

Coway Co., Ltd and Subsidiaries

Consolidated Financial Statements

December 31, 2013 and 2012

Coway Co., Ltd. and Subsidiaries

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December 31, 2012 and 2011

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Report of Independent Auditors

To the Board of Directors and Shareholders of Coway Co., Ltd.

We have audited the accompanying consolidated statements of financial position of Coway Co., Ltd. and its subsidiaries (“the Group”) as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain subsidiaries, including Woongjin Coway (China) Living Goods Co., Ltd. and three subsidiaries whose financial statements represents 7.77% and 7.59% of the consolidated total assets as of December 31, 2013 and 2012, respectively, and 7.82% and 7.68% of the consolidated total sales for the respective years then ended. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, in so far as it relates to the amounts included for those subsidiaries, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of Coway Co., Ltd. and its subsidiaries as of December 31, 2013 and 2012, and their financial performance and cash flows for the years then, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (“Korean IFRS”).

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

Seoul, Korea
March 13, 2014

This report is effective as of March 13, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Coway Co., Ltd. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2013 and 2012

(In thousands of Korean won)

	Notes	2013	2012
Assets			
Current assets			
Cash and cash equivalents	6, 7	238,665,065	152,411,776
Trade receivables	6, 8	212,606,268	233,010,796
Other short-term financial assets	6, 9	43,396,429	32,444,581
Other current assets	10	130,980,633	126,217,163
Inventories	11	65,766,152	71,687,168
Assets held for sale		-	163,393,034
Total current assets		691,414,547	779,164,518
Non-current assets			
Other long-term financial assets	6, 9	52,525,362	51,369,796
Other non-current assets	10	79,274,118	80,402,480
Available-for-sale financial assets	6, 12	2,467,078	2,461,264
Property, plant and equipment	13	638,306,129	630,421,983
Intangible assets	14	176,847,558	183,665,073
Investment property	15	26,759,679	27,109,109
Deferred income tax assets	36	264,252	514,137
Total non-current assets		976,444,176	975,943,842
Total assets		1,667,858,723	1,755,108,360

Coway Co., Ltd. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2013 and 2012

(In thousands of Korean won)

	Notes	2013	2012
Liabilities			
Current liabilities			
Trade payables	6	36,662,814	46,264,933
Other short-term financial liabilities	6, 16	174,993,748	175,482,239
Derivatives liabilities	6, 29	6,865,216	-
Other current liabilities	16	64,795,451	72,298,027
Short-term borrowings	6, 17	181,773,836	330,095,355
Current portion of long-term borrowings	6, 18	30,083,333	60,499,866
Current portion of debentures	6, 19	116,083,000	49,939,127
Income tax payable		61,240,943	18,302,722
Provisions	21	4,234,297	6,276,666
Total current liabilities		<u>676,732,638</u>	<u>759,158,935</u>
Non-current liabilities			
Other long-term financial liabilities	6, 16	9,348,534	9,023,429
Other long-term payables	16	10,416,402	8,710,983
Long-term borrowings	6, 18	-	30,083,333
Debentures	6, 19	-	117,821,000
Retirement benefit obligations	20	8,421,167	12,819,014
Derivatives liabilities	6, 29	-	5,867,616
Provisions	21	648,726	623,086
Deferred income tax liabilities	36	21,402,747	25,916,143
Total non-current liabilities		<u>50,237,576</u>	<u>210,864,604</u>
Total liabilities		<u>726,970,214</u>	<u>970,023,539</u>
Equity			
Equity attributable to owners of the parent			
Capital stock	24	40,662,398	40,662,398
Capital surplus		97,773,449	97,773,449
Retained earnings	25	867,992,459	700,852,886
Other components of equity	26,27,28	(65,539,797)	(54,203,912)
		<u>940,888,509</u>	<u>785,084,821</u>
Non-controlling interests		-	-
Total equity		<u>940,888,509</u>	<u>785,084,821</u>
Total liabilities and equity		<u>1,667,858,723</u>	<u>1,755,108,360</u>

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

Coway Co., Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2013 and 2012

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

	Notes	2013	2012
Sales	5	2,118,341,565	1,992,838,137
Cost of sales	5, 34	720,983,776	678,300,743
Gross profit	5	1,397,357,789	1,314,537,394
Selling and administrative expenses	30,34	1,058,325,441	1,088,390,891
Operating income		339,032,348	226,146,503
Other income	31	15,972,611	27,779,328
Other expense	31	30,981,904	85,554,650
Financial income	32	4,137,323	2,346,590
Financial expense	32	18,620,949	30,366,174
Share of profit of associates	33	17,598,006	5,431,167
Profit before income tax		327,137,435	145,782,764
Income tax expense	36	82,062,783	51,740,066
Profit for the year		245,074,652	94,042,698
Profit attributable to :			
Owners of the parent		245,074,652	94,042,698
Non-controlling interests		-	-
Other comprehensive income(loss)			
Change in value of available-for-sale financial assets	12	4,415	13,350
Share of other comprehensive income of associates		6,133,402	582,997
Actuarial losses	20	(1,165,574)	(2,824,849)
Losses on valuation of derivatives	29	561,223	1,255,152
Foreign currency translation differences		(6,802,466)	5,880,510
Other comprehensive income(loss), net of tax		(1,269,000)	4,907,160
Total comprehensive income for the year		243,805,652	98,949,858
Comprehensive income attributable to :			
Owners of the parent		243,805,652	98,949,858
Non-controlling interests		-	-
Earnings per share attributable to owners of the parent			
Basic earnings per share	37	3,283	1,267
Diluted earnings per share	37	3,273	1,259

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

Coway Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2013 and 2012

(In thousands of Korean won)

2012	Notes	Attributable to equity holders of the company				Total	Non controlling interests	Total equity
		Capital stock	Capital surplus	Retained earnings	Other components of equity			
Balances as of Jan. 1, 2012		40,662,398	97,773,449	675,650,082	(76,183,416)	737,902,513	-	737,902,513
Comprehensive income								
Profit for the year		-	-	94,042,698	-	94,042,698	-	94,042,698
Change in value of available-for-sale financial assets	12	-	-	-	13,350	13,350	-	13,350
Share of other comprehensive income of associates		-	-	(300,780)	883,777	582,997	-	582,997
Actuarial losses	20	-	-	(2,824,849)	-	(2,824,849)	-	(2,824,849)
Foreign currency translation differences		-	-	-	5,880,510	5,880,510	-	5,880,510
Losses on valuation of derivatives	29	-	-	-	1,255,152	1,255,152	-	1,255,152
Total comprehensive income		-	-	90,917,069	8,032,789	98,949,858	-	98,949,858
Transactions with owners								
Dividends	38	-	-	(77,841,536)	-	(77,841,536)	-	(77,841,536)
Share-based compensation	28	-	-	-	12,310,992	12,310,992	-	12,310,992
Acquisition of treasury stock	27	-	-	-	1,643,240	1,643,240	-	1,643,240
Additional acquisitions of subsidiary's share		-	-	12,127,270	(7,516)	12,119,754	-	12,119,754
Total transactions with owners		-	-	(65,714,266)	13,946,716	(51,767,550)	-	(51,767,550)
Balance at Dec. 31, 2012		40,662,398	97,773,449	700,852,885	(54,203,911)	785,084,821	-	785,084,821

Coway Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2013 and 2012

(In thousands of Korean won)

2013	Notes	Attributable to equity holders of the company				Total	Non controlling interests	Total equity
		Capital stock	Capital surplus	Retained earnings	Other components of equity			
Balances as of Jan. 1, 2013		40,662,398	97,773,449	700,852,885	(54,203,911)	785,084,821	-	785,084,821
Comprehensive income								
Profit for the year		-	-	245,074,652	-	245,074,652	-	245,074,652
Change in value of available-for-sale financial assets	12	-	-	-	4,415	4,415	-	4,415
Share of other comprehensive income of associates		-	-	1,644,281	4,489,121	6,133,402	-	6,133,402
Actuarial losses	20	-	-	(1,165,574)	-	(1,165,574)	-	(1,165,574)
Foreign currency translation differences		-	-	-	(6,802,466)	(6,802,466)	-	(6,802,466)
Losses on valuation of derivatives	29	-	-	-	561,223	561,223	-	561,223
Total comprehensive income		-	-	245,553,359	(1,747,707)	243,805,652	-	243,805,652
Transactions with owners								
Dividends	38	-	-	(78,413,785)	-	(78,413,785)	-	(78,413,785)
Share-based compensation	28	-	-	-	2,556,856	2,556,856	-	2,556,856
Acquisition of treasury stock	27	-	-	-	(12,145,035)	(12,145,035)	-	(12,145,035)
Additional acquisitions of subsidiary's share		-	-	-	-	-	-	-
Total transactions with owners		-	-	(78,413,785)	(9,588,179)	(88,001,964)	-	(88,001,964)
Balance at Dec. 31, 2013		40,662,398	97,773,449	867,992,459	(65,539,797)	940,888,509	-	940,888,509

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

Coway Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2013 and 2012

(In thousands of Korean won)

	Notes	2013	2012
Cash flows from operating activities			
Profit for the year		245,074,652	94,042,698
Adjustments	39	374,232,456	420,182,579
Changes in operating assets and liabilities	39	<u>(41,071,447)</u>	<u>(23,934,498)</u>
Cash generated from operations		578,235,661	490,290,779
Income tax paid		<u>(41,480,542)</u>	<u>(35,995,121)</u>
Net cash generated from operating activities		<u>536,755,119</u>	<u>454,295,658</u>
Cash flows from investing activities			
Increase in other short-term financial assets		(3,728,200)	(2,727,296)
Decrease in other short-term financial assets		584,409	292,642
Increase in other long-term financial assets		(15,108,438)	(7,195,114)
Decrease in other long-term financial assets		19,915,843	5,459,071
Acquisition of available-for-sale financial assets		-	(100,000)
Proceeds from disposal of available-for-sale financial assets		1,153	255,928
Acquisition of subsidiaries, net of cash acquired		-	991,471
Proceeds from disposal of subsidiaries		-	30,000
Proceeds from disposal of associates		178,154,596	402,694
Acquisition of property, plant and equipment		(267,953,467)	(313,843,129)
Proceeds from disposal of property, plant and equipment		9,626,121	3,538,711
Acquisition of intangible assets		(4,715,547)	(8,310,675)
Proceeds from disposal of intangible assets		2,303,242	638,231
Acquisition of investment property		-	(523,683)
Proceeds from disposal of investment property		-	84,545
Interest received		4,626,686	1,614,811
Net cash used in investing activities		<u>(76,293,602)</u>	<u>(319,391,793)</u>

Coway Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2013 and 2012

Cash flows from financing activities		
Net increase in short-term borrowings	(151,094,997)	20,398,873
Decrease in current portion of long-term borrowings	(60,499,866)	(499,866)
Decrease in current portion of debentures	(50,000,000)	-
Payment of dividends	(78,413,786)	(77,841,536)
Purchase of treasury stock	(18,778,293)	-
Exercise of share options	4,863,450	12,212,200
Interest paid	(19,017,578)	(29,906,178)
Net cash generated from (used in) financing activities	<u>(372,941,070)</u>	<u>(75,636,507)</u>
Net increase in cash and cash equivalents	87,520,447	59,267,358
Beginning of the year	152,411,776	98,223,335
Effect of exchange rate changes on cash and cash equivalents	(1,267,158)	(5,078,917)
End of the year	<u>238,665,065</u>	<u>152,411,776</u>

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

Coway Co., Ltd. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

1. General Information

Coway Co., Ltd. and its subsidiaries (collectively referred to as 'the Group') have prepared the consolidated financial statements. Its consolidated subsidiaries are Woong Jin Coway (China) Living Goods Co., Ltd., Woong Jin Coway USA Inc., and five other subsidiaries (collectively referred to as 'the Subsidiaries').

1.1 Company overview

The Group was incorporated on May 2, 1989 and listed its shares on the Korea Stock Exchange in 2001, under the laws of the Republic of Korea to engage in the manufacturing and sales or rental of water purifiers and home appliances, construction of waste disposal facilities and other related business.

The Group's operations are headquartered in Gong-ju City, South Chungcheong Province. As of December 31, 2013, the majority stockholder of the Group is Coway Holdings Co. Ltd. with a shareholding of 30.90%.

