Coway Co., Ltd. and its subsidiaries

Consolidated financial statements
for the years ended December 31, 2014 and 2013
with independent auditors' report

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Independent auditors' report

The Board of Directors and Stockholders
Coway Co., Ltd. and its subsidiaries

We have audited the accompanying consolidated financial statements of Coway Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Coway Co., Ltd. as at December 31, 2014, its financial performance and cash flows for the year then ended in accordance with Korea International Financial Reporting Standards.

Other matter
The consolidated financial statements of Coway Co., Ltd. and its subsidiaries for the year ended December 31, 2013, were audited (in accordance with previous auditing standards generally accepted in the Republic of Korea) by Samil PricewaterhouseCoopers who expressed an unqualified opinion on those statements on March 13, 2014.

Ernst & Young Han Young

March 9, 2015

This audit report is effective as at March 9, 2015, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

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Coway Co., Ltd.
and its subsidiaries

Consolidated financial statements
For the years then ended December 31, 2014 and 2013

The accompanying consolidated financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of, the Company.

Dong Hyun Kim
Chief Executive Officer
Coway Co., Ltd.

Coway Co., Ltd. and its subsidiaries
Consolidated statements of financial position
as at December 31, 2014 and 2013
(Korean won in thousands)

	Notes	2014	2013
Assets			
Current assets:			
Cash and cash equivalents	4,5,37,38	₩ 147,363,023	₩ 238,665,065
Trade receivables	4,6,37,38	208,800,401	212,606,268
Other short-term financial assets	4,7,37,38	26,752,942	43,396,429
Other current assets	8	151,978,810	130,980,633
Inventories	9	61,909,650	65,766,152
Income tax receivables		5,690	-
Total current assets		596,810,516	691,414,547
Non-current assets:			
Other long-term financial assets	4,7,37,38	52,584,883	52,525,362
Other non-current assets	8	96,731,719	79,274,118
Available-for-sale financial assets	4,10,37,38	2,417,368	2,467,078
Property, plant and equipment	11	675,187,865	638,306,129
Intangible assets	12	170,626,320	176,847,558
Investment properties	13	26,410,250	26,759,679
Deferred income tax assets		880,525	264,252
Total non-current assets		1,024,838,930	976,444,176
Total assets		**₩ 1,621,649,446**	**₩ 1,667,858,723**
Liabilities			
Current liabilities:			
Trade payables	4,37,38	₩ 59,047,507	₩ 36,662,814
Other short-term financial liabilities	4,14,37,38	176,409,759	174,993,748
Derivative liabilities	3,27,37	-	6,865,216
Other current liabilities	14	79,821,288	64,795,451
Short-term borrowings	4,15,37,38	164,403,283	181,773,836
Current portion of long-term borrowings	4,16,37,38	-	30,083,333
Current portion of debentures	4,17,37,38	-	116,083,000
Income tax payable		44,933,779	61,240,943
Provisions	19	1,425,616	4,234,297
Total current liabilities		526,041,232	676,732,638
Non-current liabilities:			
Other long-term financial liabilities	4,14,37,38	10,792,643	9,348,534
Other non-current liabilities	14	7,749,182	10,416,402
Long-term borrowings	4,16,37,38	932,000	-
Net employee defined benefit liabilities	18	15,951,403	8,421,167
Provisions	19	650,690	648,726
Deferred tax liabilities	33	20,097,267	21,402,747
Total non-current liabilities		56,173,185	50,237,576
Total liabilities		**582,214,417**	**726,970,214**
Equity			
Issued capital	22	40,662,398	40,662,398
Share premium		97,773,449	97,773,449
Retained earnings	23	985,875,250	867,992,459
Other components of equity	24,25,26	(85,768,353)	(65,539,797)
Equity attributable to equity holders of the parent		**1,038,542,744**	**940,888,509**
Non-controlling interests		892,285	-
Total equity		**1,039,435,029**	**940,888,509**
Total liabilities and equity		**₩ 1,621,649,446**	**₩ 1,667,858,723**

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

Coway Co., Ltd. and its subsidiaries
Consolidated statements of profit or loss and other comprehensive income
for the years ended December 31, 2014 and 2013
(Korean won in thousands)

