩11,200
Doosan Infracore International, Inc. and subsidiaries	19,762	296,769	-
Doosan Holdings Europe Ltd. and subsidiaries	(27,379)	102,435	-

(3) Changes in the scope of consolidation

Changes in the scope of consolidation for the year ended December 31, 2014 are as follows:

Subsidiary	Change	Description
Goldwave Ltd.	Excluded	Liquidation of subsidiary
Goldwave Holdings Ltd.	Excluded	Liquidation of subsidiary
Geith Patents Ltd.	Excluded	Liquidation of subsidiary
Bobcat Parts Services GmbH. (Note)	Excluded	Merged with another subsidiary
Doosan Beteiligungs GmbH. (Note)	Excluded	Merged with another subsidiary
Bobcat Bensheim GmbH & co KG (Note)	Excluded	Merged with another subsidiary
Doosan Infracore Bobcat Ireland Ltd.	Included	Newly established
Doosan Infracore Bobcat Holdings Co, Ltd.	Included	Incorporated through a spin-off
Doosan Infracore U.K., Ltd.	Excluded	Liquidation of subsidiary

(Note) The companies were merged with Doosan Holdings Germany GmbH. and the company's name was changed to Bobcat Bensheim GmbH. for the year ended December 31, 2014.

Changes in the scope of consolidation for the year ended December 31, 2013 are as follows:

Subsidiary	Change	Description
Doosan International Construction Equipment Espana, S.L.	Excluded	Liquidation of subsidiary
Doosan International do Brasil Commercial and Market Related Consulting Ltda.	Excluded	Liquidation of subsidiary
Geith International UK Ltd.	Excluded	Liquidation of subsidiary

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DI and its subsidiaries (the “Company”) maintain its official accounting records in Korean Won and prepare consolidated financial statements in conformity with Korean statutory requirements and Korean International Financial Reporting Standards (“K-IFRS”), in the Korean language (Hangul).

(1) Basis of Preparation

The Company has adopted the K-IFRS for the annual period beginning on January 1, 2011.

The significant accounting policies under K-IFRS followed by the Company in the preparation of its consolidated financial statements are summarized below and these accounting policies have been applied consistently to the consolidated financial statements for the current period and the accompanying comparative period.

- 1) Changes in accounting policies by newly adopted standards and interpretations for the current year are as follows:

Amendments to K-IFRS 1032 – Financial Instruments : Presentation

The amendments to K-IFRS 1032 clarify the requirement for the offset presentation of financial assets and financial liabilities: the right to offset must not be conditional upon the occurrence of future events and can be exercised anytime during the contract periods. The right to offset is executable even in the case of default or insolvency. The amendments have no significant impact on the Company’s consolidated financial statements.

Amendments to K-IFRS 1110, 1112 and 1027 – Investment Entities

The amendments introduced an exception to the principle in K-IFRS 1110 Consolidated financial statement which required the consolidation of all subsidiaries. If a subsidiary meets definition of an investment entity, the reporting entity measures the subsidiary at fair value through profit or loss instead of consolidation. Also, the consequential amendments have been made to K-IFRS 1112, Disclosure of Interests in Other Entities and K-IFRS 1027, Separate Financial Statements to introduce new disclosure requirements for investment entities. The amendments have no significant impact on the Company’s consolidated financial statements.

Amendments to K-IFRS 1036 – Impairment of Assets

The amendments introduced disclosure requirements of recoverable amount when the recoverable amount of an asset or cash-generated unit (CGU) is measured at fair value less costs of disposal. The application of these amendments has no significant impact on the disclosure in the Company’s consolidated financial statements.

Amendments to K-IFRS 1039 – Financial Instruments: Recognition and Measurement

The amendments permit the Company to use hedge accounting when, as a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties and when meeting certain criteria. The adoption of the amendments has no significant impact on the Company's consolidated financial statements.

Enactment of K-IFRS 2121 – Levies

The enactment defines that the obligating event giving rise to the recognition of a liability to pay a levy is the activity that triggers the payment of the levy in accordance with the related legislation. The enactment has no significant impact on the Company's consolidated financial statements.

- 2) The Company has not applied the following new or revised K-IFRSs that have been issued but are not yet effective:

Amendments to K-IFRS 1019 – Employee Benefits

The amendments permit the Company to recognize amount of contributions as a reduction in the service cost in which the related service is rendered if the amounts of contributions are independent of the number of years of service. The amendments are effective for the annual periods beginning on or after July 1, 2014.

Amendments to K-IFRS 1016 – Property, Plant and Equipment

The amendments to K-IFRS 1016 prohibit the Company from using a revenue-based depreciation method for items of property, plant and equipment. The amendments are effective for the annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1038 – Intangible Assets

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The amendments to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of an intangible assets, which the presumption can only be limited when the intangible asset expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to K-IFRS 1111 – Accounting for Acquisitions of Interests in Joint Operations

The amendments to K-IFRS 1111 provides guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103 Business Combinations. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The amendments to K-IFRS 1111 are effective for the annual periods beginning on or after January 1, 2016.

Annual Improvements to K-IFRS 2010-2012 Cycle

The amendments to K-IFRS 1102 (i) changes the definition of ‘vesting condition’ and ‘market condition’ and (ii) add definition for ‘performance condition’ and ‘service condition’ which were previously included within the definition of ‘vesting condition’. The amendments to K-IFRS 1103 Business Combinations clarify the classification and measurement of the contingent consideration in business combination. The amendments to K-IFRS 1108 clarify that a reconciliation of the total of the reportable segments’ assets should only be provided if the segment assets are regularly provided to the chief operating decision maker. The amendments are effective for the annual periods beginning on or after July 1, 2014.

Annual Improvements to K-IFRS 2011-2013 Cycle

The amendments to K-IFRS 1103 clarify the scope of the portfolio exception for measuring the fair values of the group of financial assets and financial liabilities on a net basis and include all contracts that are within the scope the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself. The amendments to K-IFRS 1113 Fair value Measurements and K-IFRS 1040 Investment Properties exist and these amendments are effective to the annual periods beginning on or after July 1, 2014.

(2) Consolidation

The consolidated financial statements incorporate the financial statements of the Parent and entities controlled by the Parent (or its subsidiaries).

1) Subsidiaries

Subsidiaries generally include those companies over which the Company exercises control. Control over an entity is presumed to exist when the Company owns, directly or indirectly through subsidiaries, more than 50% of the voting rights of the entity, the Company has the power to govern the operating and financial policies of the entity through agreement or the Company has the power to appoint or remove the majority of the members of the board of the entity. It is required to consider the existence and the effect of potential voting rights currently exercisable or convertible when assessing whether the Company has control over another entity.

Subsidiaries are fully consolidated from the date when control is transferred to the Company and de-consolidated from the date when control ceases to exist.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets.

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. When necessary, adjustments are made to the financial statements of subsidiaries to make their accounting policies in line with those used by the Company.

Transactions with non-controlling interests are considered as those with owners of the Company. The difference between the consideration for the acquisition of interests from non-controlling interests and the proportionate share of carrying amount of subsidiary's net assets is accounted for as equity transactions. Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. When the Company loses control of a subsidiary, the income or loss on disposal is calculated as the difference between the aggregate of the fair value of the consideration received and the fair value of any retained interest and the previous carrying amount.

2) Investments in joint ventures and associates

An associate is an entity over which the Company has significant influence, and which is neither a subsidiary nor an investment in a joint venture and the Company generally holds, directly or indirectly through subsidiaries, more than 20 % of the voting power of the entity. A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control.

These investments are initially recognized at cost and accounted for using the equity method.

The carrying amount of the investments contains goodwill arising from the acquisition and is presented at the amount less accumulated impairment losses.

After acquisition, the Company's share of the income or loss and other comprehensive income of the associates and jointly controlled entities are recognized as income or loss and other comprehensive income and the Company's share of the changes in retained earnings of the associates and joint ventures are recognized as retained earnings. When the Company's share of losses of associates and joint ventures exceeds the Company's interest in those entities (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associates and joint ventures.

Unrealized gains from transactions between the Company and its associates and joint ventures are eliminated up to the interests in those entities. Unrealized losses are also eliminated unless evidence of impairment in assets transferred is provided.

When necessary, the Company may revise associates' and joint ventures' financial statements, to apply consistent accounting policies of the Company, prior to applying the equity method of accounting for its investments in the associates and joint ventures.

For overseas investees whose financial statements are prepared in foreign currencies, the equity method of accounting is applied after assets and liabilities are translated in accordance with the accounting treatments for the translation of the financial statements of overseas' subsidiaries for consolidated financial statements. The Company's proportionate share of the difference between assets net of liabilities and equity after translating into Korean Won is accounted for as "increase (decrease) in equity of associates" included in accumulated other comprehensive income (loss).

(3) Foreign currency translation

1) Functional currency and presentation currency

The Company's financial statements are presented in the currency of the primary economic environment in which it operates (its functional currency). The functional currency of DI and the presentation currency for the consolidated financial statements of the Company are Korean Won.

2) Foreign currency transaction and translation of balance

Transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. Foreign currency gain(loss) from settlements of foreign currency transactions or translation of monetary items denominated in foreign currencies are recognized in income or loss whereas the gain(loss) from qualified cash flow hedge and net investment hedge for foreign operations is deferred as an equity item.

3) Translation of foreign operations

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations having functional currencies different from the Company are translated in presentation currency of the Company using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during

that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Exchange differences from the net investment in the foreign operation, and borrowings and other foreign currency instruments designated as hedging instrument for the net investment in the foreign operation are recognized in other comprehensive income. On disposal of a foreign operation resulting in loss of control, all of the accumulated exchange differences in respect of that operation are reclassified to income or loss. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(4) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits, short-term, highly liquid investments with maturities (or date of redemption) of three months or less upon acquisition. Bank overdraft is classified as short-term borrowings in the consolidated statements of financial position.

(5) Financial assets

1) Classification of financial assets

Financial assets are classified into the following specified categories: 'financial assets at fair value through profit or loss'(FVTPL), 'loans and receivables', 'available-for-sale financial assets'(AFS), and 'held-to-maturity investments'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

a) FVTPL

FVTPL includes financial assets classified as held for trading financial assets and financial assets designated at FVTPL upon initial recognition. A financial asset is classified as held for trading financial asset, if it has been acquired principally for the purpose of selling or repurchasing in near term. All derivative assets including an embedded derivative separated from the host contract and accounted for as derivative are classified as held for trading financial assets unless they are designated as effective hedging instruments. These categories of assets are classified as current assets or non-current assets depending on the timing of settlement.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables with maturities of more than 12 months from the end of the reporting period are classified as non-current assets. Otherwise they are classified as current assets.

c) AFS

AFS is non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or FVTPL. AFS is classified as non-current assets unless management has intention to sell them within 12 months.

d) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial instruments with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity. Held-to-maturity investments, with maturities of more than 12 months from the end of the reporting period, are classified as non-current assets. Otherwise they are classified as current assets.

2) Recognition and measurement

All financial assets are recognized on the trade date when the purchase or sale of a financial asset is under a contract and are initially measured at fair value, plus transaction costs, except for FVTPL, which are initially measured at fair value and related transaction costs are recognized in income or loss.

FVTPL and AFS are subsequently measured at fair value. Loans and receivables and held-to-maturity investments are measured at amortized cost using the effective interest method. Gains or losses arising from changes in fair value of financial assets at FVTPL are recognized in the other non-operating income and expense line item in the consolidated statements of income. Dividends on FVTPL are recognized in the finance income when the Company's right to receive the dividends is established.

Changes in fair value of monetary and non-monetary financial assets which are classified as AFS are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the equity is reclassified into other non-operating income and expense in the consolidated statement of income.

Interest from AFS calculated using the effective interest method is recognized in finance income in the consolidated statement of income. Dividends on AFS equity instruments are recognized in the finance income when the Company's right to receive the dividends is established.

3) Impairment of financial assets

a) Financial assets measured at amortized cost

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate at initial recognition. The carrying amount of the financial asset is reduced by the impairment loss and the amount of the loss is recognized in income or loss. The Company measures impairment loss based on the fair value of financial assets from observable market data.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in income or loss.

b) AFS

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. For equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. If there is an objective evidence of impairment on AFS, the cumulative loss that has been recognized in other comprehensive income less any impairment loss previously recognized in income or loss is reclassified from equity to income or loss. Impairment losses recognized in income or loss for an investment in an equity instrument classified as AFS are not reversed through income or loss. Meanwhile, if, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in income or loss, the impairment loss is reversed through income or loss.

4) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

5) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset as a net amount in the consolidated statements of financial position when the Company has a legally enforceable right to set off the recognized amounts of the assets and liabilities and intends to settle on a net basis, or to realize the assets and the liabilities simultaneously.

(6) Financial liabilities and equity instruments

1) Classification as debt and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

When the Company reacquires its own shares, those shares are deducted from equity. No gain or loss is recognized in income or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments.

3) Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. Conversion option over an entity's own equity is accounted for as equity only when it will be settled by the entity delivering (or receiving) a fixed number of its own equity instruments and receiving (or delivering) a fixed amount of cash or another financial asset.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. Conversion option classified as equity is reclassified to share premium when the option is exercised.

The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured.

Transaction costs related to issuance of convertible bonds are allocated between the liability and equity components in proportion to relative fair value. Transaction costs allocated to equity are recognized directly in equity. Transaction costs allocated to liability are included in book value of liability and amortized using effective interest method.

4) Financial liabilities

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

Financial liabilities are classified as either FVTPL or other financial liabilities.

5) FVTPL

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

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

FVTPL is stated at fair value, with any gains or losses arising on remeasurement recognized in income or loss. The net gain or loss recognized in income or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

6) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial liability, or (when appropriate) a shorter period, to the net carrying amount on initial recognition. When calculating the estimated future cash payments or receipts, certain factors, such as commission income and expense; points; transaction costs; and premiums and discounts, are factored into the calculation.

7) Financial guarantee contract liabilities

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

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

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

8) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, canceled or expired. The difference between the consideration paid and the book value of financial liabilities derecognized is recognized in income or loss.