1.2 List of subsidiaries

The Group's consolidated subsidiaries as of December 31, 2013 and 2012, are as follows:

Subsidiaries	Location	Year end	Business	Percentage of ownership (%)	
				2013	2012
WoongJin Coway (China) Living Goods Co., Ltd.	China	Dec 31	Producing Cosmetics/Manufacture and sales or rental of water purifiers	100	100
Coway China Co., Ltd.	China	Dec 31	Sales of air cleaners	100	-
Coway (Thailand) Co.,Ltd.	Thailand	Dec 31	Manufacture and sales or rental of water purifiers	100	100
Coway (M) Sdn Bhd.	Malaysia	Dec 31	Manufacture and sales or rental of water purifiers	100	100
WoongJin Coway USA Inc.	U.S.A.	Dec 31	Manufacture and sales or rental of water purifiers	100	100
Green Environment Technology Co., Ltd.	Korea	Dec 31	Construction of waste disposal facilities	100	100
Pocheon Malkunmul Co., Ltd.	Korea	Dec 31	Construction of waste disposal facilities	100	-

Coway Co., Ltd. and Subsidiaries
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1.3 Summary of the subsidiaries' financial information

The subsidiaries' condensed financial information as of and for the years ended December 31, 2013 and 2012, is as follows:

(In thousands of Korean won)

2013						
Subsidiaries	Assets	Liabilities	Equity	Sales	Profit(loss) for the year	Compre- hensive income
WoongJin Coway (China) Living Goods Co., Ltd.	42,055,647	16,575,946	25,479,701	44,936,056	(5,849,156)	(5,321,349)
WoongJin Coway USA Inc.	38,780,174	40,035,407	(1,255,233)	38,872,513	(1,444,084)	(1,393,835)
Coway (Thailand) Co.,Ltd.	7,524,393	16,744,696	(9,220,303)	12,308,956	(4,633,727)	(3,755,096)
Coway (M) Sdn Bhd.	52,694,459	39,545,731	13,148,728	71,932,341	3,454,645	2,263,136
Coway China Co., Ltd.	1,754,490	6,779	1,747,711	-	-	(46,898)
Pocheon Malkunmul Co., Ltd.	2,453,369	310,666	2,142,703	-	(11,420)	(11,420)
Green Environment Technology Co., Ltd.	29,859,712	17,102,394	12,757,318	46,009,846	620,734	586,003
2012						
Subsidiaries	Assets	Liabilities	Equity	Sales	Profit(loss) for the year	Compre- hensive income
WoongJin Coway (China) Living Goods Co., Ltd.	42,483,482	11,682,433	30,801,049	58,103,912	(332,695)	(2,244,057)
Woong Jin Coway USA Inc.	35,879,966	35,741,364	138,602	30,428,364	(1,547,889)	(1,594,821)
Coway (Thailand) Co.,Ltd.	9,195,665	14,660,872	(5,465,207)	12,302,323	(1,660,874)	(1,467,833)
Coway (M) Sdn Bhd.	55,574,711	44,689,118	10,885,593	54,449,901	3,122,752	2,697,096
Coway ITALIA S.R.L.	57,357	-	57,357	274,065	(546,755)	(567,236)
Coway (Japan) Co.,Ltd.	4,407,211	50,711,326	(46,304,115)	5,697,469	(729,896)	8,101,672
Green Environment Technology Co., Ltd.	36,562,321	24,391,007	12,171,314	52,558,119	331,255	294,596

Coway Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

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1.4 Changes in subsidiaries

The following entities have become subsidiaries in 2013:

Subsidiary		Reason
Pocheon Malkunmul Co., Ltd.	Newly acquired	
Coway China Co., Ltd.	Newly acquired	

The following entities have been excluded from subsidiaries in 2013.

Subsidiaries		Reason
Coway ITALIA S.R.L.	Liquidation	
Coway (Japan) Co.,Ltd.	Liquidation	

2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

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

2.1.1 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Company

The Group newly applied the following amended and enacted standards for the annual period beginning on January 1, 2013:

- Amendment to Korean IFRS 1001, Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income

The amendment requires entities to Company items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. The Group applies the amendment retroactively and there is no impact of the application of this amendment on its total comprehensive income or loss.

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- Amendment to Korean IFRS 1019, Employee Benefits

The amendment requires entities to immediately recognize all actuarial gains and losses incurred in other comprehensive income or loss. All past service costs incurred are immediately recognized in accordance with the change of the plan, and the previous separate calculation of the interest cost and the expected returns on plan assets has been revised to calculate net interest expense (income) by applying the discount rate used in the defined benefit obligation measurement in the net defined benefit liabilities (assets). There is no material impact of the application of this amendment on the consolidated financial statements.

- Korean IFRS 1110, Consolidated Financial Statements

Korean IFRS 1110, Consolidated Financial Statements, introduces a single control concept and provides a specific guidance for the control. The adoption of this standard does not have an impact on consolidation scope in the consolidated financial statements.

- Korean IFRS 1111, Joint Arrangements

Korean IFRS 1111, Joint Arrangements, reflects the substance of joint arrangements and focuses on the rights and obligations of the parties to the joint arrangements rather than on the legal forms of the arrangements. Joint arrangements are classified into joint operations or joint ventures. The adoption of this standard does not have an impact on the consolidated financial statements.

- Korean IFRS 1112, Disclosures of Interests in Other Entities

Korean IFRS 1112, Disclosure of Interests in Other Entities, provides disclosure requirements for all types of equity investments in other entities including subsidiaries, associates, joint ventures and unconsolidated structured entities.

- Korean IFRS 1027, Separate Financial Statements

Korean IFRS 1027, Separate Financial Statements, contains accounting treatments and requirements for investments in subsidiaries, associates and joint ventures relating only to separate financial statements of the Controlling Company.

- Korean IFRS 1113, Fair Value Measurement

Korean IFRS 1113, Fair Value Measurement, provides a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across K-IFRS. The Group has applied this standard prospectively according to the transitional provisions of K-IFRS 1113 and there is no material impact of the application of this standard on the consolidated financial statements.

(b) New standards and interpretations not yet adopted

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2013, and not early adopted by the Group are as follows:

- Amendment to Korean IFRS 1110, Consolidated Financial Statements

Amendment to Korean IFRS 1110, Consolidated Financial Statements, provides that, if a parent company qualifies as an investment entity, it is required to measure its investments in subsidiaries at fair value through profit and loss instead of consolidating these subsidiaries in its consolidated financial statements. The amendment does not apply for a parent of an investment entity if the parent itself is not an investment entity. This amendment is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its consolidated financial statements.

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- Amendment to Korean IFRS 1032, Financial Instruments: Presentation
Amendment to Korean IFRS 1032, Financial Instruments: Presentation, provides that the right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. This amendment is effective for annual periods beginning on or after January 1, 2014, and the Group is assessing the impact of application of this amendment on its consolidated financial statements.

- Amendment to Korean IFRS 1039, Financial Instruments: Recognition and Measurement
Amendment to Korean IFRS 1039, Financial Instruments: Recognition and Measurement, allows the continuation of hedge accounting for a derivative that has been designated as a hedging instrument in a circumstance in which that derivative is novated to a central counterparty (CCP) as a consequence of laws or regulations. This amendment is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group is assessing the impact of application of this amendment on its consolidated financial statements.

- Enactment of IFRIC interpretations 2121, *Levies*
IFRIC interpretations 2121, *Levies*, are applied to a liability to pay a levy imposed by a government in accordance with the legislation. The interpretation requires that the liability to pay a levy is recognized when the activity that triggers the payment of the levy occurs, as identified by the legislation (the obligating event). This interpretation is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group expects that the application of this interpretation would not have a material impact on its consolidated financial statements.

2.2 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110, Consolidated Financial Statements.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls the corresponding investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins from the date the Group obtains control of a subsidiary and ceases when the Group loses control of the subsidiary.

The Group applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs. Acquisition-related costs are expensed as incurred.

Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Group subsidiaries are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In transactions with non-controlling interests that do not lead to a loss of control, differences between adjustments of non-controlling interests and fair value of consideration paid or received are recognized as interests of the Controlling Company directly in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss.

(b) Associates

Associates are all entities over which the Group has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Group recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

2.3 Segment

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

2.4 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2.5 Financial instruments

(a) Classification and measurement

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on trade date.

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Regular purchases and sales of financial assets are recognized on the trade date. At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

(b) Impairment

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

Impairment of loans and receivables is presented as a deduction in an allowance account. Impairment of other financial assets is directly deducted from their carrying amount. The Group writes off financial assets when the assets are determined to be no longer recoverable.

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments; or the disappearance of an active market for that financial asset because of financial difficulties. A significantly decline in the fair value of an available-for-sale equity instrument from its cost or a prolonged decline below its cost is also objective evidence of impairment.

(c) Derecognition

If the Group transfers a financial asset and the transfer does not result in derecognition because the Group has retained substantially of all risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received.

2.6 Derivative Financial Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the statement of income within 'other non-operating income (expenses)' or 'finance income (expenses)' according to the nature of transactions.

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

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

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2.8 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving-weighted average method.

2.9 Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that is directly attributable to the acquisition of the items.

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

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

The depreciation method, residual values and useful lives of property, plant and equipment are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

2.10 Borrowing Costs

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expenses for the period in which they are incurred.

2.11 Government Grants

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attaching to it. Government grants related to assets are presented by deducting the grants in arriving at the carrying amount of the assets, and grants related to income are deferred and presented by deducting the related expenses for the purpose of the government grants.

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2.12 Intangible Assets

(a) Goodwill

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

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

(b) Membership rights

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

(c) Others

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

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

2.13 Investment Property

Property held to earn rentals or for capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. Investment property, except for land, is depreciated using the straight-line method over their useful lives from 25 to 40 years.

2.14 Impairment of Non-financial Assets

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

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2.15 Financial Liabilities

(a) Classification and measurement

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

2.16 Financial Guarantee Contract

Financial guarantees contracts provided by the Group are initially measured at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the amounts below and recognized as 'other financial liabilities':

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

2.17 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

2.18 Current and Deferred Income Tax

The tax expense for the period consists of current and deferred tax. Tax is recognized on the profit for the period in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

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Deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax asset is recognized for deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

2.19 Employee Benefits

(a) Defined benefit liability

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

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized as profit or loss for the year.

(b) Share-based Compensation

Equity-settled share-based payments granted to employees are estimated at the grant date fair value of equity instruments and recognized as employee benefit expenses over the vesting period. The number of equity instruments expected to vest is remeasured with consideration to non-market vesting conditions at the end of the reporting period, with any changes from the original measurement recognized in the profit for the year and equity.

2.20 Revenue Recognition

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

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

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(a) Sales of goods

The Group manufactures and sells a range of footwear products in the wholesale market. Revenue from the sale of goods is recognized when products are delivered to the purchaser.

(b) Rendering of services

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

(c) Lease contract

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of at the lease's agreement. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term.

Costs, including depreciation, incurred in earning the lease income are recognized as an expense. Initial direct costs incurred by lessors in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. The depreciation policy for depreciable leased assets is consistent with the lessor's depreciation policy for similar assets.

(d) Construction contract

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

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract. The contract cost is recognized as expenses by reference to the stage of completion of the contract, and when loss on the construction contract is expected, the expected loss is immediately recognized as an expense.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured. A contract cost is recognized as incurred.

The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. These amounts are recognized as inventories, advances from customers or other assets depending on its nature.

In cases where the aggregate amount of costs incurred and recognized profits (less recognized losses) exceeds progress billings, the total cost incurred plus recognized profits (less recognized losses and progress billings), represents an asset (unbilled amount). In cases where progress billing exceeds the aggregate amount of costs incurred and recognized profits (less recognized losses), the aggregate amount of recognized losses plus progress billing (less cost incurred and recognized profits) represents a liability (overbilled amount).

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(e) Interest income

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

(f) Dividend income

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

(g) Customer loyalty program

The Group operates a customer loyalty program where customers accumulate points for purchases made which entitle them to discounts on future purchases. The reward points are recognized as a separately identifiable component of the initial sale transaction. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the reward points and the other components of the sale. The fair value of the reward points is measured by taking into account the proportion of the reward points that are not expected to be redeemed by customers. Revenue from the reward points is recognized when the points are redeemed and the reward points expire 12 months after the initial sale

2.21 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2013 consolidated financial statements of the Group was approved by the Board of Directors on February 13, 2014, which is subject to change with approval at the annual shareholders' meeting.

3. Critical Accounting Estimates and Judgments

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

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 14).

(b) Income taxes

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 36).

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(c) Impairment of Financial Assets

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

(d) Provisions

As described in Note 21, the Group recognizes provisions for warranties and mileage programs as of the reporting date. The amounts are estimated based on historical data.

(e) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 20).

(f) Construction Contract

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

4. Financial Risk Management

4.1 Financial Risk Factors

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

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

4.1.1 Market risk

(a) Foreign exchange risk

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

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At December 31, 2013, if the currency had weakened/strengthened by 5% against foreign currencies with all other variables held constant, pre-tax profit for the year would have been ₩ 3,047 million (2012: ₩ 4,455 million) higher / lower.