	Notes	2014		2013	
Sales	3	₩	2,160,315,531	₩	2,118,341,565
Cost of sales	3		(726,567,159)		(720,983,776)
Gross profit			**1,433,748,372**		**1,397,357,789**
Selling and administrative expenses	28		(1,069,319,802)		(1,058,325,441)
Operating profit			**364,428,570**		**339,032,348**
Other income	29		17,610,071		15,972,611
Other expenses	29		(40,697,497)		(30,981,905)
Finance income	30		2,703,460		4,137,323
Finance costs	30		(11,598,017)		(18,620,949)
Share of profit (loss) of subsidiary and associate			-		17,598,006
Profit before tax			**332,446,587**		**327,137,434**
Income tax expense	33		(82,778,175)		(82,062,783)
Profit for the year		₩	**249,668,412**	₩	**245,074,651**
Profit attributable to					
Equity holders of the parent		₩	249,691,457	₩	245,074,652
Non-controlling interests			(23,045)		-
		₩	249,668,412	₩	245,074,652
Other comprehensive income (loss) for the year					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Gain on valuation of available-for-sale financial assets			9,369		4,416
Equity adjustments in equity method			-		4,489,121
Gain on valuation of derivatives	27		195,728		561,223
Exchange differences on translation of foreign operations			(600,341)		(6,802,466)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods			(395,244)		(1,747,706)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Remeasurement losses on net of defined benefit plans			(8,172,241)		(1,165,574)
Share of other comprehensive income of associates			-		1,644,281
Net other comprehensive loss not to be reclassified to profit or loss in susequent periods			(8,172,241)		478,707
Other comprehensive loss for the year			(8,567,485)		(1,268,999)
Total comprehensive income for the year		₩	**241,100,927**	₩	**243,805,652**
Attributable to:					
Equity holders of the parent		₩	241,123,972	₩	243,805,652
Non-controlling interests			(23,045)		-
		₩	241,100,927	₩	243,805,652
Earnings per share attributable to owners of the parent					
Basic earnings per share	34		3,361		3,283
Diluted earnings per share	34		3,356		3,273

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

Coway Co., Ltd. and its subsidiaries
Consolidated statements of changes in equity
for the years ended December 31, 2014 and 2013
(Korean won in thousands)

	Attributable to equity holders of the parent						
	Issued capital	**Share premium**	**Retained earnings**	**Other components of equity**	**Total**	**Non-controlling interests**	**Total equity**
As at January 1, 2013	**₩ 40,662,398**	**₩ 97,773,449**	**₩ 700,852,886**	**₩ (54,203,912)**	**₩ 785,084,821**	₩ -	**₩ 785,084,821**
Profit for the year	-	-	245,074,652	-	245,074,652	-	245,074,652
Gain on valuation of available-for-sale financial assets	-	-	-	4,416	4,416	-	4,416
Share of other comprehensive income in associates	-	-	1,644,281	4,489,121	6,133,402	-	6,133,402
Remeasurement losses on net of defined benefit plans	-	-	(1,165,574)	-	(1,165,574)	-	(1,165,574)
Exchange differences on translation of foreign operations	-	-	-	(6,802,466)	(6,802,466)	-	(6,802,466)
Gain on valuation of derivatives	-	-	-	561,223	561,223	-	561,223
Total comprehensive income	**-**	**-**	**245,553,359**	**(1,747,706)**	**243,805,653**	**-**	**243,805,653**
Dividends	-	-	(78,413,786)	-	(78,413,786)	-	(78,413,786)
Share-based compensation	-	-	-	2,556,856	2,556,856	-	2,556,856
Treasury shares	-	-	-	(12,145,035)	(12,145,035)	-	(12,145,035)
Total transactions with equity holders	**-**	**-**	**(78,413,786)**	**(9,588,179)**	**(88,001,965)**	**-**	**(88,001,965)**
At December 31, 2013	**₩ 40,662,398**	**₩ 97,773,449**	**₩ 867,992,459**	**₩ (65,539,797)**	**₩ 940,888,509**	**₩ -**	**₩ 940,888,509**
At January 1, 2014	**₩ 40,662,398**	**₩ 97,773,449**	**₩ 867,992,459**	**₩ (65,539,797)**	**₩ 940,888,509**	-	**₩ 940,888,509**
Profit for the year	-	-	249,668,412	-	249,668,412	(23,045)	249,645,367
Gain on valuation of available-for-sale financial assets	-	-	-	9,369	9,369	-	9,369
Remeasurement losses on net of defined benefit plans	-	-	(8,172,241)	-	(8,172,241)	-	(8,172,241)
Exchange differences on translation of foreign operations	-	-	-	(600,341)	(600,341)	-	(600,341)
Gain on valuation of derivatives	-	-	-	195,728	195,728	-	195,728
Total comprehensive income	**-**	**-**	**241,496,171**	**(395,244)**	**241,100,927**	**(23,045)**	**241,077,882**
Dividends	-	-	(123,613,381)	-	(123,613,381)	-	(123,613,381)
Share-based compensation	-	-	-	6,518,941	6,518,941	-	6,518,941
Treasury shares	-	-	-	(26,359,298)	(26,359,298)	-	(26,359,298)
Increase in equity in equity method	-	-	-	-	-	929,000	929,000
Other equity transactions	-	-	-	7,046	7,046	(13,670)	(6,624)
Total transactions with equity holders	**-**	**-**	**(123,613,381)**	**(19,833,311)**	**(143,446,692)**	**915,330**	**(142,531,362)**
At December 31, 2014	**₩ 40,662,398**	**₩ 97,773,449**	**₩ 985,875,249**	**₩ (85,768,352)**	**₩ 1,038,542,744**	**₩ 892,285**	**₩ 1,039,435,029**