(7) Trade receivables

Trade receivables are amounts owed by customer for products and services provided in the ordinary course of business. Receivables expected to be collected within one year are classified as current assets. Otherwise they are classified as non-current assets. Trade receivables are initially measured at fair value and are presented as net of allowance for doubtful accounts, estimated on an individual basis based on past bad debt experience.

(8) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories includes fixed and variable manufacturing overhead costs which are systematically allocated to inventories by appropriate methods based on each category of inventory. The cost of inventories is determined by the specific identification method for materials in transit, and the gross average method for all other inventories. During the year, perpetual inventory systems are used to value inventories, which are adjusted to physical inventory counts performed at the end of the year. The Company periodically reviews changes in net realizable value of inventories (current replacement cost for raw materials) due to damage, obsolescence, decline in selling prices and others and recognizes loss on inventory valuation. Loss on inventory valuation is charged to cost of sales when it is ordinary and to other non-operating expense when it is extraordinary. When the circumstances that previously caused inventories to be written down below cost no longer exist and the new market value of inventories subsequently recovers, the valuation loss is reversed to the extent of the original valuation loss and the reversal is deducted from cost of sales.

(9) Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. When useful life of each part of an item of property, plant and equipment is different compared to that of the item, the part is recognized separately. The cost of an item of property, plant and equipment is directly attributable to its purchase or construction including the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs incurred to replace part of previously recognized item of property, plant and equipment are added to the carrying amount of an asset, or recognized as a separate asset, if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of the asset can be measured reliably. The carrying amount of what was replaced is derecognized. Routine maintenance and repairs are expensed as incurred.

The Company does not depreciate land. Depreciation expense for property, plant and equipment other than land is computed using the straight-line method which reflects most closely the pattern in which the asset's economic benefits are expected to be consumed by the Company over the estimated useful lives of the assets as follows:

	<u>Estimated useful lives (years)</u>
Buildings	20 – 40
Structures	10 – 20
Machinery	3 – 15
Vehicles	3 – 10
Tools	3 – 10
Office equipment	3 – 14

If a part of a property, plant and equipment has a cost that is significant in relation to the total cost of property, plant and equipment, it is depreciated separately.

The Company reviews the depreciation method, the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

When the carrying amount of property, plant and equipment is higher than the recoverable amount, the carrying amount is adjusted to the recoverable amount and the difference is recognized as an impairment loss. Meanwhile, when the recoverable amount subsequently exceeds the carrying amount of the impaired asset, the excess is recorded as a reversal of impairment loss to the extent that the reversed asset does not exceed the carrying amount before previous impairment as adjusted by depreciation. Upon the derecognition of a property, plant and equipment, the difference between the net disposal proceed and carrying amount of the item is recognized in other non-operating income (expense).

(10) Intangible assets

Intangible assets are initially measured at cost and are carried at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditure on an intangible asset is capitalized only when it is probable that the expected future economic benefits that are attributable to the asset will increase.

Intangible assets other than goodwill and intangibles with indefinite useful lives are amortized using the straight-line method with no residual value, with amortization beginning when the asset is available for use. However, useful lives of membership and other intangible assets with similar nature are determined to be indefinite since there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the Company and they are not amortized but tested for impairment once a year.

The estimated useful lives of the assets are as follows:

	<u>Estimated useful lives (years)</u>
Industrial rights	5 – 10, 20, 40
Development costs	4 – 12
Other intangible assets	3 – 10

Goodwill is measured as the excess of the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any); over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed and is classified as an intangible asset. Goodwill is tested for impairment annually and carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Impairment loss recognized for goodwill is not reversed. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

Expenditures relating to development activities are capitalized when the result of the development is for the development of new products or substantial improvement of functions of existing products; there is technical and commercial feasibility of completing the development; and the Company has the ability to measure reliably the expenditure attributable to the development. Capitalized development costs include expenditure on materials, salaries, wages and other employment-related costs of personnel directly engaged in generating assets and related overhead cost which is systematically allocated. Capitalized development costs are presented at the acquisition cost less accumulated amortization and accumulated impairment losses. Capitalized development costs are amortized using the straight-line method over the estimated useful life and amortization expenses are included in cost of goods manufactured and amortization in selling and administrative expenses.

The expenditure on research and development which does not meet conditions noted above is recognized as an expense when it is incurred.

The estimated useful life and amortization method for intangible assets with finite useful lives are reviewed at the end of each reporting period and for the assets which have been assessed as having indefinite useful life, that assessment is revisited each period, with the effect of any changes in estimate being accounted for as a change in accounting estimate.

(11) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, the book value of investment property is presented at cost less accumulated depreciation and accumulated impairment. While land is not depreciated, all other investment property is depreciated using the straight-line method over 40 years.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for as a change in accounting estimate.

(12) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

(13) Impairment of non-financial assets

Assets with indefinite useful lives such as goodwill are not amortized but tested for impairment annually. Assets which are amortized or depreciated are tested for impairment to determine whether events and circumstances indicating those assets have suffered impairment exist. Impairment loss is the excess of the carrying amount over recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Except for goodwill, all non-financial assets that have incurred impairment are tested for reversal of impairment at the end of each reporting period.

(14) Borrowings

Borrowings are measured initially at fair value, net of transaction costs and subsequently at amortized cost using the effective interest method, with interest expense being recognized on an effective yield basis. The difference between the amount received and the redemption amount is amortized using the effective interest method and recognized in income or loss. Borrowings are classified as non-current liabilities when the Company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise borrowings are classified as current liabilities.

(15) Retirement benefit obligation

The Company operates a defined benefit pension plan. In general, the Company funds its benefit obligation, calculated based on periodic actuarial estimates, through insurance companies which manage the Company's funds.

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Generally under defined benefit plan, amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings, years of service, ages and other. The retirement benefit obligation recognized in the consolidated statements of financial position represents the present value of the defined benefit obligation, less fair value of plan assets and adjustment for unrecognized past service cost. Defined benefit obligations are calculated by an actuary using the Projected Unit Credit Method.

The present value of the defined benefit obligation is denominated in the same currency in which the benefits are expected to be paid, and calculated at the discount rate which is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligation. Actuarial gain or loss from changes in actuarial assumptions or differences between actuarial assumptions and actual results is recognized in other comprehensive income, which is immediately recognized as retained earnings. Meanwhile, past service cost is directly recognized in profit or loss in the period of a plan amendment.

Contributions to defined contribution plans are recognized as an expense when employees have rendered service that entitles them to the contributions.

(16) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. A provision is measured using the present value of the cash flows estimated to settle the present obligation when the effect of the time value of money is material. At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. The increase in provision due to passage of time is recognized as interest expense. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. In the consolidated statements of income, a net amount is presented, being the anticipated cost of the obligation less the reimbursement.

(17) Derivative financial instruments

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is generally recognized as income or loss when it is incurred.

However, 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 income or loss.

(18) Dividend

Dividend payable is recognized as liability when declaration of the dividend is approved in the shareholders' meeting.

(19) Share-based payment arrangement

The Company recognizes share options granted to employees at the fair value at the grant date. The fair value determined at the grant date of the share option is expensed on a straight-line basis over the vesting period. The Company determines fair value of share options using the Black-Scholes model.

(20) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and rendering of services arising in the course of the ordinary activities of the Company. Revenue is reduced for value added tax, estimated customer returns, rebates and trade discounts and is presented after eliminating intercompany transactions. The Company recognizes revenue when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company and when transaction meets the revenue recognition criteria specified by activity. When measuring revenue, the Company reliably estimates on contingencies related to sales based on historical data such as customer type, transaction type and trading terms.

1) Sale of goods

Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenue is recognized on initial delivery of the goods net of expected discounts and returns estimated based on historical data. The Company estimates and recognizes provision for warranty and sales return arising from sale of goods.

2) Other revenue

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is recognized using the effective interest method. Revenues arising from dividends are recognized when the right to receive the dividend payment is established. Rental income is recognized on a straight-line basis. Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement

(21) Government grants

For the purpose of acquisition of certain assets, government grants related to assets are accounted for as a deduction from related assets on the date that the related assets are received.

If a government grant that will be received is not subject to specific conditions attached to it, government grants related to primary operating activity are recognized in operating income, otherwise those are recognized in other non-operating income. Meanwhile, expense related to the government grants is to be offset first and then recognized in current income.

(22) Income tax and deferred tax

Income tax expense is composed of current and deferred tax. Current and deferred tax are recognized in income or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

Income tax (current tax) expense is the sum of corporate tax for each fiscal year and tax added to corporate tax under corporate income tax law and other law. Additional income taxes or tax refunds for the prior periods are included in income tax expense for the current period when recognized. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable income.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income nor the accounting income.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, joint ventures and associates except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

(23) Earnings per share

Basic earnings per common share are computed by dividing net income attributable to owners of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed by dividing diluted net income attributable to the owners of the Company, which is adjusted by adding back the after-tax amount of expenses related to dilutive potential ordinary shares, by weighted average number of common shares and dilutive potential ordinary shares outstanding during the period. Antidilutive potential ordinary shares are disregarded in the calculation of diluted earnings per share.

(24) Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell and are no longer depreciated or amortized. If the fair value less costs to sell of the non-current assets held for sale (and disposal groups) decreases, impairment loss is recognized immediately in income or loss. A gain should be recognized for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss recognized.

(25) Segment report

Operating segments are reported on the same basis as financial information is reported to management. The management of the Company decides how to allocate resources to segments and assess their performance.

(26) Approval of financial statements

The consolidated financial statements for the year ended December 31, 2014 were approved by the board of directors on February 5, 2015 and will be approved finally by the Shareholder's meeting on March 27, 2015.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTIES

The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and underlying assumptions are based on historical experiences and other factors including expectation on possible future events. Actual results may differ from these estimates. The following are critical assumptions and key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(1) Warranty provision

The Company provides warranty for product when related revenue is recognized. At the end of each reporting period, provisions are recorded for the best estimated costs to fulfill current and future warranty obligations. The Company continuously introduces new products using advanced complex technology and accordingly these estimates may change in future period due to additional provisions required under local legislation and practice.

(2) Impairment of goodwill

The Company performs test for goodwill impairment testing annually. Recoverable amount of cash-generating units is based on calculation of value in use. The value in use calculation requires accounting estimates.

(3) Allowance for doubtful accounts of receivables

In order to calculate the impairment of receivables, the management of the Company estimates an expected bad debt considering the aging of receivables, past experience of bad debt write offs, and economic and industrial factors.

(4) Measurement of property, plant and equipment and intangible assets

If the Company acquires property, plant and equipment or intangible assets from business combination, it is required to estimate the fair value of these assets at the acquisition date. It is also required to estimate useful lives for depreciation and amortization. For these estimation processes, the management's judgments shall take an important role.

4. FINANCIAL RISK MANAGEMENT

The Company is exposed to various financial risks such as market risk (foreign currency risk, interest rate risk, price risk), credit risk and liquidity risk related to the operations of the Company. The purpose of risk management policy which is approved by foreign currency risk management committee and board of directors is to minimize potential risks which could have adverse effect on financial performance.

The foreign currency risk management committee and the board of directors provide documented policies on overall risk management as well as specific risk management such as foreign currency risk and interest rate risk. Financial risk management activities such as identification, evaluation and management of financial risks at the Company level are performed by treasury and international finance department, in accordance with the aforementioned documented risk management policies. In addition, the Company enters into derivative contracts to hedge against certain risks.

(1) Market risk

1) Foreign currency risk

The Company is exposed to foreign currency risk since it makes international transactions in foreign currencies. Foreign currency risk arises from forecast transactions, recognized assets and liabilities and net investments in foreign operations.

Foreign currency risk is managed by the Company's policy on foreign currencies. The Company's basis for foreign currency management is to reduce income/loss volatility. The Company reduces exposure to foreign currency risk by matching the inflow and the outflow of foreign currencies (natural hedge), and manages foreign currency risk by using currency derivatives, such as currency forwards, for the remaining exposures.

The book value of the Company's monetary assets and liabilities denominated in foreign currencies and exposed to foreign currency risk as of December 31, 2014 and 2013 is as follows (in millions of Korean Won):

	December 31, 2014					December 31, 2013				
	USD	EUR	CNY	Others (*)	Total	USD	EUR	CNY	Others (*)	Total
Assets	₩1,441,655	₩223,011	₩485	₩57,316	₩1,722,467	₩1,118,962	₩100,113	₩-	₩3,405	₩1,222,480
Liabilities	(2,431,893)	(351,863)	(21)	(104,894)	(2,888,671)	(2,420,656)	(145,781)	(150)	(94,648)	(2,661,235)
Net assets (liabilities)	<u>(₩990,238)</u>	<u>(₩128,852)</u>	<u>₩464</u>	<u>(₩47,578)</u>	<u>(₩1,166,204)</u>	<u>(₩1,301,694)</u>	<u>(₩45,668)</u>	<u>(₩150)</u>	<u>(₩91,243)</u>	<u>(₩1,438,755)</u>

(*) Others are assets and liabilities denominated in foreign currencies other than USD, EUR and CNY.

A sensitivity analysis on the Company's net income before income tax expense, assuming a 10% increase and decrease in functional currency exchange rates of the respective entity holding the assets and liabilities, for the years ended December 31, 2014 and 2013 is as follows (in millions of Korean Won):

	Year ended December 31, 2014		Year ended December 31, 2013	
	10% increase in foreign currency rates	10% decrease in foreign currency rates	10% increase in foreign currency rates	10% decrease in foreign currency rates
Net income(loss) before income tax expense	(₩116,620)	₩116,620	(₩143,876)	₩143,876

2) Interest rate risk

The Company's interest rate risk is related to borrowings and bank deposits with floating interest rates and the related interest income and expense are exposed to interest rate risk. The Company is exposed to interest rate risk mainly due to its borrowing with floating interest rates. Borrowings and bank deposits with fixed interest rates do not have influence on net income and equity due to the changes in market interest rates.

To manage the Company's interest rate risk in advance, the Company tries to minimize external borrowings using internal funds, reduce borrowings with high interest rates, improve the structure of long-term and short-term borrowings, maintain the appropriate balance between borrowings with floating interest rate and fixed interest rate, and regularly monitor domestic and international interest rate changes with action plans.