The Group's financial instruments denominated in major foreign currencies as of December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

	2013			
	USD	JPY	EUR	Total
Cash & cash equivalents	36,923,714	1,698,570	2,392,040	41,014,324
Trade receivables ¹	14,801,554	98,595	941,288	15,841,437
Trade payables	849,713	863,643	-	1,713,356
Debentures	116,083,000	-	-	116,083,000

(In thousands of Korean won)

	2012			
	USD	JPY	EUR	Total
Cash & cash equivalents	16,254,857	37,425	1,952,456	18,244,738
Trade receivables ¹	12,719,733	3,991	106,748	12,830,472
Trade payables	646,270	1,701,191	-	2,347,461
Debentures	117,821,000	-	-	117,821,000

¹ Before offsetting the impairment.

(b) Price risk

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

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

(In thousands of Korean won)

Index	Net effect to the equity	
	2013	2012
KOSPI	-	1,136

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(c) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term, short-term borrowings and debentures. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Also, issued at fixed rate borrowings and debentures expose the Group to fair value interest rate risk (Notes 17, 18 and 19). And fixed rate financial assets classified as available for sale expose the Group to fair value interest rate risk.

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

The Group's sensitivity of interest rate is based on the following assumption:

- The fluctuations of market interest that affect interest revenue and expense arise from floating rate financial instruments.

Based on the assumption, as of December 31, 2013 and 2012, if interest rates fluctuate by 100bp to financial instruments, interest expenses related to the instruments with variable interest rates, are as follows :

(In thousands of Korean won)

	2013		2012	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Financial assets	1,948,146	(1,948,146)	1,136,254	(1,136,254)
Financial liabilities	(2,978,568)	2,978,568	(4,484,996)	4,484,996
Total	(1,030,422)	1,030,422	(3,348,742)	3,348,742

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

Based on the various scenarios, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting debentures from floating rates to fixed rates. Generally, the Group raises debentures at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts (Note 29).

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4.1.2 Credit Risk

Credit risk is managed on a Company basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, the credit quality of the customer is evaluated taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilization of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. A summary of maximum exposure to the credit risk as of December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

Financial Assets	2013	2012
Cash and cash equivalents ¹	238,647,452	152,336,699
Trade receivables	212,606,268	233,010,796
Other short-term financial assets	43,396,429	32,444,581
Other long-term financial assets	52,525,362	51,369,796
Available for sale financial assets ²	170	170
Total	<u>547,175,681</u>	<u>469,162,042</u>

¹ Amount excludes cash on hand from cash and cash equivalents on statement of financial position.

² Amount excludes equity instruments from available-for-sale on statement of financial position.

4.1.3 Liquidity Risk

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

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

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The Group's liquidity risk as of December 31, 2013 and 2012, are as follows:

<i>(In thousands of Korean won)</i>	2013		
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Trade payables	36,662,814	-	-
Other financial liability	182,054,622	2,287,660	-
Short-term borrowing ¹	188,783,284	-	-
Current portion of long-term borrowings ¹	30,484,308	-	-
Debentures ^{1,2}	116,440,265	-	-
Derivatives (interest swap) -paid ²	976,540	-	-
Derivatives (interest swap) -received ²	(357,265)	-	-

<i>(In thousands of Korean won)</i>	2012		
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Trade payables	46,264,933	-	-
Other financial liability	183,999,455	506,213	-
Short-term borrowing ¹	332,718,569	-	-
Current portion of long-term borrowings ¹	61,535,025	-	-
Long-term borrowing ¹	1,695,000	30,620,041	-
Debentures ^{1,2}	54,170,384	118,243,754	-
Derivatives (interest swap) -paid ²	5,213,757	962,256	-
Derivatives (interest swap) -received ²	(2,585,302)	(422,754)	-

¹ Consists of the principal and interest.

² The cash flows of debentures include payable derivative's hedge effect to hedge relative interest risk.

The table above analyzes the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity Companyings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Net settled derivatives comprise interest rate swaps used by the Group to manage the Group's interest rate profile (Note 29).

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4.2 Capital Risk Management

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

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

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

The gearing ratios as of December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

	2013	2012
Total borrowings	327,940,169	588,438,681
Less: cash and cash equivalents	(238,665,065)	(152,411,776)
Net debt	89,275,104	436,026,905
Total equity	940,888,509	785,084,821
Total capital	1,030,163,613	1,221,111,726
Gearing ratio	8.67%	35.71%

The decrease in the gearing ratio during 2013 resulted primarily from cash flows from operating activities.

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4.3 Fair Value Estimation

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

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

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

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

Specific valuation techniques used to value financial instruments include:

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

(a) The following table presents the Group's financial assets and financial liabilities that are measured at fair value as of December 31, 2013 and 2012:

(In thousands of Korean won)

	2013			
	Level 1	Level 2	Level 3	total
Available-for-sale financial assets	-	-	793,455	793,455
Derivative liabilities used for hedging	-	-	6,865,216	6,865,216
	2012			
	Level 1	Level 2	Level 3	total
Available-for-sale financial assets	3,787	-	783,854	787,641
Derivative liabilities used for hedging	-	-	5,867,616	5,867,616

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(b) Details of changes in Level 3 of the fair value hierarchy are as follows:.

(In thousands of Korean won)

Category	Available-for-sale financial assets	
	2013	2012
At January 1	783,854	793,294
Amount recognized in profit or loss	-	-
Amount recognized in other comprehensive income	9,601	(9,440)
At December 31	793,455	783,854

(In thousands of Korean won)

Category	Derivative liabilities used for hedging	
	2013	2012
At January 1	(5,867,616)	(307,202)
Amount recognized in profit or loss	(1,738,000)	(6,815,565)
Amount recognized in other comprehensive income	740,400	1,255,151
At December 31	(6,865,216)	(5,867,616)

(c) Carrying amount and fair value of financial instruments by category as of December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	238,665,065	238,665,065	152,411,776	152,411,776
Available-for-sale financial assets ¹	793,455	793,455	787,641	787,641
Trade receivables	212,606,268	212,606,268	233,010,796	233,010,796
Other financial assets	95,921,791	95,921,791	83,814,377	83,814,377
Total	547,986,579	547,986,579	470,024,590	470,024,590
Financial liabilities				
Trade liabilities	36,662,814	36,662,814	46,264,933	46,264,933
Borrowings	327,940,169	328,066,805	588,438,681	593,527,821
Derivative financial instruments	6,865,216	6,865,216	5,867,616	5,867,616
Other financial assets	184,342,282	184,342,282	184,505,668	184,505,668
Total	555,810,481	555,937,117	825,076,898	830,166,038

¹ Equity instruments that do not have a quoted price in an active market are measured at cost because their fair value cannot be measured reliably and excluded from the fair value disclosures.

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(d) The following table presents available-for-sale financial assets that are valued at historical cost as of December 31, 2013 and 2012.

(In thousands of Korean won)

Category	2013	2012
Mc-Science Co., Ltd.	1,133,760	1,133,760
NEX Telecom Co., Ltd.	98,516	98,516
Nabi Story Co., Ltd.	90,000	90,000
Construction guarantee	295,873	295,873
Electric Contractors' Financial Cooperative	50,000	50,000
Others	5,475	5,475
Total	<u>1,673,624</u>	<u>1,673,624</u>

(e) Valuation techniques used in the fair value measurements of financial instruments except for financial instruments traded in an active market are as follows:

Category	Fair value measurements
Cash and cash equivalents	Book value of cash is equal to fair value. For cash equivalents including ordinary deposits and general deposit or time deposit whose remaining maturity is less than 3 months, their book value is used as a substitute for fair value.
Trade receivables, Other financial assets	For short-term receivables including trade receivables and non-trade receivables, their book value is used as a substitute for fair value.
Trade payables, Other financial liabilities	For short-term payables including trade payables and non-trade payables, their book value is used as a substitute for fair value.
Short-term borrowings, Long-term borrowings	For borrowings whose remaining maturity is less than a year from the date of issue, book value is used as a substitute. For borrowings whose remaining maturity is more than a year from the date of issue, fair value of the borrowings is calculated by discounting the expected future cash flow using the discounting rate derived based on market interest rate and credit risk of counterparty.
Debentures	For bonds whose remaining maturity is more than a year from the date of issue, fair value is calculated by discounting the expected future cash flow using the discounting rate derived based on market interest rate and credit risk of counterparty.

In 2013, there is no significant change in business and economic environments which influence the fair value of financial assets and liabilities of the Group.

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5. Segment Information

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

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

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

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

Geographically, the Group operates most businesses in Korea. It rents and sells its products in the U.S.A, China and others, and has some tangible assets in China.

Financial information of operating segement for the years ended December 31, 2013 and 2012, is as follows.

(In thousands of Korean won)

	2013			
	Rental	sales	Others	Total
Total segment revenue	1,593,859,652	455,660,459	104,302,071	2,153,822,182
Inter-segment revenue ¹	-	(35,382,627)	(97,990)	(35,480,617)
Revenue from external customers	1,593,859,652	420,277,832	104,204,081	2,118,341,565
Gross profit	<u>1,151,960,794</u>	<u>220,426,393</u>	<u>24,970,602</u>	<u>1,397,357,789</u>
	2012			
	Rental	Sales	Others	Total
Total segment revenue	1,532,864,898	396,418,903	95,894,382	2,025,178,183
Inter-segment revenue ¹	-	(32,338,248)	(1,798)	(32,340,046)
Revenue from external customers	1,532,864,898	364,080,655	95,892,584	1,992,838,137
Gross profit	<u>1,111,070,299</u>	<u>181,617,187</u>	<u>21,849,909</u>	<u>1,314,537,395</u>

¹ Sales between segments are accounted for as they are carried out at arm's length.

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Financial information of geographic segment for the years ended December 31, 2013 and 2012, follows:

<i>(In thousands of Korean won)</i>	2013				
	Domestic	U.S.A.	Asia	Europe	Total
Total revenue	1,979,741,264	38,872,513	135,208,405	-	2,153,822,182
Internal revenue	(35,480,617)	-	-	-	(35,480,617)
Net revenue	<u>1,944,260,647</u>	<u>38,872,513</u>	<u>135,208,405</u>	<u>-</u>	<u>2,118,341,565</u>
	2012				
	Domestic	U.S.A.	Asia	Europe	Total
Total revenue	1,863,922,148	30,428,364	130,553,606	274,065	2,025,178,183
Internal revenue	(32,340,046)	-	-	-	(32,340,046)
Net revenue	<u>1,831,582,102</u>	<u>30,428,364</u>	<u>130,553,606</u>	<u>274,065</u>	<u>1,992,838,137</u>

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

6. Financial Instruments by Category

(a) Categorizations of financial instruments as of December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

Financial Assets	2013				
	Loans and receivables	Available-for-sale financial assets	Derivatives used for hedging	Total	Fair value
Cash & cash equivalents	238,665,065	-	-	238,665,065	238,665,065
Trade receivables	212,606,268	-	-	212,606,268	212,606,268
Other short-term financial assets	43,396,429	-	-	43,396,429	43,396,429
Other long-term financial assets	52,525,362	-	-	52,525,362	52,525,362
Available-for-sale financial assets	-	2,467,078	-	2,467,078	2,467,078
Total	<u>547,193,124</u>	<u>2,467,078</u>	<u>-</u>	<u>549,660,202</u>	<u>549,660,202</u>

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Financial Liabilities	2013				
	Financial liabilities that are measured at amortized cost	Derivatives used for hedging	Other financial liabilities	Total	Fair value
Trade payables	36,662,814	-	-	36,662,814	36,662,814
Other short-term financial liabilities	174,993,748	-	-	174,993,748	174,993,748
Short-term borrowings	181,773,836	-	-	181,773,836	181,773,836
Current portion of debentures	116,083,000	-	-	116,083,000	116,083,000
Current portion of long-term borrowings	30,083,333	-	-	30,083,333	30,083,333
Other long-term financial liabilities	9,348,534	-	-	9,348,534	9,348,534
Derivative liabilities	-	6,865,216	-	6,865,216	6,865,216
Total	548,945,265	6,865,216	-	555,810,481	555,810,481

(In thousands of Korean won)

Financial Assets	2012				
	Loans and receivables	Available-for-sale financial assets	Derivatives used for hedging	Total	Fair value
Cash & cash equivalents	152,411,776	-	-	152,411,776	152,411,776
Trade receivables	233,010,796	-	-	233,010,796	233,010,796
Other short-term financial assets	32,444,581	-	-	32,444,581	32,444,581
Other long-term financial assets	51,369,796	-	-	51,369,796	51,072,512
Available-for-sale financial assets	-	2,461,264	-	2,461,264	2,461,264
Total	469,236,949	2,461,264	-	471,698,213	471,400,929

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Financial Liabilities	2012				
	Financial liabilities that are measured at amortized cost	Derivatives used for hedging	Other financial liabilities	Total	Fair value
Trade payables	46,264,933	-	-	46,264,933	46,264,933
Other short-term financial liabilities	175,482,239	-	-	175,482,239	175,482,239
Short-term borrowings	330,095,355	-	-	330,095,355	330,095,355
Current portion of debentures	49,939,127	-	-	49,939,127	49,939,127
Current portion of long-term borrowings	60,499,866	-	-	60,499,866	60,499,866
Other long-term financial liabilities	9,023,429	-	-	9,023,429	9,023,429
Long-term borrowings	30,083,333	-	-	30,083,333	30,537,724
Debentures	117,821,000	-	-	117,821,000	122,455,749
Derivative liabilities	-	5,867,616	-	5,867,616	5,867,616
Total	819,209,282	5,867,616	-	825,076,898	830,166,038

There are no significant differences between fair value and book value in cash and cash equivalents, trade receivables, other short-term financial assets, trade payables, other short-term financial liabilities, short-term borrowings and current portion of long-term borrowings. The fair value of non-current assets and liabilities is calculated by dividing nominal future cash flows by 3.97% (2012: 4.89%) the weighted average interest rate.