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

Coway Co., Ltd. and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2014 and 2013
(Korean won in thousands)

	Notes	2014	2013
Operating activities:			
Profit for the year		₩ 249,668,412	₩ 245,074,652
Adjustments	35	415,328,828	374,232,456
Changes in operating assets and liabilities	35	(29,120,435)	(41,071,447)
Cash generated from operations		635,876,805	578,235,661
Dividends received		2,556	-
Income tax paid		(99,140,475)	(41,480,542)
Net cash flows provided by operating activities		**536,738,886**	**536,755,119**
Investing activities:			
Increase in other short-term financial assets		-	(3,728,200)
Decrease in other short-term financial assets		207,598	584,409
Increase in other long-term financial assets		(6,589,947)	(15,108,438)
Decrease in other long-term financial assets		6,691,083	19,915,842
Proceeds from disposal of available-for-sale financial assets		-	1,153
Proceeds from disposal of investments in associates		-	178,154,597
Acquisition of property, plant and equipment		(305,777,707)	(267,953,467)
Proceeds from disposal of property, plant and equipment		9,561,836	9,626,121
Acquisition of intangible assets		(6,710,714)	(4,715,547)
Proceeds from disposal of intangible assets		681,818	2,303,242
Interests received		2,740,124	4,626,686
Net cash flows used in investing activities		**(299,195,909)**	**(76,293,602)**
Financing activities:			
Net decrease in short-term borrowings		(17,264,971)	(151,094,997)
Decrease in current portion of long-term borrowings		(30,083,333)	(60,499,866)
Decrease in current portion of debentures		(116,083,000)	(50,000,000)
Increase in long-term borrowings		932,000	-
Government grants received		4,300,000	-
Payment of dividends	23	(123,613,381)	(78,413,786)
Purchase of treasury shares		(31,477,668)	(18,778,293)
Increase in equity in equity method		922,376	-
Exercise of share options		3,866,020	4,863,450
Interests paid		(12,673,927)	(19,017,577)
Cash outflow for derivatives transactions		(6,607,000)	-
Other		(139,831)	-
Net cash flows used in financing activities		**(327,922,715)**	**(372,941,069)**
Net increase (decrease) in cash and cash equivalents		(90,379,739)	87,520,448
Cash and cash equivalents at January 1		238,665,065	152,411,776
Net foreign exchange difference		(922,303)	(1,267,159)
Cash and cash equivalents at December 31		**₩ 147,363,023**	**₩ 238,665,065**

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

1. Corporate information

The general information of Coway Co., Ltd. (to as the Company) and its 7 subsidiaries including Woong Jin Coway (China) Living Goods Co., Ltd., (the Subsidiaries collectively, the Group) are as follows:

1.1 Company overview

Woongjin Coway Co., Ltd. was renamed to Coway Co., Ltd. on December 14, 2012 and was incorporated on May 2, 1989 under the laws of the Republic of Korea to engage in the manufacturing and sales or lease of water purifiers and home appliances, construction of waste disposal facilities and other related businesses. The Company's ordinary shares have been listed on the Korea Stock Exchange since 2001.