The book value of the Company's financial assets and liabilities with floating interest rates exposed to interest rate risk as of December 31, 2014 and 2013 is as follows (in millions of Korean Won):

	December 31, 2014	December 31, 2013
Financial liabilities	₩2,934,440	₩2,945,454

A sensitivity analysis on the Company's net income (loss) before income tax expense, assuming a 1% increase and decrease in interest rate but other factors being unchanged, for the years ended December 31, 2014 and 2013 is as follows (in millions of Korean Won):

	Year ended December 31, 2014		Year ended December 31, 2013	
	1% increase	1% decrease	1% increase	1% decrease
Net income(loss) before income tax expense	(₩29,344)	₩29,344	(₩29,455)	₩29,455

3) Price risk

The Company is exposed to equity price risks such as fair value or future cash flow changes arising from its listed equity investments among AFS equity investments. The Company periodically measures the risk that the fair value or future cash flows of equity investments may fluctuate due to the changes in market prices. Important investments in the Company's portfolio are individually managed and acquisition and disposal are approved by the management of the Company.

(2) Credit risk

The credit risk refers to risk of financial losses to the Company when the counterparty defaults on the obligations of the contract and arises from the Company's normal transaction and investing activity. To manage credit risk, the Company evaluates the credit worthiness of each customer or counterparty considering the financial status, past experience and other factors. The Company establishes credit limit for each customer and counterparty.

Credit risk arises from cash and cash equivalents, derivatives and deposit in banks and financial institutions as well as the Company's receivables and firm commitment.

The purpose of credit risk management is to maintain an efficient management of credit risk, provide prompt support for decision making and minimize loss through safety measures for receivables. When default is expected for the receivables which have indication of impairment or are past due as of December 31, 2014, the Company evaluates the risk and an allowance is recognized in the consolidated statement of financial position.

1) Exposure to credit risk

The maximum exposure amount of credit risk of financial assets as of December 31, 2014 and 2013 is as follows (in millions of Korean Won):

	December 31, 2014	December 31, 2013
Cash and cash equivalents	₩362,953	₩287,838
Loans and receivables		
Current and non-current financial instrument	538,451	478,701
Trade and other receivables	1,238,908	1,332,549
Non-current trade and other receivables	10,601	3,509
Derivative assets	12,206	43,834
Held-to-maturity investments	10,509	7,190
	<u>₩2,173,628</u>	<u>₩2,153,621</u>
Total		

2) Aging analysis of the Company's receivables as of December 31, 2014 and 2013 is as follows (in millions of Korean Won):

	December 31, 2014						
	Individually impaired receivables	Receivables assessed for impairment on a collective basis					Total
		Within due	0 – 3 months	3 – 6 months	6 – 12 months	More than 12 months	
Trade receivables	₩400,841	₩689,677	₩118,515	₩31,638	₩35,983	₩41,098	₩1,317,752
Other receivables	37,518	33,823	23,078	2,062	1,521	20,429	118,431
Accrued income	-	4,953	-	-	-	-	4,953
Short-term loans	-	19,397	-	-	-	-	19,397
Long-term trade receivables	-	3,475	-	-	-	-	3,475
Long-term other receivables	-	8,262	-	-	-	-	8,262
Long-term loans	-	1,466	-	-	-	-	1,466
Total	₩438,359	₩761,053	₩141,593	₩33,700	₩37,504	₩61,527	₩1,473,736

	December 31, 2013						
	Individually impaired receivables	Receivables assessed for impairment on a collective basis					Total
		Within due	0 – 3 months	3 – 6 months	6 – 12 months	More than 12 months	
Trade receivables	₩297,443	₩826,218	₩117,187	₩47,363	₩51,593	₩35,996	₩1,375,800
Other receivables	3,306	45,160	15,026	25,212	3,279	18,736	110,719
Accrued income	468	4,827	-	-	-	-	5,295
Short-term loans	-	14,676	-	-	-	-	14,676
Long-term trade receivables	-	2,932	-	-	-	-	2,932
Long-term loans	-	577	-	-	-	-	577
Total	₩301,217	₩894,390	₩132,213	₩72,575	₩54,872	₩54,732	₩1,509,999

An allowance is recognized by applying appropriate allowance rate for receivables that can be assessed to be impaired individually due to insolvency, bankruptcy and others. Groups of financial assets that are not individually significant and have similar credit risk characteristics are assessed for impairment on a collective basis based on aging analysis and the Company's past experience of receivables collection.

AFS, held-to-maturity financial assets, deposit in financial institution and derivative instruments are individually assessed for impairment.

(3) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities obligations related to its financing for its operation. The Company forecasts cash flows from operating, investing and financing activities through a cash flow budget for three months and twelve months. Through these forecasts, the Company maintains the required liquidity volume and manages liquidity risk in advance.

The Company's major non-derivative liabilities as of December 31, 2014 and 2013 are matured as follows (in millions of Korean Won):

		December 31, 2014				
		Nominal cash flows according to contract (*)				
	Book value	Total	Less than 1 year	1-2 years	2-5 years	More than 5 years
Financial liabilities	₩7,528,312	₩9,235,689	₩4,134,752	₩1,473,944	₩1,784,518	₩1,842,475
		December 31, 2013				
		Nominal cash flows according to contract (*)				
	Book value	Total	Less than 1 year	1-2 years	2-5 years	More than 5 years
Financial liabilities	₩6,889,937	₩8,733,133	₩3,827,509	₩1,256,895	₩3,499,003	₩149,726

(*) Maturity analysis mentioned above is based on undiscounted cash flows per the contracts which differs from the financial liability recognized in the consolidated statement of financial position and the above amount also includes guarantee amounts.

(4) Capital risk

The Company performs capital risk management to protect its ability to continuously provide income to shareholders and parties in interest and to maintain optimum capital structure to reduce capital expenses.

The Company manages its capital structure, through dividend payments to shareholders, return of capital to shareholders, and issues of new shares and sales of its assets for debt reduction. Debt to equity ratio calculated as total liabilities divided by equity is used as an index to manage the Company's capital similar to overall industry practice.

Debt to equity ratios as of December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Debt	₩8,669,139	₩7,932,473
Equity	<u>3,288,288</u>	<u>3,549,020</u>
Debt to equity ratio	<u>263.64%</u>	<u>223.51%</u>

5. RESTRICTED FINANCIAL ASSETS

Details of restricted deposits as of December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	<u>December 31, 2014</u>	<u>December 31, 2013</u>	<u>Description</u>
Cash and cash equivalents	₩449	₩451	Security for tender and others
Short-term financial instruments	421,047	299,467	Pledged for borrowings and others
Long-term financial instruments	<u>2,012</u>	<u>2,012</u>	Checking account deposit and others
Total	<u>₩423,508</u>	<u>₩301,930</u>	

6. INVESTMENT SECURITIES

(1) Investment securities as of December 31, 2014 and 2013 are summarized as follows (in millions of Korean Won):

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Current		
AFS financial assets	₩441	₩-
Held-to-maturity financial assets	<u>7,000</u>	<u>10</u>
Sub-total	<u>7,441</u>	<u>10</u>
Non-current		
AFS financial assets	84,308	2,009
Held-to-maturity financial assets	<u>3,509</u>	<u>7,179</u>
Sub-total	<u>₩87,817</u>	<u>₩9,188</u>

(2) AFS financial assets

1) AFS financial assets as of December 31, 2014 and 2013 are summarized as follows (in millions of Korean Won):

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Current		
Investments in non-listed company	₩441	₩-
Non-current		
Investments in non-listed company	664	1,278
Beneficiary certificates	83,140	239
Investments in funds	<u>504</u>	<u>492</u>
Total	<u>₩84,308</u>	<u>₩2,009</u>

2) The changes in gain(loss) on valuation of AFS financial assets for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	<u>Year ended December 31, 2014</u>			
	<u>January 1, 2014</u>	<u>Valuation</u>	<u>Reclassification from equity to profit or loss</u>	<u>December 31, 2014</u>
Beneficiary certificates	₩124	(₩1,471)	₩-	(₩1,347)
Tax effect	<u>(30)</u>	<u>580</u>	<u>-</u>	<u>550</u>
Total	<u>₩94</u>	<u>(₩891)</u>	<u>₩-</u>	<u>(₩797)</u>
	<u>Year ended December 31, 2013</u>			
	<u>January 1, 2013</u>	<u>Valuation</u>	<u>Reclassification from equity to profit or loss</u>	<u>December 31, 2013</u>
Beneficiary certificates	₩156	₩86	(₩118)	₩124
Tax effect	<u>(38)</u>	<u>(21)</u>	<u>29</u>	<u>(30)</u>
Total	<u>₩118</u>	<u>₩65</u>	<u>(₩89)</u>	<u>₩94</u>

(3) Held-to-maturity financial assets

Held-to-maturity financial assets as of December 31, 2014 and 2013 are summarized as follows (in millions of Korean Won):

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Current		
Government bonds and public bonds	₩-	₩10
Other debt securities	<u>7,000</u>	<u>-</u>
Sub-total	<u>7,000</u>	<u>10</u>
Non-current		
Government bonds and public bonds	9	179
Other debt securities	<u>3,500</u>	<u>7,000</u>
Sub-total	<u>₩3,509</u>	<u>₩7,179</u>

7. TRADE AND OTHER RECEIVABLES

(1) Trade and other receivables as of December 31, 2014 and 2013 consist of the following (in millions of Korean Won):

	December 31, 2014		
	Gross (*)	Allowance for doubtful accounts	Book value
Trade receivables	₩1,308,851	(₩159,044)	₩1,149,807
Other receivables	118,431	(37,558)	80,873
Accrued income	4,953	-	4,953
Short-term loans	19,397	(16,122)	3,275
Total	₩1,451,632	(₩212,724)	₩1,238,908
Long-term trade Receivables	₩3,475	₩-	₩3,475
Long-term trade Receivables	5,660	-	5,660
Long-term loans	1,466	-	1,466
Total	₩10,601	₩-	₩10,601
	December 31, 2013		
	Gross (*)	Allowance for doubtful accounts	Book value
Trade receivables	₩1,370,592	(₩138,000)	₩1,232,592
Other receivables	110,719	(18,349)	92,370
Accrued income	5,295	(468)	4,827
Short-term loans	14,676	(11,916)	2,760
Total	₩1,501,282	(₩168,733)	₩1,332,549
Long-term trade receivables	₩2,932	₩-	₩2,932
Long-term loans	577	-	577
Total	₩3,509	₩-	₩3,509

(*) If transferred trade receivables do not meet the derecognition criteria, the Company continues to recognize the trade receivables and also recognizes a collateralized borrowing for the proceeds received. (Note 16)

- (2) The changes in allowance for doubtful accounts for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended December 31, 2014			December 31, 2014
	January 1, 2014	Increase	Other	
Trade receivables	₩138,000	₩49,511	(₩28,467)	₩159,044
Other receivables	18,349	18,554	655	37,558
Accrued income	468	(468)	-	-
Short-term loans	11,916	3,886	320	16,122
Total	₩168,733	₩71,483	(₩27,492)	₩212,724

	Year ended December 31, 2013			December 31, 2013
	January 1, 2013	Increase	Other	
Trade receivables	₩89,962	₩53,978	(₩5,940)	₩138,000
Other receivables	17,448	891	10	18,349
Accrued income	468	-	-	468
Short-term loans	-	12,191	(275)	11,916
Total	₩107,878	₩67,060	(₩6,205)	₩168,733

Receivables past due are assessed as impaired. An allowance for doubtful accounts is individually recognized for receivables that can be assessed individually for impairment. An allowance for doubtful account is recognized based on aging analysis and the Company's past collection experience for the group of receivables that are not individually significant and have similar characteristics. Provision for doubtful accounts is included in selling and administrative expenses and other non-operating expenses in the consolidated statements of income.

8. INVENTORIES

Inventories as of December 31, 2014 and 2013 are summarized as follows (in millions of Korean Won):

	December 31, 2014			December 31, 2013		
	Acquisition cost	Valuation allowance	Book value	Acquisition cost	Valuation allowance	Book value
Merchandise	₩422,997	(₩25,138)	₩397,859	₩350,707	(₩18,242)	₩332,465
Finished goods	558,209	(45,375)	512,834	520,563	(36,347)	484,216
Semi-finished goods	50,599	-	50,599	32,468	(84)	32,384
Work-in-progress	91,833	(361)	91,472	81,504	(312)	81,192
Raw materials	411,044	(31,879)	379,165	410,669	(20,706)	389,963
Supplies	2,464	(347)	2,117	2,648	(104)	2,544
Materials in transit	271,031	-	271,031	166,733	-	166,733
Total	<u>₩1,808,177</u>	<u>(₩103,100)</u>	<u>₩1,705,077</u>	<u>₩1,565,292</u>	<u>(₩75,795)</u>	<u>₩1,489,497</u>

Cost of inventory charged to cost of sales amounted to ₩5,647,489 million and ₩5,775,344 million for the years ended December 31, 2014 and 2013, respectively. Loss on inventory valuation added to cost of sales amounted to ₩27,305 million for the year ended December 31, 2014 and reversal loss on inventory valuation deducted from cost sales amounted to ₩9,958 million for the year ended December 31, 2013.