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(b) Income and loss of financial instruments by category for the years ended December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

	<u>2013</u>	<u>2012</u>
Loans and other receivables		
Interest income	4,131,432	1,589,960
Gain on foreign exchange translation	148,100	428,736
Loss on foreign exchange translation	(4,767,014)	(9,678,509)
Loss on impairment of trade receivables	(15,655,723)	(9,339,258)
Loss on impairment of other receivables	(237,906)	(1,088,137)
Available-for-sale financial assets		
Gain or loss on valuation(Other comprehensive income) ¹	4,416	13,350
Dividend income	4,471	4,800
Interest income	-	10,915
Gain on disposal of available- for-sales	1,420	134,530
Impairment of available-for-sales	-	(116,493)
Derivatives used for hedging		
Loss on valuation of derivatives(profit or loss)	(1,738,000)	(9,042,000)
Gain on valuation of derivatives(profit or loss)	-	606,386
Loss on valuation of derivatives(Other comprehensive income) ¹	561,223	1,255,152
Financial liabilities measured at amortized cost		
Interest expense	(18,620,949)	(30,249,681)
Gain on foreign exchange translation	4,949,125	11,452,120
Loss on foreign exchange translation	(3,607,286)	(1,116,723)

¹ Net of related income tax.

The Group accounted for ₩ 3,203 million (2012: ₩ 2,043 million) as gain on foreign exchange transaction and ₩ 3,525 million (2012: ₩ 3,364 million) of loss on foreign exchange transaction through trade receivables, other short-term financial assets, other long-term financial assets and trade payables.

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7. Cash and cash equivalents

Cash and cash equivalents as of December 31, 2013 and 2012, are as follows:

<i>(In thousands of Korean won)</i>	2013	2012
Cash in bank and on hand	100,536	60,618
Current deposits	222,571	238,286
Ordinary deposits	238,264,899	151,788,750
Other cash equivalents	77,059	324,123
Total	<u>238,665,065</u>	<u>152,411,777</u>

8. Trade receivables

Trade receivables as of December 31, 2013 and 2012, are as follows:

<i>(In thousands of Korean won)</i>	2013	2012
Trade receivables	250,105,425	264,229,000
Less : Allowance for doubtful accounts	(37,499,157)	(31,218,204)
Trade receivables, net	<u>212,606,268</u>	<u>233,010,796</u>

The aging analyses of trade receivables as of December 31, 2013 and 2012, are as follows:

<i>(In thousands of Korean won)</i>	2013	2012
A. Receivables not past due	<u>184,665,207</u>	<u>205,730,444</u>
B. Past due but not impaired ¹		
Up to 6 months	31,717,289	26,395,577
6 to 12 months	7,769,367	9,335,789
Subtotal	<u>39,486,656</u>	<u>35,731,366</u>
C. Impaired ²		
6 to 12 months	1,514,013	507,695
Over 12 months	24,439,549	22,259,495
Subtotal	<u>25,953,562</u>	<u>22,767,190</u>
Total	<u>250,105,425</u>	<u>264,229,000</u>

¹ Trade receivables not past due and past due but not impaired relate to a number of independent customers who have no recent history of default.

² The amount of the provision is ₩ 25,954 million as of December 31, 2013 (2012: ₩ 22,767 million). The impaired receivables are mainly related to associates and some are expected to be recovered.

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Movements in the provision for trade receivables for the years ended December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

	<u>2013</u>	<u>2012</u>
At January 1	31,218,204	53,471,194
Impairment loss	14,088,587	9,339,258
Disposal of impaired receivables	(7,599,555)	(18,867,807)
Recovery of impaired receivables	706,261	43,037
Exchange difference	(914,340)	(12,767,478)
At December 31	<u>37,499,157</u>	<u>31,218,204</u>

9. Other Financial Assets

Other financial assets as of December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

	<u>2013</u>	<u>2012</u>
Other short-term financial assets		
Short-term loans	6,454,187	3,140,935
Other receivables	32,635,544	30,461,751
Accrued income	17,726	30,175
Unbilled amount for construction contract	22,287,181	15,449,513
Less : Provision for other short-term financial assets	(17,998,209)	(16,637,793)
Total	<u>43,396,429</u>	<u>32,444,581</u>
Other long-term financial assets		
Long-term financial instruments	9,732,326	4,033,725
Long-term loans	500,000	4,315,164
Guarantee deposits	42,226,065	43,025,906
Other long-term trade receivables and other receivables	2,959,073	2,959,073
Others	71,971	1
Less : Provision for other long-term financial assets (Long-term)	(2,964,073)	(2,964,073)
Total	<u>52,525,362</u>	<u>51,369,796</u>

The impairment has occurred on certain loans to associates, refund and leasehold deposits. The Group evaluates the impaired receivables and recognizes impairment expense as of December 31, 2013.

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

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Movement on provision for other financial assets for the years ended December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

	2013	2012
Other short-term financial assets		
At January 1	16,637,793	17,836,332
Impairment expenses	1,805,043	1,088,137
Disposal of impaired receivables	(14,688)	(2,156,003)
Decrease due to transfer to long-term financial assets	-	336,186
Changes in the scope of consolidation	-	(465,963)
Foreign exchange translation	(429,939)	(896)
At December 31	<u>17,998,209</u>	<u>16,637,793</u>
Other long-term financial assets		
At January 1	2,964,073	8,122,970
Disposal of impaired receivables	-	(2,297,939)
Decrease due to transfer from short-term financial assets	-	(336,186)
Changes in the scope of consolidation	-	(2,524,772)
At December 31	<u>2,964,073</u>	<u>2,964,073</u>

10. Other assets

Other assets as of December 31, 2013 and 2012, consist of the following:

(In thousands of Korean won)

	2013	2012
Other current assets		
Advanced payments	3,960,641	11,829,187
Prepaid expenses	126,691,580	114,067,554
Prepaid VAT	311,723	254,526
Other	16,689	65,896
	<u>130,980,633</u>	<u>141,666,676</u>
Other non-current assets		
Long-term prepaid expenses	79,168,787	80,297,151
Others	105,331	105,330
	<u>79,274,118</u>	<u>80,402,481</u>

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11. Inventories

Inventories as of December 31, 2013 and 2012, consist of the following:

(In thousands of Korea won)

	2013		
	Acquisition cost	Valuation allowance	Net book value
Merchandise	33,900,645	(5,539,551)	28,361,094
Finished goods	30,335,712	(3,205,277)	27,130,435
Work-in-process	417,221	-	417,221
Raw materials	8,840,237	(35,006)	8,805,231
Materials in transit	1,052,171	-	1,052,171
Total	<u>74,545,986</u>	<u>(8,779,834)</u>	<u>65,766,152</u>

(In thousands of Korea won)

	2012		
	Acquisition cost	Valuation allowance	Net book value
Merchandise	51,611,452	(11,452,487)	40,158,965
Finished goods	28,764,759	(9,493,410)	19,271,349
Work-in-process	469,101	-	469,101
Raw materials	8,962,175	(74,701)	8,887,474
Materials in transit	2,900,279	-	2,900,279
Total	<u>92,707,766</u>	<u>(21,020,598)</u>	<u>71,687,168</u>

The cost of inventories recognized as expense and included in 'cost of sales' for the years ended December 31, 2013 and 2012, amounted to ₩ 472,944 million and ₩ 444,949 million, respectively. Inventory valuation loss included in cost of sales, amounted to ₩ 1,250 million and ₩ 9,967 million, respectively.

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12. Available-for-sale Financial Assets

Details of available-for-sale financial assets as of December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

	Acquisition cost	2013 Fair value	Book value	2012 Book value
Listed equities	-	-	-	3,787
Non-listed equities	4,133,531	2,466,908	2,466,908	2,457,307
Public bond	170	170	170	170
Total	4,133,701	2,467,078	2,467,078	2,461,264

Fair value could not be determined reliably due to the range and probability of various estimates. Therefore, the Group presents the non-listed equities at their acquisition cost. However, the Group recognizes impairment when there is objective evidence that the impairment event had occurred and the event affects estimated future cash flows of available-for-sale financial assets. The Group accounted for ₩ 1,738 million as loss on impairment of non-listed equities as of December 31, 2013, and there is no additional loss on impairment for current period.

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

Movements on available-for-sale financial assets for the years ended December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

	2013	2012
At January 1	2,461,264	2,562,052
Acquisitions	-	100,000
Disposals	(3,787)	(121,399)
Transfer	-	19,995
Other comprehensive income	9,601	17,109
Impairment	-	(116,493)
At December 31	2,467,078	2,461,264
Less: non-current portion	(2,467,078)	(2,461,264)
Current portion	-	-

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13. Property, Plant and Equipment

Details of property, plant and equipment as of December 31, 2013 and 2012, are as follows:

		2013		
<i>(In thousands of Korean Won)</i>	Acquisition cost	Accumulated depreciation and impairment	Government grants	Net book value
Land	38,705,828	-	-	38,705,828
Buildings	46,572,054	(5,502,024)	-	41,070,030
Structures	1,986,537	(921,098)	-	1,065,439
Machinery and equipment	27,733,495	(10,200,282)	-	17,533,213
Vehicles	1,042,260	(769,226)	-	273,034
Tools	117,393,772	(77,149,253)	-	40,244,519
Furniture and fixtures	103,773,272	(79,429,675)	-	24,343,597
Rental assets	857,594,237	(392,080,846)	-	465,513,391
Others	25,151,106	(17,329,956)	(42,558)	7,778,592
Construction-in-progress	1,778,486	-	-	1,778,486
Total	<u>1,221,731,047</u>	<u>(583,382,360)</u>	<u>(42,558)</u>	<u>638,306,129</u>

		2012		
<i>(In thousands of Korean Won)</i>	Acquisition cost	Accumulated depreciation and impairment	Government grants	Net book value
Land	37,523,496	-	-	37,523,496
Buildings	46,562,003	(4,319,146)	-	42,242,857
Structures	1,474,837	(737,218)	-	737,619
Machinery and equipment	25,818,413	(7,822,198)	-	17,996,215
Vehicles	1,065,993	(677,284)	-	388,709
Tools	103,999,800	(58,110,244)	(4,100)	45,885,456
Furniture and fixtures	95,884,193	(68,836,904)	-	27,047,289
Rental assets	789,688,556	(340,637,995)	-	449,050,561
Others	22,729,648	(16,218,786)	(65,547)	6,445,315
Construction-in-progress	3,104,466	-	-	3,104,466
Total	<u>1,127,851,405</u>	<u>(497,359,775)</u>	<u>(69,647)</u>	<u>630,421,983</u>

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Changes in property, plant and equipment for the years ended December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

2013

	Land	Buildings	Structures	Machinery and Equipment	Rental assets	Others	Total
January 1, 2013	37,523,496	42,242,857	737,619	17,996,215	449,050,561	82,871,235	630,421,983
Acquisition /Capital expenditure	1,182,332	-	467,060	1,465,962	235,565,816	29,272,297	267,953,467
Disposals /Impairment	-	(57,171)	-	(29,758)	(55,543,902)	(5,398,031)	(61,028,862)
Depreciation	-	(1,234,335)	(183,880)	(2,405,057)	(154,982,249)	(31,441,503)	(190,247,024)
Transfers ¹	-	118,679	44,640	505,851	(7,098,706)	(102,624)	(6,532,160)
Exchange difference	-	-	-	-	(1,478,129)	(783,146)	(2,261,275)
December, 31	38,705,828	41,070,030	1,065,439	17,533,213	465,513,391	74,418,228	638,306,129

¹ Represents transfers to investment property and inventory.