The Company's operations are headquartered in Gong-ju City, South Chungcheong Province. As at December 31, 2014, the Company's majority stockholder is Coway Holdings Co. Ltd. holding 30.90% equity ownership.

1.2 Subsidiaries

The Group's consolidated subsidiaries as at December 31, 2014 and 2013, are as follows:

Subsidiary	Equity ownership (%) 2014	Equity ownership (%) 2013	Country of domicile	Year-end	Principal activity
WoongJin Coway (China) Living Goods Co., Ltd.	100%	100%	China	Dec.31	Manufacture of cosmetics/ sales or lease of water purifiers
Coway China Co., Ltd.	100%	100%	〃	〃	Manufacture and sales of air cleaners
Coway (Thailand) Co.,Limited.	〃	〃	Thailand	〃	Manufacture and sales of water purifiers
Coway (M) Sdn Bhd.	〃	〃	Malaysia	〃	Manufacture of water purifiers/ sales or lease of water purifiers
Coway USA Inc.	〃	〃	U.S.A.	〃	Manufacture of water purifiers/ sales or lease of water purifiers
Green Environment Technology Co., Ltd.	〃	〃	Korea	〃	Construction of waste water treatment facilities
Pocheon Malkunmul Co., Ltd.	70%	〃	〃	〃	Construction and management of Pochen Jangja industrial complex waste-water treatment facilities

1. Corporate information (cont'd)

1.3 Summary of the subsidiaries' financial information

Summarized financial information of subsidiaries as at and for the years ended December 31, 2014 and 2013 is as follows (Korean won in thousands):

	2014					
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Comprehensive income (loss)
WoongJin Coway (China) Living Goods Co., Ltd.	₩ 13,371,498	₩ 13,371,498	₩ -	₩ 6,001,432	₩(25,607,077)	₩ (25,479,701)
Coway USA Inc.	40,897,090	42,201,267	(1,304,177)	44,024,370	3,136	(48,944)
Coway (Thailand) Co.,Limited.	4,421,478	15,188,317	(10,766,839)	9,600,231	(1,137,995)	(1,546,536)
Coway (M) Sdn Bhd.	69,386,200	51,355,153	18,031,047	83,756,475	5,256,494	4,180,135
Coway China Co., Ltd.	10,854,500	7,582,792	3,271,708	16,586,778	1,439,963	1,523,998
Green Environment Technology Co., Ltd.	29,894,814	19,284,073	10,610,741	26,508,748	(1,963,950)	(2,146,577)
Pocheon Malkunmul Co., Ltd.	13,815,685	10,843,001	2,972,684	-	(92,395)	(92,395)

	2014					
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Comprehensive income (loss)
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)
Coway USA Inc.	38,780,174	40,035,407	(1,255,233)	38,872,513	(1,444,084)	(1,393,835)
Coway (Thailand) Co.,Limited.	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)
Green Environment Technology Co., Ltd.	29,859,712	17,102,394	12,757,318	46,009,846	620,734	586,003
Pocheon Malkunmul Co., Ltd.	2,453,369	310,666	2,142,703	-	(11,420)	(11,420)

2. Basis of preparation and a summary of significant accounting policies

2.1 Basis of preparation

The Group prepares statutory financial statements in the Korean language in accordance with Korea International Financial Reporting Standards (KIFRS) enacted by the *Corporate External Audit Law*. The accompanying consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

The consolidated financial statements have been prepared on a historical cost basis, except when otherwise indicated. The consolidated financial statements are presented in Korean won (KRW) and all values are rounded to the nearest thousands, except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2014. Control is achieved when the Group 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. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

2. Basis of preparation and a summary of significant accounting policies (cont'd)

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment is recognized at fair value

2.3 Significant accounting policies

2.3.1 Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

2.3.2 Financial instruments – initial recognition and subsequent measurement

(1) Financial assets

1) Initial recognition and measurement
Financial assets are classified, at initial recognition, financial assets within the scope of KIFRS 1039 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognized initially at fair value plus transactions costs, except in the case of financial assets recorded at fair value through profit and loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

2) Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

① Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held

2. Basis of preparation and a summary of significant accounting policies (cont'd)

for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by KIFRS 1039.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of profit or loss and other comprehensive income.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

② Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of profit or loss and other comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

③ Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in finance costs. As at December 31, 2014 and 2013, the Group has no held-to-maturity financial assets.