9. DERIVATIVES

(1) Details of the Company's derivatives contracts are as follows:

Purpose	Derivative instruments	Contract description
Cash flow hedge	Foreign currency forwards	A contract to avoid cash flow risk arising from forecasted sales in foreign currencies
Trading purpose	Foreign currency forwards	Foreign currency forwards to hedge future cash flows

(2) Details of gain and loss on valuation of derivatives as of December 31, 2014 and 2013 are as follows (in thousands of foreign currencies and millions of Korean Won):

December 31, 2014							
	Buy		Sell		Assets (liabilities)	Gains (losses)	Other comprehensive income(loss)
	Currency	Amount	Currency	Amount			
Foreign currency forwards	KRW	795,702	USD	737,000	(₩18,890)	₩-	(₩18,890)
	KRW	144,130	EUR	103,000	5,239	-	5,239
	KRW	47,049	GBP	27,000	641	-	641
	CZK	231,607	EUR	8,408	(68)	(68)	-
	USD	125,000	EUR	99,892	4,537	4,634	-
	USD	23,691	BRL	58,983	(12)	(14)	-
Total					<u>(₩8,553)</u>	<u>₩4,552</u>	<u>(₩13,010)</u>
December 31, 2013							
	Buy		Sell		Assets (liabilities)	Gains (losses)	Other comprehensive income(loss)
	Currency	Amount	Currency	Amount			
Foreign currency forwards	KRW	964,568	USD	865,000	₩42,514	₩-	₩42,514
	KRW	151,876	EUR	103,000	396	-	396
	KRW	47,067	GBP	27,000	(304)	-	(304)
	CZK	902,661	EUR	32,834	290	(62)	-
	USD	100,000	EUR	72,844	(172)	(37)	-
Total					<u>₩42,724</u>	<u>(₩99)</u>	<u>₩42,606</u>

Derivative instruments classified as financial assets at FVTPL are classified as current assets or current liabilities. Derivatives that are designated as hedging instruments are classified as non-current assets (liabilities) when their maturities exceed 12 months from the end of the reporting period. Otherwise they are classified as current assets (liabilities).

There is no gain or loss relating to the ineffective portion which shall be recognized in income or loss in applying cash flow hedge.

10. FINANCIAL INSTRUMENTS

(1) Categories of financial instruments as of December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	December 31, 2014						
	FVTPL - assets	Loans and receivables	AFS	Held-to-maturity investments	Derivatives designated as hedging instruments	Book value	Fair value
Short-term financial instruments	₩-	₩536,439	₩-	₩-	₩-	₩536,439	₩536,439
Short-term investment securities	-	-	441	7,000	-	7,441	7,441
Trade and other receivables	-	1,238,908	-	-	-	1,238,908	1,238,908
Derivatives assets	5,101	-	-	-	7,105	12,206	12,206
Long-term financial instruments	-	2,012	-	-	-	2,012	2,012
Long-term investment securities	-	-	84,308	3,509	-	87,817	87,817
Long-term trade and other receivables	-	10,601	-	-	-	10,601	10,601
Other non-current assets	-	68,180	-	-	-	68,180	68,180
Total	₩5,101	₩1,856,140	₩84,749	₩10,509	₩7,105	₩1,963,604	₩1,963,604

	December 31, 2014				
	FVTPL - liabilities	Financial liabilities at amortized cost	Derivatives designated as hedging instruments	Book value	Fair value
Trade and other payables	₩-	₩1,218,877	₩-	₩1,218,877	₩1,218,877
Borrowings and bonds	-	6,085,479	-	6,085,479	6,085,479
Derivatives liabilities	643	-	20,115	20,758	20,758
Other current liabilities	-	15,435	-	15,435	15,435
Other non-current payables	-	14,204	-	14,204	14,204
Financial guarantee liabilities	-	194,317	-	194,317	194,317
Total	₩643	₩7,528,312	₩20,115	₩7,549,070	₩7,549,070

December 31, 2013

	FVTPL - assets	Loans and receivables	AFS	Held-to-maturity investments	Derivatives designated as hedging instruments	Book value	Fair value
Short-term financial instruments	₩-	₩476,690	₩-	₩-	₩-	₩476,690	₩476,690
Short-term investment securities	-	-	-	11	-	11	11
Trade and other receivables	-	1,332,549	-	-	-	1,332,549	1,332,549
Derivatives assets	290	-	-	-	43,545	43,835	43,835
Long-term financial instruments	-	2,012	-	-	-	2,012	2,012
Long-term investment securities	-	-	2,009	7,179	-	9,188	9,188
Long-term trade and other receivables	-	3,509	-	-	-	3,509	3,509
Other non-current assets	-	73,243	-	-	-	73,243	73,243
Total	₩290	₩1,888,003	₩2,009	₩7,190	₩43,545	₩1,941,037	₩1,941,037

December 31, 2013

	FVTPL - liabilities	Financial liabilities at amortized cost	Derivatives designated as hedging instruments	Book value	Fair value
Trade and other payables	₩-	₩1,119,257	₩-	₩1,119,257	₩1,119,257
Borrowings and bonds	-	5,644,667	-	5,644,667	5,644,667
Derivatives liabilities	172	-	939	1,111	1,111
Other current liabilities	-	3,863	-	3,863	3,863
Other non-current payables	-	20,695	-	20,695	20,695
Financial guarantee liabilities	-	101,454	-	101,454	101,454
Total	₩172	₩6,889,936	₩939	₩6,891,047	₩6,891,047

(2) Fair value measurements of financial instruments by fair-value hierarchy level as of December 31, 2014 and 2013 are as follows (in millions of Korean Won):

Type	December 31, 2014			Total
	Level 1	Level 2	Level 3	
Financial Assets:				
FVTPL	₩-	₩5,101	₩-	₩5,101
AFS	285	-	82,855	83,140
Derivatives designated as hedging instruments	-	7,105	-	7,105
Total	₩285	₩12,206	₩82,855	₩95,346
Financial Liabilities:				
FVTPL	₩-	(₩643)	₩-	(₩643)
Derivatives designated as hedging instruments	-	(20,115)	-	(20,115)
Total	₩-	(₩20,758)	₩-	(₩20,758)

Type	December 31, 2013			Total
	Level 1	Level 2	Level 3	
Financial Assets:				
FVTPL	₩-	₩290	₩-	₩290
AFS	239	-	-	239
Derivatives designated as hedging instruments	-	43,545	-	43,545
Total	₩239	₩43,835	₩-	₩44,074
Financial Liabilities:				
FVTPL	₩-	(₩172)	₩-	(₩172)
Derivatives designated as hedging instruments	-	(939)	-	(939)
Total	₩-	(₩1,111)	₩-	(₩1,111)

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.

Level 3: Inputs that are not based on observable market data(unobservable inputs).

Some of financial instruments that are not included in the above table are not measured at fair value but are recorded at book value that approximates fair value.

As of December 31, 2014, for fair value measurement in level 3 of the hierarchy, the Company selects an option pricing model as valuation technique that uses significant unobservable inputs such as volatility of interest rate and stock price.

In addition, the Company recorded other comprehensive loss of ₩1,516 million for the year ended December 31, 2014 through the fair value measurement on financial instruments designated to the level 3.

(3) Net finance income(loss) by each category of financial instruments for the years ended December 31, 2014 and 2013 is as follows (in millions of Korean Won):

	Year ended December 31, 2014						
	Interest income (expense)	Dividend income	Gain(loss) on valuation	Depreciation	Gain(loss) on disposal	Others	Other comprehensive loss (*)
Financial Assets:							
Cash and cash equivalents	₩14,392	₩-	₩-	₩-	₩-	₩-	₩-
FVTPL	-	-	-	-	-	-	-
Loans and receivables	4,792	-	-	(71,475)	(7,811)	-	-
AFS	-	359	-	-	(6)	(1,429)	(1,472)
Held-to-maturity investments	914	-	-	-	-	-	-
Total	₩20,098	₩359	₩-	(₩71,475)	(₩7,817)	(₩1,429)	(₩1,472)
Financial Liabilities:							
FVTPL	₩-	₩-	₩-	₩-	₩-	₩-	₩-
Financial liabilities at amortized cost	(291,615)	-	-	-	(37,087)	(90,439)	-
Total	(₩291,615)	₩-	₩-	₩-	(₩37,087)	(₩90,439)	₩-
Year ended December 31, 2013							
	Interest income (expense)	Dividend income	Gain(loss) on valuation	Depreciation	Gain(loss) on disposal	Others	Other comprehensive loss (*)
Financial Assets:							
Cash and cash equivalents	₩13,547	₩-	₩-	₩-	₩-	₩-	₩-
FVTPL	-	-	-	-	-	-	-
Loans and receivables	5,235	-	-	(67,037)	(5,712)	-	-
AFS	-	9	-	-	122	-	(32)
Held-to-maturity investments	594	-	-	-	-	-	-
Total	₩19,376	₩9	₩-	(₩67,037)	(₩5,590)	₩-	(₩32)
Financial Liabilities:							
FVTPL	₩-	₩-	₩-	₩-	₩-	₩-	₩-
Financial liabilities at amortized cost	(312,366)	-	-	-	(1,679)	(64,753)	-
Total	(₩312,366)	₩-	₩-	₩-	(₩1,679)	(₩64,753)	₩-

(*)The amounts are not adjusted for deferred income tax effect.

Among the financial instruments above, the effective portion of the gain or loss on a derivative designated as a cash flow hedge is reported in other comprehensive income (loss) and accordingly, the loss of ₩55,616 million and ₩26,550 million for the years ended December 31, 2014 and 2013, respectively, is recognized as other comprehensive income(loss). Refer to Note 9.

In addition, except when the financial instruments are entered into a derivative contract, exchange differences arose from foreign currency transaction and translation are mostly resulted from loans and receivables, and financial liabilities measured at amortized cost.

- (4) Financial liabilities subject to an enforceable master netting arrangement or similar agreement as of December 31, 2014 and 2013 are as follows (in millions of Korean Won) :

Year ended December 31, 2014					
	Gross amounts of financial liabilities	Gross amounts of financial assets set off in the consolidated statement of financial position	Net amounts of financial assets and liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position	Net amount
Borrowings	₩50,000	₩50,000	₩-	₩-	₩-

Year ended December 31, 2013					
	Gross amounts of financial liabilities	Gross amounts of financial assets set off in the consolidated statement of financial position	Net amounts of financial assets and liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position	Net amount
Borrowings	₩50,000	₩50,000	₩-	₩-	₩-

11. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

(1) Investments in joint ventures and associates as of December 31, 2014 are summarized as follows:

<u>Company</u>	<u>Type of business</u>	<u>Location</u>	<u>Financial closing date</u>
-Investments in associates			
Daewoo Machinery Co., Ltd. (*1)	Manufacturing	Taiwan	December 31
Daewoo Maquinas E Equipamentos Ltda. (*1)	Manufacturing	Brazil	December 31
Doosan (China) Financial Leasing Corp.	Finance	China	December 31
Doosan Capital Co., Ltd. (*2)	Finance	Republic of Korea	December 31
- Investments in joint ventures			
Xuzhou Xugong Doosan Engine Co., Ltd. (*3)	Manufacturing	China	December 31

(*1) As of December 31, 2014, the investees are in liquidation process and are reclassified into investment in associates.

(*2) The Company accounts for its investment in Doosan Capital Co., Ltd. using the equity method despite its ownership interest is less than 20% as it has significant influence through representation on the board of directors.

(*3) The Company has no control over the investee due to the agreement in which the Company cannot solely make decision on the financial and operating policy of the investee. As a result, the investee is classified into joint ventures.

(2) Investments in joint ventures and associates as of December 31, 2014 and 2013 are summarized as follows (in millions of Korean Won):

Company	Percentage of ownership (%)	Acquisition cost		Book value		Proportionate share of net assets	
		December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
-Investments in associates							
Daewoo Machinery Co., Ltd.	100.00	₩1,308	₩1,308	₩-	₩-	₩-	₩-
Daewoo Maquinas Equipamentos Ltda.	70.00	1,181	1,181	-	-	-	-
Doosan (China) Financial Leasing Corp.	49.00	96,248	96,248	96,996	101,371	83,783	87,494
Doosan Capital Co., Ltd.	16.65	111,000	111,000	24,451	52,756	19,453	47,757
Sub total		209,737	209,737	121,447	154,127	103,236	135,251
- Investments in joint ventures							
Xuzhou Xugong Doosan Engine Co., Ltd.	50.00	16,232	16,232	-	-	-	-
Total		₩225,969	₩225,969	₩121,447	₩154,127	₩103,236	₩135,251

(3) Changes in investment in joint ventures and associates for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

Company	Year ended December 31, 2014					
	January 1, 2014	Acquisition (disposal)	Share of profit (loss)	Increase (decrease) in equity of associates	Other	December 31, 2014
Doosan (China) Financial Leasing Corp.	₩101,371	₩-	(₩5,790)	₩-	₩1,415	₩96,996
Doosan Capital Co., Ltd.	52,756	-	(28,956)	651	-	24,451
Total	₩154,127	₩-	(₩34,746)	₩651	₩1,415	₩121,447
Company	Year ended December 31, 2013					
	January 1, 2013	Acquisition (disposal)	Share of profit (loss)	Increase (decrease) in equity of associates	Other	December 31, 2013
Doosan (China) Financial Leasing Corp.	₩98,935	₩-	₩1,200	₩-	₩1,236	₩101,371
Doosan Capital Co., Ltd.	37,306	35,000	(6,146)	(78)	(13,326)	52,756
Xuzhou Xugong Doosan Engine Co., Ltd.	8,762	-	(3,069)	-	(5,693)	-
Total	₩145,003	₩35,000	(₩8,015)	(₩78)	(₩17,783)	₩154,127

- (4) The condensed financial information of the investees as of and for the years ended December 31, 2014 and 2013 is as follows (in millions of Korean Won):

Company	As of and for the year ended December 31, 2014				As of and for the year ended December 31, 2013			
	Total assets	Total liabilities	Sales	Net income (loss)	Total assets	Total liabilities	Sales	Net income (loss)
Doosan (China) Financial Leasing Corp.	₩789,214	₩618,229	₩45,660	(₩10,020)	₩905,372	₩726,812	₩72,055	₩240
Doosan Capital Co., Ltd.	1,661,977	1,502,567	85,809	(118,784)	2,346,866	2,072,421	187,711	(28,959)