(In thousands of Korean won)

2012

	Land	Buildings	Structures	Machinery and Equipment	Rental assets	Others	Total
January 1, 2012	38,505,180	45,246,276	638,317	10,947,734	394,927,175	78,632,463	568,897,145
Acquisition by business combinations	-	73,604	-	-	417,063	41,166	531,833
Acquisition /Capital expenditure	127,903	542,955	248,300	7,048,106	265,625,407	40,368,730	313,961,401
Disposals /Impairment	(8,750)	(289,972)	(9,648)	(363,982)	(66,669,529)	(2,543,014)	(69,884,895)
Depreciation	-	(1,295,606)	(144,550)	(1,696,162)	(140,655,485)	(31,368,612)	(175,160,415)
Transfers ²	(1,100,837)	(2,024,749)	5,200	2,060,553	(3,183,843)	(2,088,477)	(6,332,153)
Exchange difference	-	(9,651)	-	(34)	(1,410,227)	(171,021)	(1,590,933)
December, 31	37,523,496	42,242,857	737,619	17,996,215	449,050,561	82,871,235	630,421,983

² Represents transfers to investment property and inventory.

Depreciation expense in cost of sales amounts to ₩ 175,189 million (2012: ₩ 158,107 million), and depreciation expense in selling and administrative expenses amounts to ₩ 15,058 million (2012: ₩ 17,053 million).

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Rental assets are provided under the operating lease contracts with numerous customers and the book value of the rental assets as of December 31, 2013 and 2012, are as follows:

<i>(In thousands of Korean won)</i>	2013	2012
Rental assets	465,513,391	449,050,561

Details of property, plant and equipment provided as collaterals as of December 31, 2013 and 2012, are as follows:

<i>(in thousands of Korean won)</i>	2013				
	Carrying amount	Secured amount	Related line item	Related amount	Secured party
Land and Buildings	2,839,264	2,060,000	Borrowings	83,333	Industrial Bank of Korea
		1,200,000	Payment guarantees	USD 2,000,000	Korea Development Bank

14. Intangible Assets

Details of intangible assets as of December 31, 2013 and 2012, are as follows:

<i>(In thousands of Korean won)</i>	2013					
	Goodwill	Industrial rights	Software	Member-ships	Others	Total
Acquisition cost	132,241,170	1,531,171	48,210,164	3,809,999	35,969,661	221,762,165
Accumulated amortization and impairment	-	(548,126)	(33,546,213)	-	(10,820,268)	(44,914,607)
Net book value	132,241,170	983,045	14,663,951	3,809,999	25,149,393	176,847,558

<i>(In thousands of Korean won)</i>	2012					
	Goodwill	Industrial rights	Software	Member-ships	Others	Total
Acquisition cost	132,582,059	1,541,499	44,358,345	6,287,015	36,257,022	221,025,940
Accumulated amortization and impairment	-	(410,067)	(27,990,309)	-	(8,960,491)	(37,360,867)
Net book value	132,582,059	1,131,432	16,368,036	6,287,015	27,296,531	183,665,073

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Changes in intangible assets for the years ended December 31, 2013 and 2012, are as follows:

<i>(In thousands of Korean won)</i>	2013					
	Goodwill	Industrial rights	Software	Member-ships	Others	Total
January 1	132,582,059	1,131,432	16,368,036	6,287,015	27,296,531	183,665,073
Acquisitions / Capital expenditure	-	2,335	1,208,945	1,040,003	2,464,264	4,715,547
Amortization	-	(150,722)	(5,566,269)	-	(1,894,777)	(7,611,768)
Disposals / Impairment	(348,480)	-	(63,386)	(3,517,019)	-	(3,928,885)
Transfers	-	-	2,716,625	-	(2,716,625)	-
Exchange Difference	7,591	-	-	-	-	7,591
December 31, 2013	<u>132,241,170</u>	<u>983,045</u>	<u>14,663,951</u>	<u>3,809,999</u>	<u>25,149,393</u>	<u>176,847,558</u>
<i>(In thousands of Korean won)</i>	2012					
	Goodwill¹	Industrial rights	Software	Member-ships	Others	Total
January 1	132,608,220	1,278,550	17,144,887	6,287,015	25,858,538	183,177,210
Acquisitions by business combinations	52,973,191	-	2,095	-	-	52,975,286
Acquisitions / Capital expenditure	-	3,525	1,799,572	-	7,454,857	9,257,954
Amortization	-	(150,643)	(5,319,576)	-	(2,694,276)	(8,164,495)
Disposals / Impairment	(52,973,191)	-	(585,906)	-	(33,363)	(53,592,460)
Transfers	-	-	3,289,225	-	(3,289,225)	-
Exchange Difference	(26,161)	-	37,739	-	-	11,578
December 31, 2012	<u>132,582,059</u>	<u>1,131,432</u>	<u>16,368,036</u>	<u>6,287,015</u>	<u>27,296,531</u>	<u>183,665,073</u>

¹ The Group recognized goodwill impairment loss upon additional acquisitions of shareholdings of Coway (Japan) Co., Ltd.

Amortization cost in cost of sales is ₩ 684 million (2012: ₩ 292 million), and amortization cost in selling, general and administrative expenses is ₩ 6,928 million (2012: ₩ 7,872 million).

Goodwill is allocated to the following operating segments (CGU) as of December 31, 2013 and 2012:

<i>(In thousands of Korean won)</i>	2013	2012
Environmental appliances division	99,262,568	99,262,568
Cosmetics division	8,128,348	8,128,348
Green EnTech division	24,850,254	24,850,254
Others	-	340,889
Total	<u>132,241,170</u>	<u>132,582,059</u>

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

	Environmental appliances division	Cosmetics division	Green EnTech division
Net income/sales ratio	20.07% ~ 21.76%	(-)4.61% ~ 3.45%	4.73%
Growth rate	-	-	1%
Pre-tax discount rate ¹	9.82%	12.63%	8.4%

¹ Pre-tax discount rate applied to the cash flow projections.

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

15. Investment properties

Details of investment properties as of December 31, 2013 and 2012, are as follows:

	2013		
<i>(In thousands of Korean Won)</i>	Acquisition cost	Accumulated depreciation and impairment	Net book value
Land	15,856,335	-	15,856,335
Buildings	11,791,190	(887,846)	10,903,344
total	<u>27,647,525</u>	<u>(887,846)</u>	<u>26,759,679</u>
	2012		
<i>(In thousands of Korean Won)</i>	Acquisition cost	Accumulated depreciation and impairment	Net book value
Land	15,856,335	-	15,856,335
Buildings	11,791,190	(538,416)	11,252,774
total	<u>27,647,525</u>	<u>(538,416)</u>	<u>27,109,109</u>

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Changes in investment properties for the years ended December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

2013			
	January 1	Depreciation	December 31
Land	15,856,335	-	15,856,335
Buildings	11,252,774	(349,430)	10,903,344
Total	27,109,109	(349,430)	26,759,679

(In thousands of Korean won)

2012						
	January 1	Acquisitions / Capital expenditure	Transfers¹	Disposals	Depreciation	December 31
Land	14,627,594	127,904	1,100,837	-	-	15,856,335
Buildings	9,196,450	395,779	2,047,473	(92,215)	(294,713)	11,252,774
Total	23,824,044	523,683	3,148,310	(92,215)	(294,713)	27,109,109

¹ Represents transfers from property, plant and equipment.

The fair value of investment properties as of December 31, 2013, amounts to ₩ 26,029 million (2012: ₩ 26,120 million). Rental income generated from the investment properties for the year ended December 31, 2013, amounts to ₩ 1,093 million (2012: ₩ 1,043 million) .

Details of investment properties provided as collateral as of December 31, 2013 and 2012, are as follows:

(in thousands of Korean won)

2013					
	Carrying amount	Secured amount	Related line item	Related amount	Secured party
		2,080,000	Borrowings	1,600,000	Woori Bank
Land and Buildings	2,982,476	150,000	Other long-term financial liabilities	150,000	LG U+

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16. Other Financial Liabilities and Other Liabilities

Other financial liabilities and other liabilities as of December 31, 2013 and 2012, consist of the following:

<i>(In thousands of Korean won)</i>	2013	2012
Other short-term financial liabilities		
Trade payables	154,368,117	141,577,522
Accrued expenses	20,567,598	33,780,656
Rental deposits	37,372	33,302
Others	20,661	90,759
Total	<u>174,993,748</u>	<u>175,482,239</u>
Other long-term financial liabilities		
Reserve for agent losses	7,060,875	7,133,921
Long-term trade payables	647,809	42,400
Deposit received	412,720	596,473
Rental deposits	1,227,130	1,250,635
Total	<u>9,348,534</u>	<u>9,023,429</u>
Other short-term liabilities		
Advances received	46,138,881	50,318,212
Deposit received	9,739,459	8,669,235
VAT received	289,452	764,155
Unearned income	3,317,354	2,803,366
Liabilities for government grants	1,045,135	1,317,652
Overbilled amount for construction contract	2,534,680	5,188,335
Others	1,730,489	3,237,072
Total	<u>64,795,450</u>	<u>72,298,027</u>
Other long-term liabilities		
Long-term advances received	10,266,402	8,710,983
Others	150,000	-
Total	<u>10,416,402</u>	<u>8,710,983</u>

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17. Short-term borrowings

Short-term borrowings as of December 31, 2013 and 2012, consist of the following:

(In thousands of Korean won)

Financial Institutions	Annual Interest Rates (%)	Amount	
		2013	2012
Hana Bank	4.05	33,471,774	17,381,504
NH Bank	-	-	19,252,632
Shinhan Bank	3.98	27,521,586	52,888,976
Woori Bank	3.93	21,015,779	38,679,636
Korea Exchange Bank	-	-	6,775,856
Standard Chartered Bank	-	-	20,707,501
Woori Bank	4.26	1,600,000	1,600,000
Woori Bank	3.20	40,000,000	-
Shinhan Bank	6.00	3,471,047	-
Hana Bank	6.00	4,693,650	-
Kookmin Bank	-	-	40,000,000
KDB	3.75	50,000,000	100,000,000
Hana Bank	-	-	15,968,000
Korea Exchange Bank	-	-	6,237,500
Shinhan Bank	-	-	4,990,000
KDB	-	-	4,990,000
KDB	-	-	623,750
Total		181,773,836	330,095,355

18. Long-term borrowings

Long-term borrowings as of December 31, 2013 and 2012, consist of the following:

(In thousands of Korean won)

Financial Institutions	Annual Interest Rates (%)	Amount	
		2013	2012
Hana Bank	4.2	30,000,000	30,000,000
Shinhan Bank	-	-	30,000,000
Woori Bank	-	-	30,000,000
IBK	3.27	83,333	583,199
		30,083,333	90,583,199
Less: current portion		(30,083,333)	(60,499,866)
		-	30,083,333

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19. Debentures

Debentures as of December 31, 2013 and 2012, consist of the following:

(In thousands of Korean won)

	Issue Date	Due Date	Annual Interest Rates (%)	2013	2012
Non- guaranteed debentures	2010.09.08	2013.09.08	-	-	50,000,000
Non- guaranteed foreign debentures	2011.01.14	2014.01.14	LIBOR + 1.90	52,765,000	53,555,000
Non- guaranteed foreign debentures	2011.04.18	2014.04.18	LIBOR + 1.40	63,318,000	64,266,000
				116,083,000	167,760,127
			Less: discounts	-	(60,873)
			Less: current portion	(116,083,000)	(49,939,127)
				-	117,821,000

20. Retirement benefit obligations

Retirement benefit obligations recognized in statements of financial position as of December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

	2013	2012
Present value of retirement benefit obligations	85,474,316	70,812,359
Fair value of plan assets	(77,053,149)	(57,993,345)
Retirement benefit obligations – net	8,421,167	12,819,014

Changes in retirement benefit obligations for the years ended December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

	2013	2012
Beginning balance	70,812,359	51,703,623
Current service cost	17,943,826	16,809,488
Interest expenses of retirement benefit obligations	2,576,324	2,215,224
Benefits paid	(6,508,445)	(4,341,997)
Actuarial losses(gains)	1,583,180	3,667,115
Transfers from related companies	-	814,181
Others	(932,928)	(55,275)
Ending balance	85,474,316	70,812,359

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Changes in plan assets for the years ended December 31, 2013 and 2012, are as follows:

<i>(In thousands of Korean won)</i>	2013	2012
Beginning balance	57,993,345	37,148,812
Expected return on plan assets	1,827,364	1,663,340
Contributions by employer	23,500,000	22,300,000
Benefits paid	(6,301,135)	(3,294,601)
Actuarial gains(losses)	33,575	(121,613)
Transfers from related companies	-	299,977
Others	-	(2,570)
Ending balance	<u>77,053,149</u>	<u>57,993,345</u>

The key assumptions used for retirement benefit obligations calculations are as follows:

	2013	2012	Remark
Discount rate	3.87 - 4.25%	3.52 - 3.87%	Interest rate of high-quality corporate bonds
Wage increase rate	rate by age	rate by age	Historical experience

Details of operating plan assets as of December 31, 2013 and 2012, are as follows:

	2013	2012
Cash and bank deposits	94.62%	93.88%
Securities	5.38%	6.08%
Others	0.00%	0.04%
Total	<u>100.00%</u>	<u>100.00%</u>

Sensitivity analysis of the defined benefit obligation due to changes in key as sumptions is as follows:

<i>(In thousands of Korean won)</i>	The impact on the defined benefit obligation		
	Changes of assumptions	Increase of assumptions	Decrease of assumptions
Discount rate	0.5%	2.64% Decrease	2.73% Increase
Wage increase rate	0.5%	2.71% Increase	2.65% Decrease

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bondholdings.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

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The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

21. Provisions

Changes in the main liability provisions for the years ended December 31, 2013 and 2012, are as follows:

<i>(In thousands of Korean won)</i>		2013			
		January 1	Acquisition by business combinations	Increase or decrease	December 31
Provision for product warranties	A	3,887,676	-	(953,421)	2,934,255
Provisions for mileage	B	1,013,537	-	(1,013,537)	-
Provisions for return of good sold	C	1,475,847	-	(73,801)	1,402,046
Provision for construction warranties	D	522,692	-	24,030	546,722
Total		<u>6,899,752</u>	<u>-</u>	<u>(2,016,729)</u>	<u>4,883,023</u>

<i>(In thousands of Korean won)</i>		2012			
		January 1	Acquisition by business combinations	Increase or decrease	December 31
Provision for product warranties	A	4,448,749	-	(561,073)	3,887,676
Provisions for mileage	B	599,573	-	413,964	1,013,537
Provisions for return of good sold	C	2,333,188	-	(857,341)	1,475,847
Provision for construction warranties	D	306,072	101,469	115,151	522,692
Total		<u>7,687,582</u>	<u>101,469</u>	<u>(889,299)</u>	<u>6,899,752</u>

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

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

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

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D. The Group makes provisions for repairs and maintenance, based on historical experience and terms of warranty programs. The warranty is not adjusted to unbilled amount or overbilled amount and recognized as separate account (Note 35).