④ Available-for-sale(AFS) financial investments

AFS financial investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss and other comprehensive income in finance costs. Interest earned whilst holding AFS financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life

2. Basis of preparation and a summary of significant accounting policies (cont'd)

of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss and other comprehensive income.

3) Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained

(2) Impairment of financial assets

The impairment of financial assets is additionally disclosed in Note 2.4 (Disclosure of significant assumption), Note 6 (Trade receivables), Note 7 (Other financial assets), Note 10 (Available-for-sale financial investments)

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

1) Financial assets carried at amortized cost
For financial assets carried at amortized cost the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of profit or loss and other comprehensive income. Interest income (recorded as finance income in the statement of profit or loss and other comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows

2. Basis of preparation and a summary of significant accounting policies (cont'd)

for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event. Occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss and other comprehensive income.

2) Available-for-sale financial investments
For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss and other comprehensive income. – is removed from other comprehensive income and recognized in the statement of profit or loss and other comprehensive income. Impairment losses on equity investments are not reversed through profit or loss increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss and other comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of profit or loss and other comprehensive income, the impairment loss is reversed through the statement of profit or loss and other comprehensive income.

(3) Financial liabilities

1) Initial recognition and measurement
Financial liabilities within the scope of KIFRS 1039 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

2) Subsequent measurement
The measurement of financial liabilities depends on their classification as described below:

① Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of selling in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by KIFRS 1039. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

2. Basis of preparation and a summary of significant accounting policies (cont'd)

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss and other comprehensive income. The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

② Loans and borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the statement of profit or loss and other comprehensive income when the liabilities are derecognized as well as through EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the statement of profit or loss and other comprehensive income.

③ Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

3) Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss and other comprehensive income.

(4) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(5) Derivative financial instruments and hedge accounting

1) Initial recognition and subsequent measurement
The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment
- Hedges of a net investment in a foreign operation

2. Basis of preparation and a summary of significant accounting policies (cont'd)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

2) Fair value hedges
The change in the fair value of a hedging derivative is recognized in the statement of profit or loss and other comprehensive income as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the statement of profit or loss and other comprehensive income as finance costs.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit and loss.

3) Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss and other comprehensive income as other operating expenses. Amounts recognized as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in OCI remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

4) Hedges of a net investment
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized as OCI while any gains or losses relating to the ineffective portion are recognized in the statement of profit or loss and other comprehensive income. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss and other comprehensive income.

2.3.3 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of inventories includes fixed and variable manufacturing overhead costs which are systematically allocated to inventories by appropriate methods based on each category of inventory. The unit cost of inventories is calculated by a weighted average method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2. Basis of preparation and a summary of significant accounting policies (cont'd)

2.3.4 Property, plant and equipment

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of profit or loss and other comprehensive income as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Category	Useful lives
Buildings	14 to 40 years
Structures	7 to 19 years
Machinery	8 to 10 years
Vehicles	5 to 8 years
Tools and equipment	5 to 10 year
Supplies	2 to 19 years
Other tangible assets	3, 5 years
Lease assets	3, 5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

2.3.5 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of profit or loss and other comprehensive income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss and other comprehensive income and other comprehensive income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss and other comprehensive income when the asset is derecognized.

2. Basis of preparation and a summary of significant accounting policies (cont'd)

A summary of the policies applied to the Company's intangible assets is as follows:

Category	Useful lives
Industrial rights	5,10 years
Software	5 years
Other intangible assets	5, 20 years

2.3.6 Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual evaluation performed by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment property is depreciated over an estimated useful life after its residual value is subtracted from an acquisition cost, and buildings are depreciated on a straight-line basis over 40 years.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the income statement in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

2.3.7 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of KIFRS 1039 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognized either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of KIFRS 1039, it is measured in accordance with the appropriate KIFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the

2. Basis of preparation and a summary of significant accounting policies (cont'd)

aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained

2.3.8 Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

	Notes
➢ Disclosure for valuation methods, significant estimates and assumptions	2, 37
➢ Quantitative disclosures of fair value measurement hierarchy	2, 37
➢ Unlisted equity investments	37
➢ Investment property	13
➢ Financial instruments (including those carried at amortized cost)	4, 37

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

2. Basis of preparation and a summary of significant accounting policies (cont'd)

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted AFS financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

External valuers are involved for valuation of significant assets, such as properties and AFS financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by the valuation committee after discussion with and approval by the Group's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the valuation committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the valuation committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The valuation committee, in conjunction with the Group's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the valuation committee and the Group's external valuers present the valuation results to the audit committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.3.9 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation.