12. PROPERTY, PLANT AND EQUIPMENT

- (1) Changes in property, plant and equipment for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended December 31, 2014								Total
	Land	Buildings	Structures	Machinery	Vehicles	Tools	Equipment	Construction in-progress	
January 1, 2014	₩952,035	₩511,711	₩69,851	₩511,590	₩6,715	₩80,923	₩29,929	₩93,827	₩2,256,581
Acquisition	5	5,179	2,533	52,474	1,443	31,669	8,208	113,293	214,804
Disposal	-	(659)	(197)	(9,000)	(126)	(457)	(659)	(278)	(11,376)
Depreciation	-	(25,638)	(5,553)	(101,454)	(2,576)	(27,244)	(13,664)	-	(176,129)
Impairment losses	(2,224)	(8,244)	-	(490)	(162)	-	(496)	-	(11,616)
Others	(1,451)	81,647	706	57,909	(75)	(285)	1,566	(129,709)	10,308
December 31, 2014	<u>₩948,365</u>	<u>₩563,996</u>	<u>₩67,340</u>	<u>₩511,029</u>	<u>₩5,219</u>	<u>₩84,606</u>	<u>₩24,884</u>	<u>₩77,133</u>	<u>₩2,282,572</u>
Acquisition cost	₩731,108	₩780,730	₩114,567	₩1,138,530	₩24,672	₩230,660	₩131,344	₩77,133	₩3,228,744
Accumulated depreciation	-	(204,480)	(47,227)	(623,164)	(19,434)	(146,054)	(105,986)	-	(1,146,345)
Accumulated impairment losses	(2,335)	(7,876)	-	(1,773)	(19)	-	(474)	-	(12,477)
Accumulated gain on revaluation	219,592	-	-	-	-	-	-	-	219,592
Government subsidy	-	(4,378)	-	(2,564)	-	-	-	-	(6,942)

Year ended December 31, 2013									
	Land	Buildings	Structures	Machinery	Vehicles	Tools	Equipment	Construction in-progress	Total
January 1, 2013	₩732,852	₩510,356	₩68,733	₩489,875	₩8,898	₩75,127	₩37,885	₩99,940	₩2,023,666
Acquisition	680	7,862	1,294	55,217	1,405	31,530	9,815	131,527	239,330
Net changes from revaluation	219,817	-	-	-	-	-	-	-	219,817
Disposal	(354)	(6,298)	(735)	(3,167)	(539)	(74)	(43)	(50)	(11,260)
Depreciation	-	(26,220)	(5,393)	(102,778)	(2,963)	(24,066)	(16,034)	-	(177,454)
Impairment losses	-	-	-	(1,314)	-	-	-	-	(1,314)
Others	(960)	26,011	5,952	73,757	(86)	(1,594)	(1,694)	(137,590)	(36,204)
December 31, 2013	<u>₩952,035</u>	<u>₩511,711</u>	<u>₩69,851</u>	<u>₩511,590</u>	<u>₩6,715</u>	<u>₩80,923</u>	<u>₩29,929</u>	<u>₩93,827</u>	<u>₩2,256,581</u>
Acquisition cost	₩733,950	₩699,356	₩112,201	₩1,093,858	₩25,485	₩205,133	₩130,765	₩94,361	₩3,095,109
Accumulated depreciation	-	(183,141)	(42,350)	(577,895)	(18,770)	(124,210)	(100,836)	-	(1,047,202)
Accumulated impairment losses	(1,732)	-	-	(1,314)	-	-	-	-	(3,046)
Accumulated gain on revaluation	219,817	-	-	-	-	-	-	-	219,817
Government subsidy	-	(4,504)	-	(3,059)	-	-	-	(534)	(8,097)

As of December 31, 2014, the Company's land, buildings and machinery are partially pledged as collateral for loans from Korea Development Bank (KDB). Refer to Note 34.

(2) The Company revalued its land assets as of December 31, 2013 as follows;

For the year ended December 31, 2013, the Company initially remeasured all land assets using fair value at the date of the revaluation. As of December 31, 2013, the fair value of land assets is determined from an appraisal that is undertaken by independently qualified valuers, GAON Appraisal Company Limited (GAON) and others, on October 31, 2013. As of December 31, 2014, meanwhile, the Company does not remeasure the land assets since changes in the fair value of the land assets are not identified after initial revaluation. GAON and others are member of Korea Association of Property Appraisers and comprise certified professionals who have a significant amount of industry experience.

Fair value of land assets is determined by reference to Officially Assessed Reference Land Price (OARLP), announced by Ministry of Land, Transport and Maritime Affairs, and recent market transactions of similar, recently sold parcels nearby the subject land in order to derive an indication of the most probable sales price (or value) of the subject land.

(3) Fair value measurements of land assets by fair-value hierarchy level as of December 31, 2014 are as follows (in millions of Korean Won):

Type	Level 1	Level 2	Level 3	Total
Land	₩-	₩-	₩948,365	₩948,365

(4) Valuation methodologies and inputs used for fair value measurements of land assets are as follows:

Valuation methodology	Significant inputs that are not based on observable market data (unobservable inputs)	Correlation between unobservable inputs and fair value arguments
OARLP	Fluctuation rate of land price and others	Fair value increases (decreases) if rate of land price increases (decreases)
OARLP of similar parcels nearby the subject land, reflating corrections necessary for differences between the subject and the comparable	Parcel conditions and others Land conditions affecting the sales price and others	Fair value increases (decrease) if corrections of parcel conditions and others increase (decrease) Fair value increases (decreases) if correction of land conditions affecting the sales price increases (decreases)

(5) The effect of applying revaluation model for the year ended December 31, 2013 is as follows (in millions of Korean Won):

January 1, 2013	Acquisition	Disposal	Others	Revaluation increase	Revaluation decrease	December 31, 2013
₩732,852	680	(354)	(960)	221,436	(1,619)	952,035

(6) Borrowing costs added to the cost of property, plant and equipment for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	December 31, 2014	December 31, 2013
Borrowing costs added to the cost of property, plant and equipment	1,747	2,544
Interest rate(%)	4.59%	4.52%

(7) Classification of depreciation expense for the years ended December 31, 2014 and 2013 is as follows (in millions of Korean Won):

	December 31, 2014	December 31, 2013
Cost of sales	₩138,446	₩140,602
Selling and administrative	23,145	20,680
Research and development cost and others	14,538	16,172
Total	₩176,129	₩177,454

13. INTANGIBLE ASSETS

(1) Changes in intangible assets for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended December 31, 2014				
	Goodwill	Industrial rights	Development costs	Others	Total
January 1, 2014	₩3,114,214	₩1,168,502	₩317,844	₩139,290	₩4,739,850
Acquisition	-	1,282	69,509	12,726	83,517
Disposal	-	(12)	(184)	(1,478)	(1,674)
Amortization	-	(15,921)	(55,710)	(39,839)	(111,470)
Impairment	-	-	-	(796)	(796)
Others	(73,008)	(10,632)	974	5,812	(76,854)
December 31, 2014	<u>₩3,041,206</u>	<u>₩1,143,219</u>	<u>₩332,433</u>	<u>₩115,715</u>	<u>₩4,632,573</u>
Acquisition cost	₩3,041,206	₩1,277,484	₩566,000	₩318,061	₩5,202,751
Accumulated amortization	-	(134,265)	(233,567)	(202,346)	(570,178)
	Year ended December 31, 2013				
	Goodwill	Industrial rights	Development costs	Others	Total
January 1, 2013	₩3,155,763	₩1,180,584	₩282,721	₩135,571	₩4,754,639
Acquisition	-	1,233	74,937	17,158	93,328
Disposal	-	-	-	(451)	(451)
Amortization	-	(16,466)	(38,248)	(41,686)	(96,400)
Impairment	-	-	-	(2,292)	(2,292)
Others	(41,549)	3,151	(1,566)	30,990	(8,974)
December 31, 2013	<u>₩3,114,214</u>	<u>₩1,168,502</u>	<u>₩317,844</u>	<u>₩139,290</u>	<u>₩4,739,850</u>
Acquisition cost	₩3,114,214	₩1,288,487	₩494,807	₩308,879	₩5,206,387
Accumulated amortization	-	(119,985)	(176,963)	(169,589)	(466,537)

(2) Borrowing costs added to the cost of intangible assets for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Borrowing costs added to the cost of intangible assets	₩2,508	₩2,259
Interest rate(%)	4.59%	4.52%

- (3) Classification of amortization expense for the years ended December 31, 2014 and 2013 is as follows (in millions of Korean Won):

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Cost of sales	₩57,438	₩40,647
Selling and administrative	53,843	55,544
Research and development cost and others	<u>189</u>	<u>209</u>
Total	<u>₩111,470</u>	<u>₩96,400</u>

- (4) Expenditure on research and development recognized as expenses amounted to ₩230,970 million and ₩225,784 million for the years ended December 31, 2014 and 2013, respectively.

- (5) Impairment test of goodwill and other intangible assets

- 1) Goodwill and other intangible assets with indefinite useful lives allocated to the Company's segment as of December 31, 2014 are as follows (in millions of Korean Won):

	<u>Segment</u>		<u>Total</u>
	<u>Construction equipment</u>	<u>Others</u>	
Goodwill	₩3,041,206	₩-	₩3,041,206
Industrial rights	<u>1,094,328</u>	<u>-</u>	<u>1,094,328</u>
Total	<u>₩4,135,534</u>	<u>₩-</u>	<u>₩4,135,534</u>

- 2) Goodwill has been allocated for impairment testing purposes to the following cash-generating units and is tested for impairment annually.

<u>Cash-generating units</u>	<u>Description</u>
Construction Equipment	Manufacturing and sale

- 3) Before recognition of impairment losses, the carrying amount of goodwill was allocated to cash-generating units as follows (in millions of Korean won):

<u>Cash-generating units</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Construction Equipment	₩3,041,206	₩3,114,214

- 4) The recoverable amount of cash-generating unit is determined based on a value-in-use calculation, and discount rate used is 8.57%.

5) The assumptions for a value-in-use calculation are as follows:

The Company uses cash flow projections based on financial budgets approved by the directors covering five-year periods for a value-in-use calculation. The financial budgets are determined based on historical result and expectation of market growth. Cash flows beyond that five-year periods have been extrapolated using a '2.50%' growth rate, continuing the 5th year cash flow. The growth rate does not exceed long-term average growth rate of market, and the discount rates used reflect relevant risks specific to the cash-generating units.

The result of recoverable amount the Company calculated based on value-in-use calculation was not to cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit. Therefore, no impairment loss is recognized based on the impairment test for the year ended December 31, 2014.

14. INVESTMENT PROPERTIES

Changes in investment properties for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended December 31, 2014		
	Land	Building	Total
January 1, 2014	₩23,735	₩4,571	₩28,306
Transfer	(702)	-	(702)
Depreciation	-	(249)	(249)
Others	19	-	19
December 31, 2014	₩23,052	₩4,322	₩27,374
Acquisition cost	₩23,052	₩9,180	₩32,232
Accumulated depreciation	-	(3,782)	(3,782)
Accumulated impairment losses	-	(1,076)	(1,076)
	Year ended December 31, 2013		
	Land	Building	Total
January 1, 2013	₩23,052	₩4,820	₩27,872
Transfer	683	-	683
Depreciation	-	(249)	(249)
December 31, 2013	₩23,735	₩4,571	₩28,306
Acquisition cost	₩23,735	₩9,180	₩32,915
Accumulated depreciation	-	(3,533)	(3,533)
Accumulated impairment losses	-	(1,076)	(1,076)

The fair values of investment properties are ₩20,682 million and ₩21,368 million as of December 31, 2014 and 2013, respectively. The recognized amount of rental income from investment property for the years ended December 31, 2014 and 2013, is ₩923 million and ₩891 million, respectively.

15. TRADE AND OTHER PAYABLES

Trade and other payables as of December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Current		
Trade payables	₩762,582	₩687,366
Other payables	282,443	257,380
Accrued expenses	<u>173,852</u>	<u>174,511</u>
Total	<u>₩1,218,877</u>	<u>₩1,119,257</u>
Non-current		
Other payables	<u>₩14,204</u>	<u>₩20,695</u>

16. BORROWINGS AND BONDS

(1) Bonds as of December 31, 2014 and 2013 are as follows (in millions of Korean Won):

<u>Type</u>	<u>Annual interest rate(%)</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Public bonds	3.77 ~ 6.06	₩1,876,306	₩2,150,998
Private bonds	4.76	<u>100,000</u>	<u>50,000</u>
Sub-total		<u>1,976,306</u>	<u>2,200,998</u>
Less: discount on bonds		<u>(6,562)</u>	<u>(9,370)</u>
Less: current portion of bonds		<u>(69,932)</u>	<u>(426,872)</u>
Long-term bonds		<u>₩1,899,812</u>	<u>₩1,764,756</u>

(2) Long-term and short-term borrowings as of December 31, 2014 and 2013 are as follows (in thousands of foreign currencies and millions of Korean Won):

1) Short-term borrowings

Type	Lender	Annual interest rate (%)	December 31, 2014	December 31, 2013
Short-term borrowings in Korean Won	Korea Exim Bank and others	2.98 ~ 5.13	₩388,500	₩220,000
Short-term borrowings in foreign currencies	Hana Bank and others	1.80 ~ 9.25	566,481	416,719
Usance	Shinhan Bank and others	0.72 ~ 2.00	171,090	78,138
Transferred receivables (*)	Korea Exchange Bank and others	-	27,738	15,513
Total			<u>₩1,153,809</u>	<u>₩730,370</u>

(*) Financial liabilities related to transferred trade receivables that do not meet the derecognition criteria amounted to ₩27,738 million and ₩15,513 million as of December 31, 2014 and 2013, respectively. The trade receivables are pledged as collateral for these liabilities.