22. Reserve for agent losses

In accordance with the contract between the Group and its sales agents, the Group provides a reserve by deducting a certain portion of commission fees payable to its sales agents to account for any unfavorable events that may result in losses to be absorbed by the Group due to the business conduct of the sales agents.

23. Commitments and contingencies

(a) As of December 31, 2013, the Group has pending lawsuits locally and overseas. Among pending lawsuits, the Group is a defendant in five lawsuits with total claims amounting to ₩ 18,440 million and the Group is a plaintiff in four lawsuits with total claims amounting to ₩ 1,265 million. The cases are still pending and the ultimate effects of these cases on the Group's financial statements cannot be reasonably determined.

(b) As of December 31, 2013, the details of available credit lines of the Group with various banks and financial institutions are as follows:

(Only Korean won in thousands)

Credit provider	Limit	Description of credit line
Shinhan Bank and six others	240,000,000	Purchase Loan
Korea Development Bank and three others	165,000,000	General borrowings
NH Bank	5,000	Credit sales agreement
Hana Bank	5,000	Electronic loan mortgage revenue bond
Seoul Guarantee Insurance Company	9,120,300	Joint surety
Seoul Guarantee Insurance Company	7,814,048	Insured amount
Shinhan Bank and another	USD 9,250,000	Stand by L/C
Shinhan Bank	USD 1,000,000	Lines of credit (sight)
Australia and New Zealand Banking Company Limited	USD 50,000,000	Foreign public offering bonds
Mizuho Corporate Bank	USD 40,000,000	Foreign public offering bonds
Industrial and Commercial Bank of China Limited	USD 20,000,000	Foreign public offering bonds
Kookmin Bank and two others	7,000,000	Electronic loan mortgage revenue bond
Shinhan Bank and two others	2,450,000	Working Capital Loan
Woori Bank	1,600,000	Facility Loan
Korea Exchange Bank and another	4,500,000	Comprehensive Credit Limit
Shinhan Bank and two others	USD 8,000,000	Usance L/C
Hana Bank and another	USD 9,053,000	Operating Capital Loan

(c) As of December 31, 2013, the land and buildings of Green Environment Technology Co., Ltd. are pledged as collateral to Credit provider, and maximum credit limit is ₩ 5,340 million.

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(d) As of December 31, 2013, guarantees that Green Environment Technology Co., Ltd. is provided with are as follows:

(Only Korean won in thousands)

Guarantor	Description	Amount
Seoul Guarantee Insurance Company	Performance guarantees	5,825,938
MAFC	Payment guarantees	15,393,085
KSCFC	Payment guarantees	571,330
IBK	Payment guarantees	USD 28,501

As of December 31, 2013, Green Environment Technology Co., Ltd. provided KFCFC with 182 shares (₩ 170 million) as collateral for construction contract guarantees.

(e) As of December 31, 2013, performance guarantees provided by the Group is as follows:

(In thousands of Korean won)

Beneficiary	Currency	Limit	Guaranteed by	Remark
Pico Green Tech Co., Ltd.	KRW	5,765,100	Seoul Guarantee Insurance Company	Performance guarantees
Hanbaek Construction Co., Ltd.	KRW	3,814,049	Seoul Guarantee Insurance Company	Performance guarantees

24. Capital Stock

Details of capital stock of the Group as of December 31, 2013, are as follows:

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

The Group had previously retired 4,200,000 shares of treasury stock through an appropriation of retained earnings. As a result, the number of common shares stock outstanding of 77,124,796 shares with a face value of ₩38,562,398 thousand differs from the face value and number of shares issued (capital stock : ₩40,662,398 thousand) as recorded in the statement of financial position as of December 31, 2013.

Under Article 340.2 of the Commercial Law, the Group can grant stock option to its employees and directors within the limitation of the law (Note 28).

The Group is authorized to issue convertible bonds and bonds with warrants with the approval of the Board of Directors within the limit of ₩ 100 billion. As of December 31, 2013, no convertible bonds or bonds with warrants have been issued.

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25. Retained earnings

Retained earnings as of December 31, 2013 and 2012, consist of the following:

(In thousands of Korean won, except number of shares)

	<u>2013</u>	<u>2012</u>
Legal reserve	20,347,427	20,347,427
Voluntary reserve	696,453,035	579,494,035
Unappropriated retained earnings	151,191,997	101,011,424
Total	<u>867,992,459</u>	<u>700,852,886</u>

The Commercial Code of the Republic of Korea requires the Group to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid, until such reserve equals 50% of its issued capital stock. This reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit. If the total amount of paid-in capital and legal earnings reserve is more than 1.5 times the capital, you can be based on a resolution of general meeting of shareholders, to reduce its paid-in capital and legal earnings reserve in a range of amounts that exceed that.

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

26. Other components of equity

Other components of equity as of December 31, 2013 and 2012, consist of the following:

(In thousands of Korean won)

	<u>2013</u>	<u>2012</u>
Gains on disposal of treasury stock	33,062,329	32,805,649
Treasury stock	(103,021,771)	(90,620,058)
Stock compensation	8,616,667	6,059,813
Gains on available-for-sale financial assets	21,029	16,613
Losses on valuation of derivatives	(195,728)	(756,951)
Changes in share of associates accumulated other comprehensive expense	-	(4,489,121)
Gain(loss) on overseas operations translation	569,577	7,372,043
Others	(4,591,900)	(4,591,900)
Total	<u>(65,539,797)</u>	<u>(54,203,912)</u>

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27. Treasury stock

Changes of treasury stock for the years ended December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

	January 1, 2013		Increase (Decrease)		December 31, 2013	
	Number of shares	Book value	Number of shares	Book value	Number of shares	Book value
Exercise of share option	2,520,000	90,620,058	313,904 (175,000)	18,778,293 (6,376,580)	2,658,904	103,021,771

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

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

28. Share-based payment transactions

The details of stock options granted by the Group as of December 31, 2013, are as follows:

Stocks issued through share option: registered common stock

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

Vesting period:

4th to 8th grant: Options are conditional on the employee completing three years' service after the grant date and the options are available to be exercised from the vesting date.

9th to 11th grant: Options are conditional on the employee completing two years' service after the grant date and additional 20% rights are granted for three years period from the vesting date. After the grant date, the Group can adjust the number of options on the 20% stocks that have been granted each year for five years.

	4th grant	5th grant	6th grant	7th grant	8th grant	9th grant	10th grant	11th grant
Grant date	2008.03.21	2009.03.20	2010.03.19	2011.03.25	2012.03.23	2013.02.26	2013.03.22	2013.11.12
Granted shares	185,000	330,000	132,120	69,000	228,000	1,191,000	581,000	261,800
Remaining shares	-	135,000	55,000	62,000	135,000	1,104,000	-	261,800
Exercise price per share	₩ 28,690	₩ 27,480	₩ 35,260	₩ 34,780	₩ 37,420	₩ 50,000	₩ 50,000	₩ 60,160

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Changes in stock options during the years ended December 31, 2013 and 2012, are as follows:

2013	4th grant	5th grant	6th grant	7th grant	8th grant	9th grant	10th grant	11th grant	Total
At January 1	45,000	265,000	132,120	69,000	228,000	-	-	-	739,120
Granted during 2013	-	-	-	-	-	1,191,000	581,000	261,800	2,033,800
Decrease due to not reaching the vesting period	-	-	77,120	7,000	93,000	87,000	581,000	-	845,120
Exercised	45,000	130,000	-	-	-	-	-	-	175,000
At December 31,	-	135,000	55,000	62,000	135,000	1,104,000	-	261,800	1,752,800

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

The Group uses the fair-value method to calculate compensation expenses of stock options and recognizes as compensation expenses and capital adjustments over the vesting period. The details of stock options as of December 31, 2013, are as follows:

<i>(In thousands of Korean won)</i>	1st grant	2nd grant	3rd grant	4th grant	5th grant	6th grant	7th grant	8th grant	Total
Total compensation Expense	1,758,572	3,450,450	651,958	653,439	1,464,615	14,259,264	-	4,631,242	26,869,540
up to 2011	1,758,572	3,569,116	1,479,114	444,408	687,103	-	-	-	7,938,313
Recognized expense 2012	-	(118,666)	(827,156)	172,728	207,939	4,709,651	-	264,116	4,408,612
Sub total	1,758,572	3,450,450	651,958	617,136	895,042	4,709,651	-	264,116	12,346,925
Exercise/cancellation At December 31	1,758,572	1,971,686	-	-	-	-	-	-	3,730,258
Unrecognized expense	-	1,478,764	651,958	617,136	895,042	4,709,651	-	264,116	8,616,667
	-	-	-	36,303	569,573	9,549,613	-	4,367,126	14,522,615

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

<i>(In thousands of Korean won)</i>	4th grant	5th grant	6th grant	7th grant	8th grant	9th grant	10th grant	11th grant
Risk-free interest rate	5.23%	4.15%	4.30%	4.06%	3.82%	2.80%	2.68%	3.24%
Vesting period	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Expected volatility	44.66%	45.30%	40.25%	38.12%	35.89%	31.72%	32.16%	30.52%
Expected dividend yield	156%	174%	202%	210%	210%	210%	210%	210%
Expected rate of forfeited right	-	-	-	-	-	-	-	-
Total compensation expense	1,758,572	3,614,757	1,566,121	727,214	2,473,572	15,382,956	6,603,646	4,631,242

29. Derivatives

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Derivative instruments with the purpose of hedging as of December 31, 2013, are as follows:

(In thousands of Korean won)

	Contract	Deal date	Due date	Currency	Interest rate	Amount	Fair value	Details
Currency/ interest rate swap	1	2011-01-14	2014-01-14	KRW	3.93%	57,350,000	(4,584,013)	Derivatives used for hedging for currency rate and interest rate risk of foreign floating rate bonds
	2	2011-04-18	2014-04-18	KRW	4.53%	65,340,000	(2,281,203)	

Movements on the loss on valuation of cash flow hedges in other comprehensive income for the years ended December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

	Jan. 1	Valuation	Deferred income tax	Dec 31
Loss on valuation of derivative instruments of 2013	(756,951)	740,400	(179,177)	(195,728)
Loss on valuation of derivative instruments of 2012	(2,012,103)	1,655,873	(400,721)	(756,951)

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30. Selling and administrative expenses

Selling and administrative expenses for the years ended December 31, 2013 and 2012, consist of the following:

<i>(In thousands of Korean won)</i>	2013	2012
Wages and salaries	225,040,967	231,240,813
Retirement benefits	18,518,807	16,020,738
Welfare expenses	44,961,203	43,206,223
Entertainment expense	1,192,176	1,370,588
Travel expenses	8,506,134	10,676,069
Communication expense	12,849,680	16,640,877
Taxes and dues	2,281,901	2,012,064
Rent	55,595,081	53,173,307
Depreciation expense	15,407,218	17,348,041
Amortization expense	6,927,600	7,871,821
Repairs expense	4,157,781	3,962,223
Supplies expenses	24,298,665	29,681,162
Publication expense	2,209,018	3,068,689
Advertising expense	50,235,494	54,922,181
Sales promotion expense	40,053,682	39,396,500
Overseas marketing expense	2,533,774	2,970,810
Transportation expense	5,116,625	6,050,402
Insurance premium	3,586,379	4,574,069
Service contract expense	2,111,589	2,261,302
Commission & service charges	110,109,846	92,593,990
Training expenses	10,066,705	10,719,460
Development expense	7,029,976	8,565,222
Sales commissions	337,207,371	346,307,724
Conference expense	1,772,479	1,850,457
Utility expenses	1,771,475	1,864,507
Share-based compensation expense	4,032,048	1,643,240
Miscellaneous expense	282,053	1,582,130
Customer compensation expense	4,783,555	3,986,986
Impairment of accounts receivable	14,088,587	9,339,258
Rental asset waste expense	40,975,166	61,572,036
Others	622,406	1,918,002
	<u>1,058,325,441</u>	<u>1,088,390,891</u>

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31. Other income and expense

Other operating income and expenses for the years ended December 31, 2013 and 2012, consist of the following:

(In thousands of Korean won)

Other income	2013	2012
Rental income	1,093,284	1,042,716
Commission income	39,494	23,801
Gain on disposal of property, plant and equipment	3,025	294,482
Gain on disposal of intangible assets	18,182	20,000
Gain on cancellation charge of rental contract	588,867	449,881
Gain on foreign currencies transactions	3,202,800	2,043,251
Gain on foreign exchange translation	5,097,225	11,880,855
Gain on valuation of derivatives	-	-
Miscellaneous income	5,929,734	12,024,342
Total	<u>15,972,611</u>	<u>27,779,328</u>

(In thousands of Korean won)

Other expenses	2013	2012
Loss from disposal of property, plant and equipment	339,966	972,062
Loss from disposal of intangible assets	1,252,928	-
Impairment on property, plant and equipment	9,954,827	4,069,189
Impairment on intangible assets	328,480	52,973,191
Impairment on receivables	1,805,043	1,088,137
Loss on foreign currencies transactions	3,525,151	3,363,662
Loss on foreign exchange translation	8,374,300	10,795,232
Loss on valuation of derivatives	1,738,000	9,042,000
Donation	621,514	1,355,974
Miscellaneous losses	3,041,696	1,895,203
Total	<u>30,981,905</u>	<u>85,554,650</u>

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32. Financial income and expenses

Financial income and expenses for the years ended December 31, 2013 and 2012, consist of the following.

<i>(In thousands of Korean won)</i>	<u>2013</u>	<u>2012</u>
Financial income		
Interest income	4,131,432	1,600,874
Dividend Income	4,471	4,800
Gain on disposition of available-for-sale financial assets	1,420	134,530
Financial guarantee commission income	-	-
Derivative transaction income	-	606,386
Total	<u>4,137,323</u>	<u>2,346,590</u>
Financial expenses		
Interest expense	18,620,949	30,249,681
Impairment on available-for-sale financial assets	-	116,493
Financial guarantee expense	-	-
Total	<u>18,620,949</u>	<u>30,366,174</u>

33. Investment income and loss of subsidiaries and associates

<i>(In thousands of Korean won)</i>	<u>2013</u>	<u>2012</u>
Gain on disposal of investment in associates with equity method	-	7,015,490
Gain on disposal of investment in subsidiaries and associates	17,655,364	500,056
Loss on disposal of investment in subsidiaries and associates	(57,358)	(655,001)
Impairment on investment in subsidiaries and associates	-	(1,429,378)
Total	<u>17,598,006</u>	<u>5,431,167</u>

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34. Expenses by Nature

Expenses by nature for the years ended December 31, 2013 and 2012, consist of the following:

<i>(In thousands of Korean won)</i>	2013	2012
Changes in inventories of finished goods and work in progress	(7,807,205)	(19,316,431)
Changes in inventories of merchandise	11,075,298	(10,976,269)
Use of merchandise and raw materials	469,675,420	475,241,549
Wages and salaries	275,134,550	272,818,349
Retirement benefits	17,728,407	17,534,191
Welfare expenses	46,316,947	42,596,760
Supplies	26,017,063	31,293,699
Commission expenses	110,109,846	96,206,493
Depreciation expenses	190,596,454	175,455,128
Rental expenses	55,999,238	53,561,291
Advertising expenses	50,235,494	54,866,394
Sales promotion expenses	40,053,682	39,396,500
Sales commission	337,207,371	346,307,724
Impairment on receivables	14,088,587	19,096,455
Rental asset waste loss	40,975,166	38,773,432
Other expenses	101,902,899	133,836,369
	<u>1,779,309,217</u>	<u>1,766,691,634</u>

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35. Construction contracts

Movements on the amount of construction contracts in 2013 and 2012 are as follows:

(In thousands of Korean won)

2013			
Beginning balance	Increase	Construction revenue	Ending balance
62,242,200	94,473,175	81,741,155	74,974,220
2012			
Beginning balance	Increase	Construction revenue	Ending balance
49,706,547	82,949,714	70,414,061	62,242,200

The increase arose from new construction contracts and business combination(2012: ₩ 64,828 million).

Details of recognized construction revenues for the years ended December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

2013			2012		
Accumulated construction revenue	Accumulated construction cost	Accumulated profit	Accumulated construction revenue	Accumulated construction cost	Accumulated profit
99,269,773	85,806,805	13,462,968	87,706,487	74,202,781	13,503,706

Unbilled amount and overbilled amount for construction contracts as of December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

2013		2012	
Unbilled amount¹	Overbilled amount²	Unbilled amount¹	Overbilled amount²
22,287,181	2,534,680	15,449,513	5,188,335

¹ Classified as other current assets on the statement of financial position.

² Classified as other current liabilities on the statement of financial position.

The Group accrues provision for repairs and maintenance, based on historical experience (Note 21).

36. Income tax

Income tax expense for the years ended December 31, 2013 and 2012, consists of the following:

(In thousands of Korean won)

	2013	2012
Current tax	85,993,504	33,936,663
Deferred income taxes	(4,263,511)	17,421,425
Tax charged directly to equity ¹	332,790	381,978
Income tax expense	<u>82,062,783</u>	<u>51,740,066</u>

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¹ Deferred income taxes charged or credited directly to equity as of December 31, 2013 and 2012, consist of the following:

<i>(In thousands of Korean won)</i>	2013		
	Gross Amount	Income tax effect	Net of tax
Loss on valuation of available-for-sale financial assets	5,612	(1,196)	4,416
Changes in share of associates	5,922,323	(1,433,202)	4,489,121
Actual gains and losses	(1,549,605)	2,028,312	478,707
Loss on valuation of derivative instruments	740,400	(179,177)	561,223
Gain on disposal of treasury shares	338,626	(81,947)	256,679
Total	5,457,356	332,790	5,790,146
	2012		
<i>(In thousands of Korean won)</i>	Gross Amount	Income tax effect	Net of tax
Loss on valuation of available-for-sale financial assets	17,109	(3,759)	13,350
Changes in share of associates	1,193,573	(309,796)	883,777
Actual gains and losses	(4,123,091)	997,462	(3,125,629)
Loss on valuation of derivative instruments	1,655,873	(400,721)	1,255,152
Gain on disposal of treasury shares	(408,230)	98,792	(309,438)
Total	(1,664,766)	381,978	(1,282,788)

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

<i>(In thousands of Korean won)</i>	2013	2012
Profit before income tax	327,137,435	145,782,764
Income tax based on statutory rate	78,705,259	34,817,429
Tax credit	(3,040,060)	(2,738,614)
Permanent differences	(1,626,452)	14,443,366
Unrecognized deferred tax in temporary differences	2,695,647	2,313,119
Unrealized deferred taxes	(758,788)	(139,993)
Additional payment of income taxes	6,098,712	2,786,370
Others (changes in tax rates others)	(11,535)	258,389
Income tax expense	82,062,783	51,740,066
Effective tax rate	25.09%	35.49%

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2013 and 2012, is as follows:

<i>(In thousands of Korean won)</i>	2013	2012
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	30,014,602	23,613,364
Deferred tax asset to be recovered within 12 months	22,336,872	28,483,881
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	29,742,596	58,599,653
Deferred tax liabilities to be recovered within 12 months	43,747,373	18,899,598
Net total	(21,138,495)	(25,402,006)

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Deferred income tax assets and liabilities from the tax effects of temporary differences for the years ended December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

2013	Temporary difference			Deferred income tax assets(liabilities)		
	Beginning balance	Increase (Decrease)	Ending balance	Beginning balance	Increase (Decrease)	Ending balance
I. Deductible temporary differences						
Advanced receipts	13,751,617	1,510,316	15,261,933	3,323,869	369,519	3,693,388
Inventory valuation allowance	19,807,686	(15,390,475)	4,417,211	4,737,502	(3,668,537)	1,068,965
Accrued expenses	28,388,274	(13,193,490)	15,194,784	6,864,556	(3,187,418)	3,677,138
Unearned income	3,840,327	2,509,668	6,349,995	911,233	649,810	1,561,043
Provision for return of goods sold	1,379,040	13,055	1,392,095	333,728	3,159	336,887
Provision for product warranties	3,580,570	(1,684,235)	1,896,335	866,498	(407,585)	458,913
Provision for receivables	42,795,450	4,634,509	47,429,959	9,898,160	1,579,890	11,478,050
Rental assets	15,543,981	7,153,042	22,697,023	3,051,287	2,481,379	5,532,666
Impairment on property, plant and equipment	45,718,345	(40,746,867)	4,971,478	10,929,922	(9,726,824)	1,203,098
Retirement benefits obligation	16,325,033	42,497,944	58,822,977	226,328	13,980,719	14,207,047
Equity method investment	1,718,658	13,559,537	15,278,195	415,915	(415,915)	-
Goodwill (Woongjin Chemical)	12,627,910	(12,627,910)	-	3,055,954	(3,055,954)	-
Goodwill (Woongjin Happyall)	3,030,609	(3,030,609)	-	-	-	-
Long-term securities	2,388,092	-	2,388,092	-	-	-
Salaries for overseas employees	4,689,414	3,140,997	7,830,411	-	800,430	800,430
Unearned income on inventories	3,636,806	(383,409)	3,253,397	880,107	(92,785)	787,322
Others	9,808,744	11,140,996	20,949,740	3,825,257	(628,533)	3,196,724
Sub total	229,030,556	(896,931)	228,133,625	49,320,316	(1,318,645)	48,001,671

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II. Taxable temporary differences

Prepaid expenses	154,114,674	26,148,395	180,263,069	37,282,224	6,465,149	43,747,373
Equity method investments	82,697,153	(61,721,626)	20,975,527	19,831,347	(14,755,269)	5,076,078
Provision for advance depreciation(Merger)	7,872,697	-	7,872,697	1,905,193	-	1,905,193
Provision for temporary depreciation(Merger)	711,715	(33,435)	678,280	172,235	(8,091)	164,144
Provision for temporary depreciation	4,100	(4,100)	-	992	(992)	-
Insurance deposits	54,865,931	15,061,051	69,926,982	13,270,519	3,651,811	16,922,330
Goodwill (Woongjin Cuchen)	84,754,782	-	84,754,782	-	-	-
Goodwill (Woongjin coway construction)	1,564,734	-	1,564,734	-	-	-
Amortization(Goodwill)	16,624,636	1,587,389	18,212,025	4,023,162	384,148	4,407,310
Others	14,745,177	(7,973,428)	6,771,749	1,018,647	248,894	1,267,541
Sub total	<u>417,955,599</u>	<u>(26,935,754)</u>	<u>391,019,845</u>	<u>77,504,319</u>	<u>(4,014,350)</u>	<u>73,489,969</u>

III. Charged directly to equity

Gain on available-for-sale financial assets	(31,190)	(5,612)	(36,802)	(6,901)	(1,196)	(8,097)
Changes in share of associate	5,922,323	(5,922,323)	-	1,433,202	(1,433,202)	-
Actuarial gains and losses	11,148,129	1,549,605	12,697,734	1,114,031	2,028,312	3,142,343
Loss on valuation of derivatives	998,616	(740,400)	258,216	241,665	(179,177)	62,488
Sub total	<u>18,037,878</u>	<u>(5,118,730)</u>	<u>12,919,148</u>	<u>2,781,997</u>	<u>414,737</u>	<u>3,196,734</u>
Deferred income taxes on tax loss carryforwards	13,492,007	(485,389)	13,006,618	-	1,153,069	1,153,069
Total	<u>(157,395,158)</u>	<u>20,434,704</u>	<u>(136,960,454)</u>	<u>(25,402,006)</u>	<u>4,263,511</u>	<u>(21,138,495)</u>