2) Long-term borrowings

Type	Lender	Annual interest rate (%)	December 31, 2014	December 31, 2013
Borrowings in Korean Won	KDB	4.29 ~ 4.87	₩135,000	₩158,000
	Nonghyup Investment & Securities	5.10	50,000	50,000
	Kyongnam Bank	4.29	40,000	40,000
	TY Solution 1st Co., Ltd. and 6 others	5.10	145,000	145,000
	Korea Finance Corporation	4.63	50,000	50,000
	Woori Bank and 3 others	4.77	200,000	200,000
	Woori Bank	4.74	40,000	-
	Boosan Bank	5.00	12,000	-
	Sub-total			<u>672,000</u>
Borrowings in Foreign currencies	AKA Bank	6M EURIBOR+0.45	EUR 2,113	EUR 2,750
	KDB	3M LIBOR+3.50	USD 50,000	USD 50,000
	Kookmin Bank	3M LIBOR+3.10	USD 30,000	USD 30,000
	Bank of China	3M LIBOR+2.90	USD 18,000	USD 18,000
	Korea Exchange Bank	3M LIBOR+3.60	USD 50,000	USD 50,000
	Shinhan Bank	6M LIBOR+3.35	USD 40,000	USD 45,000
	Korea Exim Bank	6M LIBOR+4.30	USD 50,000	USD 50,000
	Korea Exim Bank	3M LIBOR+2.76	USD 175,000	-
	Korea Exim Bank	3M LIBOR+4.30	USD 400,000	-
	JP Morgan and 3 others	3M LIBOR+3.50	USD 1,193,500	-
KDB and 7 others	6M LIBOR+4.30	-	USD 1,720,000	

Type	Lender	Annual interest rate (%)	December 31, 2014	December 31, 2013
	Innovasjon Norge	4.47	NOK 15,071	NOK 18,556
	SG Finance	6.20	-	NOK 187
	Bank of New York	8.00	USD 4,250	USD 4,250
	Doosan Heavy Industries America Holdings Inc	1.89	USD 82,000	-
	Hana Bank	PBOC(12M)*90%	CNY 100,000	CNY 100,000
	Shell Brasil Petroleo Ltda	0.00	BRL 1,250	BRL 1,250
			EUR 2,113	EUR 2,750
			USD 2,092,750	USD 1,967,250
			CNY 100,000	CNY 100,000
			NOK 15,071	NOK 18,743
	Sub total		BRL 1,250	BRL 1,250
Korean Won equivalent			2,995,614	2,744,010
Less: present value discount			(33,688)	(21,340)
Less: current portion			(393,318)	(84,928)
Total			₩2,568,608	₩2,637,742

17. RETIREMENT BENEFIT OBLIGATION

(1) Details of retirement benefit obligation as of December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	December 31, 2014	December 31, 2013
Present value of defined benefit obligation	₩1,163,528	₩1,043,963
Fair value of plan assets (*)	(546,473)	(479,548)
Total	₩617,055	₩564,415

(*) As of December 31, 2014, fair value of plan assets includes a portion of ₩583 million (₩606 million as of December 31, 2013) transferred to the National Pension Fund.

(2) Expenses recognized in income and loss for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended December 31, 2014	Year ended December 31, 2013
Current service cost	₩49,812	₩58,868
Past service cost & gain of settlements	(20,839)	-
Net interest cost	27,036	30,214
Total	₩56,009	₩89,082

- (3) Details of total expenses recognized in consolidated statements of income for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended December 31, 2014	Year ended December 31, 2013
Cost of sales	₩21,728	₩19,391
Selling and administrative expenses	24,088	58,635
Research and development cost	10,193	11,056
Total	<u>₩56,009</u>	<u>₩89,082</u>

The Company recognized ₩15,524 million and ₩29,817 million of service cost relating to its defined contribution plan in the consolidated statements of income for the years ended December 31, 2014 and 2013, respectively.

- (4) Changes in defined benefit obligation for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended December 31, 2014	Year ended December 31, 2013
Beginning balance	₩1,043,963	₩1,220,133
Current service cost	49,812	58,868
Past service cost & gain on settlements	(20,839)	-
Transfer in	1,699	1,566
Transfer out	(774)	(1,756)
Interest cost	45,574	45,157
Remeasurements of defined benefit liabilities		
- Actuarial loss (gain) arising from changes in demographic assumptions	4,259	(19,481)
- Actuarial loss (gain) arising from changes in financial assumptions	99,372	(163,730)
- Others	(4,743)	(33,031)
Plan participants' contributions	2,271	2,182
Benefit payment	(85,716)	(58,540)
Foreign currency translation	28,650	(7,405)
Ending balance	<u>₩1,163,528</u>	<u>₩1,043,963</u>

- (5) Changes in plan assets for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended December 31, 2014	Year ended December 31, 2013
Beginning balance	₩479,548	₩466,322
Expected return on plan assets	18,539	14,943
Transfer in	1,073	242
Transfer out	(255)	(419)
Remeasurements of plan assets	24,763	5,976
Plan participants' contributions	2,271	2,182
Contributions by employer directly to plan assets	85,797	54,984
Benefit payment	(79,042)	(55,336)
Foreign currency translation	13,779	(9,346)
Ending balance	<u>₩546,473</u>	<u>₩479,548</u>

Actual gain on plan assets is recognized ₩43,302 million and ₩20,919 million for the years ended December 31, 2014 and 2013, respectively. The Company plans to contribute ₩95,089 million for the defined benefit plans in 2015.

(6) Assumptions used on actuarial valuation as of December 31, 2014 and 2013 are as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Discount rate for defined benefit obligations	3.40% ~ 4.15%	4.15% ~ 4.61%
Expected rate of salary increase	3.40% ~ 5.00%	3.75% ~ 5.40%

(7) Details of plan assets as of December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Equity instruments	₩140,882	₩134,988
Debt instruments	264,277	254,709
Others	<u>141,314</u>	<u>89,851</u>
Total	<u>₩546,473</u>	<u>₩479,548</u>

Expected return on plan assets is determined based on the consideration of that is applicable for assets being held by the Company in accordance with its investment policy. Expected return on debt instruments is determined based on the consideration of interest rates at which interest is paid for debt instruments as of December 31, 2014. Expected return on equity instruments and others is determined based on the consideration of historical data on actual return from relevant markets.

(8) Sensitivity analysis as of December 31, 2014 showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption is as follows (in millions of Korean Won):

	<u>Amount</u>	<u>Rate</u>
Discount rate :		
1% Increase	(₩46,555)	(4.00)%
1% Decrease	49,586	4.26%
Salary increase rate :		
1% Increase	₩20,138	1.73%
1% Decrease	(19,394)	(1.67)%

(9) Maturity of the defined benefit obligation as of December 31, 2014 is as follows (in millions of Korean Won):

	<u>0 - 1 year</u>	<u>1 - 2 years</u>	<u>2 - 5 years</u>	<u>5 - 10 years</u>	<u>Total</u>
Payment	₩80,956	₩99,081	₩262,997	₩411,933	₩854,967

18. PROVISIONS

Changes in provisions for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended December 31, 2014						
	January 1, 2014	Increase	Decrease	Others	December 31, 2014	Current	Non-current
Provision for product warranties	₩152,280	₩71,404	(₩85,757)	(₩461)	₩137,466	(₩134,111)	₩3,355
Provision for returned goods	858	1,354	(1,015)	-	1,197	(1,197)	-
Others	945	40,547	(222)	132	41,402	(41,402)	-
Total	₩154,083	₩113,305	(₩86,994)	(₩329)	₩180,065	(₩176,710)	₩3,355

	Year ended December 31, 2013						
	January 1, 2013	Increase	Decrease	Others	December 31, 2013	Current	Non-current
Provision for product warranties	₩151,799	₩78,291	(₩76,850)	(₩960)	₩152,280	(₩146,730)	₩5,550
Provision for returned goods	645	847	(634)	-	858	(858)	-
Others	1,367	51	(499)	26	945	(945)	-
Total	₩153,811	₩79,189	(₩77,983)	(₩934)	₩154,083	(₩148,533)	₩5,550

The Company estimates expenditure required to settle the Company's obligation for product warranty, refund, related after sales service and other based on warranty period, historical claim rate and other.

19. CAPITAL STOCK AND CAPITAL SURPLUS

Changes in capital stock and capital surplus for the year ended December 31, 2014 are as follows (in millions of Korean Won):

	Number of shares	Capital stock	Share premium	Other capital surplus
Beginning balance	207,455,314	₩1,037,277	₩228,729	₩8,652
Extinguishment of share options	-	-	-	2,819
Ending balance	207,455,314	₩1,037,277	₩228,729	₩11,471

DI's number of shares authorized are 400,000,000 shares with a par value of ₩5,000 per share. The number of shares issued by DI is 207,455,314 as of December 31, 2014 and 2013. There are no issued shares with restricted voting rights under the commercial law.

20. CAPITAL SECURITIES

Details of capital securities as of December 31, 2014 are as follows:

	<u>Description</u>
Issue price (Korean Won equivalent)	\$500,000,000 (₩556,650 million)
Maturity date	30 years and automatic revolving
Dividend condition	- Amount: 3.25% at par value, reset every 5 years - According to a “Step up” clause, 5% will be added up after 5 years and 2% will be added up after 7 years additionally. - Distribution: semi-annually in arrears, optional deferral of distributions is available
Others	- DI can call the capital securities at 5 years and semi-annually afterwards - Investor can put the capital securities to Core Partners Limited, a special purpose entity (“SPE”) if DI does not exercise its call option

If investors exercise their put option and Core Partners Limited, a SPE, acquires the capital securities after 5 years since issue date, the SPE has a right to put the capital securities back to DI (the “Stock Exchange Right”) under which the SPE can exchange the capital securities with a par value of \$15.4 for a share of DI’s common stock.

The capital securities are classified as equity as of December 31, 2014, as they do not contain a contractual financial obligation for DI to settle in cash and the Stock Exchange Right confers at issue date a right to receive a fixed number of DI’s common stock.

21. OTHER EQUITY ITEMS

(1) Other equity items as of December 31, 2014 and 2013 are summarized as follows (in millions of Korean Won):

<u>Description</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Loss on disposal of treasury stock	(₩7,909)	(₩7,909)
Share options	12,823	13,581
Other capital adjustments	(36,229)	(32,059)
Total	<u>(₩31,315)</u>	<u>(₩26,387)</u>

(2) Share-based payment

The Company granted share options to its directors. Share options are settled based on board of directors’ decision by issuance of new shares, treasury shares or cash settlement. These share options carry a two year service vesting condition, subsequent to the resolution of the shareholders’ meeting. Number of granted options as of December 31, 2014 is as follows (in millions of Korean Won, except for share data).

	<u>Date of grant</u>	<u>Number of granted options</u>	<u>Exercisable period</u>	<u>Exercisable price</u>	<u>Expected fair value at the date of grant</u>
2nd grant	2006.03.17	40,100	2009.03.17 ~ 2016.03.16	₩15,900	₩7,881
3rd grant	2007.03.16	84,300	2010.03.16 ~ 2017.03.15	20,100	8,143
4th grant	2008.03.21	148,800	2011.03.21 ~ 2018.03.20	28,700	15,709
5th grant	2009.03.27	54,900	2012.03.27 ~ 2019.03.26	15,600	7,674
6th grant	2010.03.26	194,060	2013.03.26 ~ 2020.03.25	19,400	10,543
7th grant	2011.03.25	82,800	2014.03.25 ~ 2021.03.24	30,700	16,800
8th grant	2012.03.30	250,900	2015.03.30 ~ 2022.03.29	22,300	11,951
9th grant	2013.03.29	252,800	2016.03.29 ~ 2023.03.28	15,700	8,477
10th grant	2014.03.21	<u>293,200</u>	2017.03.21 ~ 2024.03.20	13,600	6,436
Total		<u>1,401,860</u>			

Changes in share option for the year ended December 31, 2014 are as follows.

1) Number of common shares to be issued:

	<u>January 1, 2014</u>	<u>Granted</u>	<u>Exercised</u>	<u>Forfeited</u>	<u>December 31, 2014</u>
2nd grant	48,300	-	-	(8,200)	40,100
3rd grant	95,700	-	-	(11,400)	84,300
4th grant	163,900	-	-	(15,100)	148,800
5th grant	74,250	-	-	(19,350)	54,900
6th grant	248,560	-	-	(54,500)	194,060
6th-1st grant	49,600	-	-	(49,600)	-
7th grant	151,100	-	-	(68,300)	82,800
8th grant	250,900	-	-	-	250,900
9th grant	281,300	-	-	(28,500)	252,800
10th grant	-	321,100	-	(27,900)	293,200
Total	<u>1,363,610</u>	<u>321,100</u>	-	<u>(282,850)</u>	<u>1,401,860</u>

2) Valuation amount (in millions of Korean Won):

	<u>January 1, 2014</u>	<u>Exercised</u>	<u>Change</u>	<u>December 31, 2014</u>
2nd grant	₩381	₩-	(₩65)	₩316
3rd grant	779	-	(93)	686
4th grant	2,575	-	(237)	2,338
5th grant	570	-	(148)	422
6th grant	2,621	-	(575)	2,046
6th-1st grant	554	-	(554)	-
7th grant	2,538	-	(1,147)	1,391
8th grant	2,655	-	343	2,998
9th grant	908	-	980	1,888
10th grant	-	-	738	738
Total	<u>₩13,581</u>	<u>₩-</u>	<u>(₩758)</u>	<u>₩12,823</u>

Expense recognized related to the share option granted amounted to ₩2,061 million and ₩2,234 million for the years ended December 31, 2014 and 2013, respectively. Expense to be recognized in the future periods amounted to ₩1,404 million.

The Company calculated expenses applying fair value approach. Assumptions used in determining fair value of share options are as follows:

	<u>Risk free interest rate (*)</u>	<u>Expected exercisable period</u>	<u>Expected volatility</u>	<u>Expected dividend yield ratio</u>
2nd grant	5.13%	5 years	55.97%	0.90%
3rd grant	4.81%	5 years	47.08%	1.23%
4th grant	5.19%	6.5 years	47.94%	1.47%
5th grant	4.74%	6.5 years	59.76%	1.67%
6th grant	4.53%	6.5 years	58.82%	1.34%
7th grant	4.19%	6.5 years	58.01%	1.07%
8th grant	3.80%	6.5 years	57.96%	0.44%
9th grant	2.57%	6.5 years	54.12%	0.21%
10th grant	3.27%	6.5 years	42.29%	0.00%

(*) Risk free interest rate is based on 5 and 10 year treasury bond yield rate.

22. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended December 31, 2014					Total
	<u>Unrealized gain on AFS securities</u>	<u>Increase(decrease) in equity of associates</u>	<u>Gain(Loss) on translation of foreign operation</u>	<u>Unrealized gain(loss) on valuation of derivatives</u>	<u>Gain on revaluation of property, plant and equipment</u>	
Beginning balance	₩94	₩1,026	(₩281,069)	₩32,295	₩164,526	(₩83,128)
Increase	-	390	-	-	-	390
Decrease	(891)	-	(125,207)	(42,157)	(86)	(168,341)
Ending balance	<u>(₩797)</u>	<u>₩1,416</u>	<u>(₩406,276)</u>	<u>(₩9,862)</u>	<u>₩164,440</u>	<u>(₩251,079)</u>
	Year ended December 31, 2013					Total
	<u>Unrealized gain on AFS securities</u>	<u>Increase(decrease) in equity of associates</u>	<u>Gain(Loss) on translation of foreign operation</u>	<u>Unrealized gain(loss) on valuation of derivatives</u>	<u>Gain on revaluation of property, plant and equipment</u>	
Beginning balance	₩118	₩1,747	(₩232,247)	₩52,421	₩-	(₩177,961)
Increase	-	-	-	-	164,526	164,526
Decrease	(24)	(721)	(48,822)	(20,126)	-	(69,693)
Ending balance	<u>₩94</u>	<u>₩1,026</u>	<u>(₩281,069)</u>	<u>₩32,295</u>	<u>₩164,526</u>	<u>(₩83,128)</u>

Tax effects directly recognized in accumulated other comprehensive income (loss) as of December 31, 2014 and 2013 are as follows (in millions of Korean Won):

Description	December 31, 2014		
	Before tax	Deferred tax assets(liabilities)	After tax
Unrealized gain (loss) on AFS securities	(₩1,347)	₩550	(₩797)
Increase(decrease) in equity of associates	2,340	(924)	1,416
Gain(loss) on translation of foreign operation	(406,670)	394	(406,276)
Unrealized gain(loss) on valuation of derivatives	(13,010)	3,148	(9,862)
Gain on revaluation of property, plant and equipment	218,790	(54,350)	164,440
Total	(₩199,897)	(₩51,182)	(₩251,079)

Description	December 31, 2013		
	Before tax	Deferred tax assets(liabilities)	After tax
Unrealized gain (loss) on AFS securities	₩124	(₩30)	₩94
Increase(decrease) in equity of associates	1,690	(664)	1,026
Gain(loss) on translation of foreign operation	(280,835)	(234)	(281,069)
Unrealized gain(loss) on valuation of derivatives	42,606	(10,311)	32,295
Gain on revaluation of property, plant and equipment	219,409	(54,883)	164,526
Total	(₩17,006)	(₩66,122)	(₩83,128)

23. RETAINED EARNINGS

(1) Retained earnings as of December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	December 31, 2014	December 31, 2013
Retained earnings before appropriations	₩670,464	₩591,035
Technology development reserve	425,333	422,418
Facilities investment reserve	200,000	300,000
Total	₩1,295,797	₩1,313,453

(2) Changes in retained earnings for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended December 31, 2014	Year ended December 31, 2013
Beginning balance	₩1,313,453	₩1,299,786
Net income(loss) for the year	41,965	(101,756)
Actuarial gains(losses) recognized in retained earnings and others	(42,403)	128,656
Revaluation and disposal of property, plant and equipment	-	306
Dividends	(17,218)	(13,539)
Ending balance	<u>₩1,295,797</u>	<u>₩1,313,453</u>

24. SEGMENT INFORMATION

The Company's operating segments are as follows:

Business segment	Main products
Engines ("EG")	Engine of the commercial cars and buses, Engine Parts
Construction Equipment ("CE")	Crawler excavator, excavator parts, Portable Power
Machine Tools ("MT")	Machine tools and factory automation system

(1) The information for each business segment as of and for the years ended December 31, 2014 and 2013 is as follows (in millions of Korean Won):

	Year ended December 31, 2014					
	Sale	Inter segment transaction	Sub-total	Transaction with other segment	Net	Operating income
EG	₩1,015,466	(₩11,451)	₩1,004,015	(₩344,016)	₩659,999	₩45,734
CE	8,003,565	(2,304,545)	5,699,020	-	5,699,020	254,252
MT	1,766,280	(439,790)	1,326,490	(3,948)	1,322,542	157,943
Other	(186,413)	(154,554)	(340,967)	347,964	6,997	(4,935)
Sub-total	10,598,898	(2,910,340)	7,688,558	-	7,688,558	452,994
Elimination	(2,910,340)	2,910,340	-	-	-	-
Total	<u>₩7,688,558</u>	<u>₩-</u>	<u>₩7,688,558</u>	<u>₩-</u>	<u>₩7,688,558</u>	<u>₩452,994</u>

Year ended December 31, 2013						
	Sale	Inter segment transaction	Sub-total	Transaction with other segment	Net	Operating income
EG	₩826,926	(₩8,499)	₩818,427	(₩185,745)	₩632,682	(₩7,465)
CE	7,847,935	(2,095,657)	5,752,278	-	5,752,278	231,287
MT	1,791,118	(444,080)	1,347,038	(2,006)	1,345,032	145,895
Other	(148,314)	(32,599)	(180,913)	187,751	6,838	(217)
Sub-total	10,317,665	(2,580,835)	7,736,830	-	7,736,830	369,500
Elimination	(2,580,835)	2,580,835	-	-	-	-
Total	<u>₩7,736,830</u>	<u>₩-</u>	<u>₩7,736,830</u>	<u>₩-</u>	<u>₩7,736,830</u>	<u>₩369,500</u>

Sales transactions between the Company's segments are conducted on an arm's length basis.

- (2) Total assets of business segment as of December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	December 31, 2014	December 31, 2013
EG	₩874,795	₩881,335
CE	8,230,117	8,144,594
MT	872,794	853,002
Other	1,979,721	1,602,563
Total	<u>₩11,957,427</u>	<u>₩11,481,494</u>

- (3) Total liabilities of business segment as of December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	December 31, 2014	December 31, 2013
EG	₩758,244	₩757,924
CE	9,706,094	9,196,271
MT	162,473	148,935
Other	(1,957,672)	(2,170,657)
Total	<u>₩8,669,139</u>	<u>₩7,932,473</u>

- (4) The sale information by geographical segment for the years ended December 31, 2014 and 2013 is as follows (in millions of Korean Won):

	Revenue	
	Year ended December 31, 2014	Year ended December 31, 2013
Asia Pacific & Emerging Market	₩2,819,389	₩2,846,305
China	863,822	1,030,990
Europe & Middle East & Africa	1,295,068	1,311,108
North America & Oceania	2,710,279	2,548,427
Total	<u>₩7,688,558</u>	<u>₩7,736,830</u>

(5) There is no single external customer accounted for 10% or more of the Company's sales for the years ended December 31, 2014 and 2013.

25. SALES

Details of sales for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended December 31, 2014	Year ended December 31, 2013
Sales of goods		
-Manufactured products	₩6,456,830	₩6,414,532
-Merchandise	1,132,514	1,225,427
Others	99,214	96,871
	<u>₩7,688,558</u>	<u>₩7,736,830</u>
Total		

26. EXPENSES BY NATURE

Expenses classified by nature for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended December 31, 2014	Year ended December 31, 2013
Purchases of inventories	₩4,129,673	₩4,271,194
Changes in inventories	(215,580)	(172,512)
Employee benefits	1,024,177	1,028,359
Depreciation and amortization	287,848	274,103

27. SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended <u>December 31, 2014</u>	Year ended <u>December 31, 2013</u>
Salaries	₩340,208	₩331,668
Retirement benefits	28,967	58,635
Other employee benefits	81,654	79,686
Printing	4,261	5,417
Freight and custody	6,076	7,118
Communications	9,151	10,376
Utilities	5,667	5,816
Maintenance	5,796	3,106
Insurance	17,158	20,629
Depreciation	23,167	20,740
Amortization	53,843	55,544
Research and development	230,970	225,784
Advertising	63,370	60,041
Sales commission	59,864	62,188
Taxes and dues	11,929	12,042
Travel	47,732	44,034
Sundry	127,529	166,830
Entertainment	6,948	5,469
Education and training	12,845	11,476
Bad debt expenses	49,511	53,978
Others	72,932	37,415
Total	<u>₩1,259,578</u>	<u>₩1,277,992</u>

28. FINANCE INCOME AND EXPENSES

Finance income and expenses for the years ended December 31, 2014 and 2013 are summarized as follows (in millions of Korean Won):

	Year ended December 31, 2014	Year ended December 31, 2013
Finance income:		
Interest income	₩20,098	₩19,376
Dividend income	359	1,028
Gain on foreign currency transaction	81,831	100,547
Gain on foreign currency translation	32,868	49,906
Gain on derivative transaction	7,565	969
Gain on valuation of derivatives	5,177	-
Income on financial guarantee	3,058	1,969
	<hr/>	<hr/>
Sub-total	150,956	173,795
	<hr/>	<hr/>
Finance expenses:		
Interest expenses	(291,615)	(312,366)
Loss on foreign currency transaction	(89,018)	(90,276)
Loss on foreign currency translation	(66,283)	(45,280)
Loss on derivative transaction	(486)	(16,033)
Loss on valuation of firm commitments	(625)	(99)
Expense on financial guarantee	(93,497)	(66,722)
Loss on bond repayment	(220)	-
Loss on debt repayment	(36,867)	(1,679)
Other finance expenses	(1,468)	-
	<hr/>	<hr/>
Sub-total	(580,079)	(532,455)
	<hr/>	<hr/>
Net finance expense	(₩429,123)	(₩358,660)

29. OTHER NON-OPERATING INCOME AND EXPENSES

(1) Other non-operating income and expenses for the years ended December 31, 2014 and 2013 consist of the following (in millions of Korean Won):

	Year ended December 31, 2014	Year ended December 31, 2013
Other non-operating income:		
Rental income	₩39	₩57
Gain on disposal of property, plant and equipment	951	530
Gain on disposal of intangible assets	176	-
Gain on disposal of investment property	785	-
Gain on disposal of assets held for sale	-	1,891
Gain on disposal of long-term investment securities	-	122
Other	39,541	26,186
Sub-total	<u>41,492</u>	<u>28,786</u>
Other non-operating expenses:		
Loss on disposal of trade receivables	(7,811)	(5,712)
Other bad debt expenses	(21,964)	(13,059)
Loss on disposal of property, plant and equipment	(4,583)	(9,175)
Loss on disposal of intangible assets	(58)	-
Loss on valuation of property, plant and equipment	-	(1,619)
Impairment loss of property, plant and equipment	(8,063)	(1,314)
Impairment loss of intangible assets	(796)	(2,292)
Loss on disposal of short-term investment securities	(6)	-
Impairment loss of short-term investment securities	(1,429)	-
Donations	(11,277)	(13,980)
Other	(49,847)	(22,406)
Sub-total	<u>(105,834)</u>	<u>(69,557)</u>
Total	<u><u>(₩64,342)</u></u>	<u><u>(₩40,771)</u></u>

30. INCOME TAX EXPENSE (BENEFIT)

(1) Components of income tax expense (benefit) for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended December 31, 2014	Year ended December 31, 2013
Current tax	₩50,160	₩34,132
Deferred tax	(198,913)	130,312
Total income tax expense (benefit)	(148,753)	164,444
Changes in deferred tax directly charged to equity	49,564	(120,458)
Income tax expense(benefit)	<u><u>(₩99,189)</u></u>	<u><u>₩43,986</u></u>

- (2) The Company offsets deferred tax assets and deferred tax liabilities if the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority. Changes in deferred tax assets and liabilities for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Year ended December 31, 2014		
	January 1, 2014	Change	December 31, 2014
Advances from government	₩2,564	(₩100)	₩2,464
Allowance for doubtful accounts	90,827	(74,793)	16,034
Provision for product warranties	91,344	(57,368)	33,976
Retirement benefit obligation	104,106	34,162	138,268
Investment in associates	10	11,322	11,332
Provision for temporary depreciation	(6,161)	-	(6,161)
Reserve for research and development	(76,311)	(5,163)	(81,474)
Gain on revaluation of land	(155,359)	(733)	(156,092)
Derivative assets (liabilities)	(10,311)	13,459	3,148
Net loss carryforwards	23,859	1,877	25,736
Others	390,850	276,250	667,100
Total	₩455,418	₩198,913	₩654,331

	Year ended December 31, 2013		
	January 1, 2013	Change	December 31, 2013
Advances from government	₩2,926	(₩362)	₩2,564
Allowance for doubtful accounts	5,486	85,341	90,827
Provision for product warranties	5,121	86,223	91,344
Retirement benefit obligation	32,158	71,948	104,106
Investment in associates	10,418	(10,408)	10
Provision for temporary depreciation	(6,161)	-	(6,161)
Reserve for research and development	(88,088)	11,777	(76,311)
Gain on revaluation of land	(101,775)	(53,584)	(155,359)
Derivative assets (liabilities)	(18,613)	8,302	(10,311)
Net loss carryforwards	33,512	(9,653)	23,859
Others	710,746	(319,896)	390,850
Total	₩585,730	(₩130,312)	₩455,418

- (3) Temporary differences which have not been recognized as deferred tax assets as of December 31, 2014 and 2013 are as follows (in millions Korean Won):

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Net loss carryforwards	₩1,103,627	₩820,042
Temporary differences	7,330	32,692
Tax credit carryforwards	19,784	-

The probability of deferred tax assets being realized depends on the Company's ability to generate taxable income in future years, the economic situation and industry forecast. The Company periodically reviews such matters.

- (4) Temporary differences from investments in subsidiaries, joint ventures and associates which are not recognized as deferred tax assets are as follows (in millions of Korean Won):

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Subsidiaries and other	₩131,783	₩222,258

- (5) A reconciliation of income tax expense(benefit) and accounting income(loss) before income tax expense for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	<u>Year ended December 31, 2014</u>	<u>Year ended December 31, 2013</u>
Loss before income tax expense	(₩75,217)	(₩56,964)
Income tax expense(benefit) at statutory income tax rate	(21,021)	29,628
Adjustment:		
Non-temporary difference	4,297	3,198
Effect of change in recognition of deferred income tax	(65,844)	31,267
Tax credits	(23,543)	(7,832)
Additional income tax and tax refund for prior periods	(2,065)	(2,621)
Other	<u>8,987</u>	<u>(9,654)</u>
Income tax expense(benefit)	<u>(₩99,189)</u>	<u>₩43,986</u>
Average effective tax rate	<u>(*)</u>	<u>(*)</u>

- (*) Average effective tax rate for the years ended December 31, 2014 and 2013 were not calculated due to the effect of change in recognition of deferred income tax.