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2012	Temporary difference			Deferred income tax assets(liabilities)		
	Beginning balance	Increase (Decrease)	Ending balance	Beginning balance	Increase (Decrease)	Ending balance
I. Deductible temporary differences						
Advanced receipts	22,714,751	(8,963,134)	13,751,617	5,496,970	(2,173,101)	3,323,869
Inventory valuation allowance	9,358,845	10,448,841	19,807,686	2,264,841	2,472,661	4,737,502
Accrued expenses	13,564,408	14,823,866	28,388,274	3,279,866	3,584,690	6,864,556
Unearned income	3,324,763	515,564	3,840,327	804,593	106,640	911,233
Provision for return of goods sold	2,238,930	(859,890)	1,379,040	541,821	(208,093)	333,728
Provision for product warranties	4,135,849	(555,279)	3,580,570	1,000,875	(134,377)	866,498
Provision for receivables	81,205,825	(38,410,375)	42,795,450	19,445,186	(9,547,026)	9,898,160
Rental assets	5,923,338	9,620,643	15,543,981	1,433,449	1,617,838	3,051,287
Retirement benefits obligation	35,209,231	10,509,114	45,718,345	8,497,942	2,431,980	10,929,922
Equity method investment	15,596,153	728,880	16,325,033	49,939	176,389	226,328
Goodwill (Woongjin Chemical)	5,843,438	(4,124,780)	1,718,658	1,414,112	(998,197)	415,915
Goodwill (Woongjin Happyall)	25,255,820	(12,627,910)	12,627,910	6,111,909	(3,055,955)	3,055,954
Guarantee for foreign subsidiary	2,544,269	486,340	3,030,609	615,713	(615,713)	-
Long-term securities	2,388,092	-	2,388,092	-	-	-
Salaries for overseas employees	-	4,689,414	4,689,414	-	-	-
Unearned income on inventories	5,468,512	(1,831,706)	3,636,806	1,323,380	(443,273)	880,107
Others	9,536,798	271,946	9,808,744	4,581,530	(756,273)	3,825,257
Sub total	244,309,022	(15,278,466)	229,030,556	56,862,126	(7,541,810)	49,320,316

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II. Taxable temporary differences

Prepaid expenses	143,294,478	10,820,196	154,114,674	34,677,264	2,604,960	37,282,224
Equity method investments	78,417,379	4,279,774	82,697,153	18,817,297	1,014,050	19,831,347
Provision for advance depreciation(Merger)	7,872,697	-	7,872,697	1,905,193	-	1,905,193
Provision for temporary depreciation(Merger)	745,150	(33,435)	711,715	180,326	(8,091)	172,235
Provision for temporary depreciation	20,500	(16,400)	4,100	4,961	(3,969)	992
Insurance deposits	34,177,785	20,688,146	54,865,931	8,271,024	4,999,495	13,270,519
Goodwill (Woongjin Cuchen)	84,754,782	-	84,754,782	-	-	-
Goodwill (Woongjin coway construction)	1,564,734	-	1,564,734	-	-	-
Amortization(Goodwill)	11,134,765	5,489,871	16,624,636	2,694,613	1,328,549	4,023,162
Others	3,792,443	10,952,734	14,745,177	877,738	140,909	1,018,647
Sub total	<u>365,774,713</u>	<u>52,180,886</u>	<u>417,955,599</u>	<u>67,428,416</u>	<u>10,075,903</u>	<u>77,504,319</u>

III. Charged directly to equity

Gain on available-for-sale financial assets	(14,081)	(17,109)	(31,190)	(3,142)	(3,759)	(6,901)
Changes in share of associate	7,115,896	(1,193,573)	5,922,323	1,742,998	(309,796)	1,433,202
Actuarial gains and losses	7,025,038	4,123,091	11,148,129	116,569	997,462	1,114,031
Loss on valuation of derivatives	2,654,489	(1,655,873)	998,616	642,386	(400,721)	241,665
Sub total	<u>16,781,342</u>	<u>1,256,536</u>	<u>18,037,878</u>	<u>2,498,811</u>	<u>283,186</u>	<u>2,781,997</u>
Deferred income taxes on tax loss carryforwards	13,391,330	100,677	13,492,007	86,898	(86,898)	-
Total	<u>(91,293,019)</u>	<u>(66,102,139)</u>	<u>(157,395,158)</u>	<u>(7,980,581)</u>	<u>(17,421,425)</u>	<u>(25,402,006)</u>

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

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Details of the unrecognized deferred income tax assets (liabilities) as of December 31, 2013 and 2012, are as follows:

<i>(In thousands of Korean won)</i>	2013	2012
Investment in subsidiaries	15,278,195	15,389,795
Long-term investment securities	2,388,092	2,388,092
Payment guarantee of foreign subsidiaries	36,602	3,030,609
Salaries for overseas employees	4,522,850	4,689,414
Loss carried forward from subsidiaries	8,394,342	5,909,396
Trademarks	1,921,927	-
Advertising expenses	880,744	-
Others	2,326,416	157,887
Total deferred tax asset	35,749,168	31,565,193
Goodwill (Woongjin Cuchen)	84,754,782	84,754,782
Goodwill (Woongjin Coway construction)	1,564,734	1,564,734
Others	1,502,143	-
Total deferred tax liabilities	87,821,659	86,319,516

37. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the parent by the weighted average number of common shares outstanding during the year excluding treasury stock (Note 27).

Basic earnings per share for the years ended December 31, 2013 and 2012, is as follows:

<i>(in Korean won)</i>	2013	2012
Profit attributable to owners of the parent	245,074,651,953	94,042,698,014
Weighted-average number of shares of common stock outstanding	74,641,655	74,211,873
Basic earnings per share	3,283	1,267

The weighted-average number of shares of common stock outstanding for December 31, 2013, is calculated from shares outstanding which are weighted averaged by distribution period. Treasury stocks, held from acquisition date until disposal date, are excluded from shares of common stock outstanding.

The weighted-average number of shares of common stock outstanding for 2013 and 2012 are 74,641,655 and 74,211,873 respectively, excluding treasury stock.

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

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The Group's diluted earnings per share amounts for the years ended December 31, 2013 and 2012, is computed as follows:

<i>(in Korean won)</i>	2013	2012
Profit attributable to owners of the parent	245,074,651,953	94,042,698,014
Share-based compensation expense	-	-
Profit attributable to owners of the parent adjusted for the effect of dilution	245,074,651,953	94,042,698,014
Weighted-average number of shares of common stock outstanding	74,641,655	74,211,873
Adjustment for assumed exercise of stock options	229,353	477,625
Weighted-average number of shares of common stock outstanding adjusted for the effect of dilution	74,871,008	74,689,498
Diluted earnings per share	<u>3,273</u>	<u>1,259</u>

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

38. Dividends

The Group determined to pay dividends at the end of the first quarter in 2013 instead of the payment of the annual dividends in December 2012. The dividends paid in April 2013 amounted to ₩ 78,414 million, respectively.

A dividend in respect of the year ended December 31, 2013, of ₩ 1,660 per share, amounting to a total dividend of ₩ 123,613 million, will be approved at the annual general meeting of shareholders on March 21, 2014. These financial statements do not reflect this dividend payable.

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39. Cash generated from operations

Cash flows from operating activities for the years ended December 31, 2013 and 2012, are as follows:

<i>(In thousands of Korean won)</i>	<u>2013</u>	<u>2012</u>
Adjustments :		
Retirement benefits	17,728,407	17,366,139
Share-based compensation expense	4,408,612	1,643,240
Depreciation expense	190,596,453	175,455,128
Amortization expense	7,611,768	8,164,495
Impairment on trade receivables	15,655,723	9,339,258
Impairment on other receivables	237,906	1,088,137
Loss on valuation of inventories	1,249,934	9,890,570
Loss on rental property abandoned	40,975,166	61,572,036
Gain on transactions of derivatives	-	(606,385)
Loss on derivative transactions	1,738,000	9,042,000
Loss of foreign exchange translation	8,374,300	10,795,232
Income from investment on subsidiaries and associates	(17,598,006)	(5,431,167)
Impairment loss on property, plant and equipment	9,954,827	4,069,189
Impairment loss on intangible assets	348,480	52,973,191
Gain of foreign exchange translation	(5,097,225)	(11,880,856)
Other income	(71,608)	(2,674,875)
Interest income	(4,131,432)	(1,600,875)
Interest expense	18,620,949	30,249,681
Income tax expense	82,284,410	51,740,066
Others	1,345,792	(1,011,625)
Total	<u>374,232,456</u>	<u>420,182,579</u>

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<i>(In thousands of Korean won)</i>	<u>2013</u>	<u>2012</u>
Changes in operating assets and liabilities:		
(Increase)/Decrease in trade receivables	67,349,061	(18,482,879)
Increase in other short-term financial assets	(10,636,804)	(10,970,458)
(Increase)/Decrease in other current assets	(5,675,221)	345,806
Decrease in inventory	18,985,554	24,977,077
(Increase)/Decrease in non-current assets	1,095,088	(15,413,647)
Decrease in trade payables	(82,393,428)	(11,939,839)
Increase/(Decrease) in other short-term financial assets	(820,342)	17,419,076
Increase/(Decrease) in other current liabilities	(5,767,953)	10,303,681
Increase in long-term financial assets	-	954,744
Increase in non-current liabilities	542,488	1,522,335
Payments of retirement benefits	(6,508,445)	(4,344,453)
Transfers from related companies	-	814,181
Increase(Decrease) on plan assets	(17,198,865)	(19,302,805)
Increase(Decrease) on provisions	(42,580)	182,683
Total	<u>(41,071,447)</u>	<u>(23,934,498)</u>

Significant transactions not affecting cash flows for the years ended December 31, 2013 and 2012, are as follows:

<i>(In thousands of Korean won)</i>	<u>2013</u>	<u>2012</u>
Transfer of debentures to current asset	117,821,000	49,939,127
Transfer of long-term liabilities to current liabilities	30,083,333	60,499,866
Transfer of construction-in-progress to tangible assets	8,874,563	3,289,069
Transfer of construction in progress to intangible assets	2,716,625	3,289,225
Transfer of current long-term borrowings to current borrowings	-	110,000,000
Transfer of equities of associates to assets held for sale	-	163,393,034
Transfer of property, plant and equipment to investment property	-	3,148,310

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40. Related Party Transactions

The related parties of the Group as of December 31, 2013, are as follows:

	Related party
Entity with significant influence over the Company	Coway Holdings Co., Ltd.

Sales and purchases with related parties for the years ended December 31, 2013 and 2012, are as follows:

<i>(In thousands of Korean won)</i>	Counterparty	2013	Sales	Purchases
Entity with significant influence over the Company	Coway Holdings Co., Ltd.		-	-
<i>(In thousands of Korean won)</i>	Counterparty	2012	Sales	Purchases
Entity with significant influence over the Company	Woong Jin Holdings Co., Ltd. ¹		2,097,598	99,349,630
Associates	Woong Jin Chemical Co., Ltd. ¹		257,540	22,113,612
Others	Booxen Co., Ltd. ¹		94,847	27,323,643
	Kukdong Engineering & Construction ¹		92,135	-
	Woong Jin Polysilicon Co., Ltd. ¹		19,126	-
	Woong Jin Playdoci Co., Ltd. ¹		57,015	1,617,433
	Ocean Suites ¹		37,326	63,000
	OPMS Co., Ltd. ¹		4,886	1,903,636
	Total		2,660,473	152,735,513

¹Special relationship ceased on January 2, 2013

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Year-end balances of receivables and payables as of December 31, 2013 and 2012, are as follows:

(In thousands of Korean won)

		2013				
		Receivables			Payables	
	Counterparty	Trade receivables	Loans	Other receivables	Trade payables	Other payables
Entity with significant influence over the Company	Coway Holdings Co., Ltd.	-	-	-	-	-

(In thousands of Korean won)

		2012				
		Receivables			Payables	
	Counterparty	Trade receivables	Loans	Other receivables	Trade payables	Other payables
Entity with significant influence over the Company	Woong Jin Holdings Co., Ltd.	201,630	-	-	-	8,234,276
Associates	Woong Jin Chemical Co., Ltd.	-	-	4,285,914	2,018,765	-
Others	Booxen Co., Ltd.	-	-	13,299	-	2,634,446
	Kukdong Engineering & Construction	73,077	-	-	-	-
	Woong Jin Polysilicon Co., Ltd.	58,138	-	-	-	-
	Woong Jin Playdoci Co., Ltd.	117,100	-	-	-	30,459
	Ocean Suites OPMS Co., Ltd.	12,122	4,315,164	-	-	-
		175	-	-	-	170,998
	Total	462,242	4,315,164	4,299,213	2,018,765	11,070,179

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Key management includes directors (executive and non-executive), members of the Executive Committee, the Company Secretary and the Head of Internal Audit. The compensation paid or payable to key management for employee services for the years ended December 31, 2013 and 2012, consists of:

<i>(In thousands of Korean won)</i>	2013	2012
Short-term employee benefits	4,184,203	4,381,709
Post-employment benefits	546,642	577,278
Share-based payments	4,408,612	1,166,252
Total	<u>9,139,457</u>	<u>6,125,239</u>