The Company's tax rate varies from 15% to 35% according to tax authorities.

31. EARNINGS PER SHARE

Earnings per share for the years ended December 31, 2014 and 2013 are computed as follows (in millions of Korean Won, except for share data).

(1) Basic earnings per share

Basic earnings per share is computed by dividing net income attributable to owners of the Company by the weighted average number of common shares outstanding during the period excluding treasury shares.

	Year Ended December 31, 2014	Year Ended December 31, 2013
Net income(loss) available to common share	₩41,965	(₩101,756)
Weighted average number of common shares outstanding	<u>207,455,314</u>	<u>170,677,618</u>
Basic net income(loss) per share (in Korean Won)	<u>₩202</u>	<u>(₩596)</u>

The weighted average number of common shares outstanding used in basic earnings per share calculation is as follows:

	Year Ended December 31, 2014	Year Ended December 31, 2013
Beginning outstanding shares	207,455,314	168,658,034
Capital increase	-	2,019,584
Effect of share option exercised	<u>-</u>	<u>-</u>
Weighted average number of common shares outstanding	<u>207,455,314</u>	<u>170,677,618</u>

(2) Diluted earnings per share

Diluted earnings per share are calculated on the basis of the weighted average number of common and diluted potential common shares outstanding. The denominator of the diluted net income per share is adjusted to include the number of share options which have a dilutive effect as if they were issued at the beginning of the year.

	Year Ended December 31, 2014	Year Ended December 31, 2013
Controlling interest in net income(loss)	₩41,965	(₩101,756)
Share-based payment, net of tax	-	-
Adjusted net income(loss) available to common share	41,965	(101,756)
Adjusted weighted average number of common shares outstanding (*)	<u>207,455,314</u>	<u>170,677,618</u>
Diluted net income(loss) per share (in Korean Won)	<u>₩202</u>	<u>(₩596)</u>

(*) Weighted average number of common shares outstanding and adjusted weighted average number of common shares outstanding is equal.

For the year ended December 31, 2014, share options were excluded from the diluted earnings per share calculation as they have an anti-dilutive effect during the period. For the year ended December 31, 2013, share option grant 3rd, 4th, 6th and 6th-1st, 7th, 8th were excluded from the diluted earnings per share calculation, notwithstanding they would dilute the basic earnings per share in future, as they have an anti-dilutive effect during the period.

32. DIVIDEND

For the year ended December 31, 2014 DI paid dividends amounting to ₩17,218 million for holders of capital securities.

33. COMMITMENTS AND CONTINGENCIES

- (1) The Company is involved in lawsuits as a defendant with a total claims exposure of ₩105,183 million as of December 31, 2014. Currently, the ultimate outcome of these lawsuits cannot be determined. In addition, DI is involved in lawsuits in process regarding ordinary wages however, according to the definition of ordinary wages clarified by the Korean Supreme Court, DI assumes that it is less likely to pay the ordinary wages to employees.
- (2) As of December 31, 2014, the Company has entered into bank overdraft agreements amounting to ₩4,898,187 million with various financial institutions.
- (3) Financial covenant

For the year ended December 31, 2011, DI issued 19th foreign currency denominated bonds for USD 350,000 thousand. In addition, the issued 19th foreign currency denominated bond has an early redemption clause for when and if the Parent's guarantor, KDB, becomes privatized, and the funds required for such redemption will be provided by KDB to the Parent. In turn, DI has provided its 20,429 shares of Doosan Infracore International, Inc.(DII).

- (4) As of December 31, 2014, DI, a shareholder of DICC entered into an agreement with unrelated financial investors under which DI and the unrelated financial investors, as they mutually agree, may collectively dispose of all shares of DICC, belonging to each of them, to third party. Upon exercise of the agreement by the unrelated financial investors, DI has a right to sell its shares of DICC pursuant to the agreement or otherwise repurchase the shares held by the unrelated financial investors.
- (5) The financial liabilities related to the transferred receivables which DI continues to recognize because DI retains substantially all of the risks and rewards of ownership as of December 31, 2014 amounted to ₩27,738 million.

- (6) As of December 31, 2014, guarantees provided by the Company for third parties are as follows (in thousands of foreign currencies and millions of Korean Won):

Provider	Provided for	Guarantee	Won equivalent
Doosan Infracore Co., Ltd.	Daewoo Construction	EUR 2,113	₩2,825
	Daewoo International	EUR 1,147	1,533
	KJ Industry	KRW 3,000	3,000
	End-User	BRL 2,209	914
	Doosan (China) Financial Leasing Corp.	USD 20,000	21,984
DICC(*)	Vendors and counterparties	CNY 5,226,115	924,029
Doosan Infracore (Shandong) Co., Ltd.	Vendors and counterparties	CNY 57,298	10,131
Doosan Infracore International, Inc. and others	End-User	USD 58,100	63,864
Doosan Holdings Europe Ltd. and others	End-User	USD 1,719	1,889
			₩1,030,169

(*) CNY 2,508,871 of the total amount provided by DICC is provided for Doosan (China) Financial Leasing Corp., which is an investee accounted for using the equity method.

As of December 31, 2014, DI entered into agreements with KDB for the guarantees of 19th foreign currency denominated bond, totaling USD 350,000 thousand. DI entered into agreements with various banks for the guarantees of letters of credit and usance bills related to DI's exports and imports, totaling USD 2,000 thousand, and entered into contracts with Seoul Guarantee Insurance Company and Machinery Financial Cooperative for the guarantees related to contracts and warranties totaling ₩12,825 million.

34. PLEDGED ASSETS

- (1) DI's assets pledged as collateral for long-term and short-term borrowings as of December 31, 2014 are as follows (in thousands of foreign currencies and millions of Korean Won):

Institution	Asset	Borrowings	Collateralized value
KDB	Land, buildings, and machinery (*)	KRW 265,000	KRW 384,413
		USD 53,881	USD 95,026
		EUR 2,252	DM 84,000
		JPY 746,754	

(*) The Company's rights to property insurance benefits are pledged as collateral to the KDB.

The Company has provided 3,188 and 4,859 shares of Doosan Infracore International, Inc., and 3,413 and 4,859 shares of Doosan Holdings Europe Ltd., respectively, held by Doosan Infracore Bobcat Holdings Co., Ltd. as collateral to TY Solution 1st Co., Ltd. and other 6 parties for borrowings amounting to ₩145,000 million and Woori Bank and other 3 parties for borrowings amounting to ₩200,000 million.

The Company has provided a savings account totaling CNY 900,000 thousand as collateral to the Bank of China and others for line of credit amounting to ₩143,000 million. In addition, the Company has provided a savings account totaling CNY 487,000 thousand as collateral for borrowings of Doosan (China) Financial Leasing Corp amounting to CNY 483,000 thousand.

- (2) On May 28, 2014, DII and DHEL repaid all the borrowings funded in 2011 in relation to the acquisition of compact equipment of Ingersoll Rand Company Limited from Korea Development Bank and other creditors and entered into a new loan agreement under which they raised a total of USD 1,700,000 thousand. The borrowings, amounting to USD 1,300,000 thousand are secured by 27,096 shares of DII and 21,820 shares of DHEL as well as secured by certain tangible and intangible assets of DII and subsidiaries and DHEL and subsidiaries. The total borrowings as of December 31, 2014 are USD 1,193,500 thousand.

35. RELATED PARTY TRANSACTIONS

Related party disclosures for the years ended December 31, 2014 and 2013 are as follows.

- (1) Nature of relationship

<u>Relationship with the Company</u>	<u>Company name</u>
Ultimate controlling party	Doosan Corp.,
Next most senior parent	Doosan Heavy Industries and Construction Co., Ltd.
Associates	Doosan Capital Co., Ltd., Doosan (China) Financial Leasing Corp.
Joint ventures	Xuzhou Xugong Doosan Engine Co., Ltd.
Other related parties	Doosan Engine Co., Ltd., Doosan DST Co., Ltd., Doosan Construction & Engineering Co., Ltd., Doosan Tower, Oricom Inc., Doosan Bears Inc., Doosan Cuvex Co., Ltd., and others

(2) Significant transactions

Significant transactions for the years ended December 31, 2014 and 2013 with related parties are as follows (in millions of Korean Won):

	Year ended December 31, 2014				
	Sales	Other income	Purchases	Acquisition of property, plant and equipment, intangible assets	Other expenses
Ultimate controlling party	₩39,670	₩19	₩116,818	₩15,778	₩78,689
Next most senior parent	748	-	-	-	31
Associates and joint ventures	-	4,382	-	-	-
Other related parties	3,152	1,013	-	24,125	82,807
Total	₩43,570	₩5,414	₩116,818	₩39,903	₩161,527

	Year ended December 31, 2013				
	Sales	Other income	Purchases	Acquisition of property, plant and equipment, intangible assets	Other expenses
Ultimate controlling party	₩10,541	₩30	₩113,893	₩15,867	₩151,845
Next most senior parent	153	-	-	-	99
Associates and joint ventures	120	4,368	-	-	-
Other related parties	18,394	471	1,097	47,390	99,048
Total	₩29,208	₩4,869	₩114,990	₩63,257	₩250,992

(3) As of December 31, 2014 and 2013 related significant balances are as follows (in millions of Korean Won):

	Year ended December 31, 2014					
	Trade receivables	Other receivables	Loans	Trade payables	Other payables	Borrowings
Ultimate controlling party	₩8,808	₩1,187	₩-	₩8,156	₩24,492	₩-
Next most senior parent	63	212	-	-	1,315	-
Associates and joint ventures	-	395	1,396	-	-	-
Other related parties	1,929	41,661	-	-	17,653	90,134
Total	₩10,800	₩43,455	₩1,396	₩8,156	₩43,460	₩90,134

	Year ended December 31, 2013			
	Trade receivables	Other receivables	Trade payables	Other payables
Ultimate controlling party	₩10,041	₩221	₩34,661	₩28,821
Next most senior parent	-	21	-	61
Associates and joint ventures	523	5,913	-	-
Other related parties	2,499	40,418	352	32,813
Total	₩13,063	₩46,573	₩35,013	₩61,695

(4) Fund transactions and equity contribution transactions for the years ended December 31, 2014 and 2013 with related parties are as follows (in millions of Korean Won):

	Year ended December 31, 2014				
	Loans		Borrowings		Equity contribution
	Lending	Collection	Borrowing	Repayment	
Associates	₩1,396	₩-	₩-	-	₩-
Other related parties	-	-	90,134	-	-

	Year ended December 31, 2013				
	Loans		Borrowings		Equity contribution
	Lending	Collection	Borrowing	Repayment	
Associates	₩-	(₩20,612)	₩-	₩-	₩35,000

For the year ended December 31, 2014, meanwhile, the Company acquired shares of Private Equity Fund (PEF) at ₩85,600 million which invests the redeemable convertible preferred shares issued by Doosan Heavy Industries and Construction Co., Ltd.

(5) As of December 31, 2014, guarantees by the Company for related parties are disclosed in Note 33. Guarantees by related parties for the Company, however, are null as of December 31, 2014.

(6) The parent defines key management personnel including registered officer and non-registered officer (including outside director) who have the authority and responsibility for planning, operation and control and are in charge of business or division unit. Compensation to key management personnel of the Company for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

Description	Years ended December 31,	
	2014	2013
Employee benefits	₩26,390	₩28,077
Retirement benefits	2,400	2,870
Share-based payment	2,061	2,234
Total	<u>₩30,851</u>	<u>₩33,181</u>

36. CONSOLIDATED STATEMENTS OF CASH FLOWS

(1) The adjustments and changes in operating assets and liabilities in the consolidated statements of cash flows for the years ended December 31, 2014 and 2013 are as follows (in millions of Korean Won):

	Years ended December 31,	
	2014	2013
Adjustments:		
Income tax expense(benefit)	(₩99,189)	₩43,986
Finance income	(58,502)	(70,310)
Finance expense	395,609	359,425
Depreciation	176,378	177,703
Amortization	111,470	96,400
Retirement benefits	56,009	89,082
Gain on disposal of long-term investment securities	-	(122)
Gain on disposal of property, plant and equipment	(951)	(530)
Gain on disposal of intangible assets	(176)	-
Gain on disposal of investment property	(785)	-
Loss on disposal of property, plant and equipment	4,583	9,175
Loss on disposal of intangible assets	58	-
Loss on valuation of property, plant and equipment	-	1,619
Impairment loss of property, plant and equipment	8,063	1,314
Impairment loss of intangible assets	796	2,292
Loss on disposal of long-term investment securities	6	-
Impairment loss of long-term investment securities	1,429	-
Share of loss (profit) of equity-accounted investees	34,746	8,015
Impairment loss of equity-accounted investees	-	19,019
Gain on disposal of assets held for sale	-	(1,892)
Other	2,062	2,233
Total	<u>₩631,606</u>	<u>₩737,409</u>

	Years ended December 31	
	2014	2013
Changes in operating assets and liabilities:		
Decrease(increase) in trade receivables	₩47,003	(₩72,439)
Decrease in other receivables	8,811	24,658
Increase in derivative assets	(4,811)	(79)
Decrease(increase) in inventories	(272,199)	148,842
Decrease(increase) in other current assets	(75,958)	45,452
Decrease in other non-current assets	3,906	10,906
Increase(decrease) in trade payables	122,094	77,636
Decrease in other payables	25,939	(89,560)
Increase in derivative liabilities	5,023	7,829
Increase(decrease) in provisions	13,367	12,048
Decrease in other current liabilities	24,406	(38,409)
Payment of severance benefits	(85,716)	(58,540)
Transfer in(out)	107	(191)
Decrease(increase) in plan assets	(6,755)	(1,653)
Decrease in other non-current payables	-	(98)
Increase in other non-current liabilities	94,356	57,578
Total	<u>(₩100,427)</u>	<u>₩123,980</u>

(2) Significant non-cash transactions for the years ended December 31, 2014 and 2013 are nil.