2. Basis of preparation and a summary of significant accounting policies (cont'd)

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss and other comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase. Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired. The Group applies additional standards in the impairment test.

2.3.10 Pension benefits

The Group operates a defined benefit pension plan in Korea, which require contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under 'cost of sales' and 'selling and administrative expenses.

2.3.11 Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss and other comprehensive income expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in employee benefits expense.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions for which vesting are conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

2. Basis of preparation and a summary of significant accounting policies (cont'd)

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share

2.3.12 Foreign currencies

The Group's consolidated financial statements are presented in Korean won, which is also the parent company's functional currency. Each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies (other than its functional currency) are initially recorded by the Group at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

2.3.13 Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realized or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

2. Basis of preparation and a summary of significant accounting policies (cont'd)

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.3.14 Taxes

(1) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss and other comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(2) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

2. Basis of preparation and a summary of significant accounting policies (cont'd)

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

2.3.15 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

(1) Sale of goods

Revenue from the sale of goods is recognized when the goods have passed to the buyer, usually on delivery of the goods.

(2) Rendering of services

When the contract outcome can be measured reliably, the revenue is recognized by reference to the stage of completion. When the contract outcome cannot be measured reliably, it is recognized only to the extent that the expenses incurred are eligible to be recovered.

(3) Lease contract

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.

(4) Construction contract

Construction contracts as defined in *KIFRS 1011 Construction Contracts* are contracts specifically negotiated for the construction of an asset. When the outcome of a construction contract can be estimated reliably and it is highly 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 contact 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.

2. Basis of preparation and a summary of significant accounting policies (cont'd)

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).

(5) 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.

(6) Dividends

Revenue is recognized when the Group's right to receive the payment is established.

2.3.16 Government Grants

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. 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.

2.3.17 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.3.18 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in share premium. Share options exercised during the reporting period are satisfied with treasury shares.

2.3.19 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

(1) Provision for product warranties

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 terms of 12 months).

(2) Provisions for return of goods sold

The Group makes provisions for estimated future expenses arising from the sales of goods with return options based on historical experience and terms of warranty programs.

2. Basis of preparation and a summary of significant accounting policies (cont'd)

(3) Provision for later if defect warranties

The Group makes provisions for repairs and maintenance, based on historical experience and terms of warranty programs. The warranty is not adjusted to unbilled amounts or overbilled amounts and recognized as separate provision.

2.4 New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2014. The nature and the impact of each new standard and amendment are described below:

Investment Entities (Amendments to KIFRS 1110, KIFRS 1112 and KIFRS 1027)
These amendments are effective for annual periods beginning on or after January 1, 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under *KIFRS 1110*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under *KIFRS 1110*.

KIFRS 1032 Offsetting Financial Assets and Financial Liabilities – Amendments
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments are not expected to be relevant to the Group.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to KIFRS 1036 Impairment of Assets
These amendments remove the unintended consequences of *KIFRS 1113* on the disclosures required under KIFRS 1036. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are not expected to be relevant to the Group.

KIFRS 1039 Novation of Derivatives and Continuation of Hedge Accounting – Amendments
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group has not novated its derivatives during the current and prior period, these amendments are not expected to be relevant to the Group.

KIFRS 2121 Levies – Amendments
KIFRS 2121 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

2.5 Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes financial risk management and policies (Note 38), sensitivity analysis and disclosure (Note 18).

2.5.1 Accounting judgments, estimates and assumptions

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

2. Basis of preparation and a summary of significant accounting policies (cont'd)

(1) Operating lease commitments – lessor

The Group has entered into lease contract on lease assets. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of lease assets, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

2.5.2 Accounting estimates and changes

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(1) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

(2) Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 27.

(3) Defined benefit plans (pension benefits)

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency. The mortality rate is based on publicly available mortality tables for the specific countries. Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

(4) Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

2. Basis of preparation and a summary of significant accounting policies (cont'd)

2.6 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards when they become effective.

Amendments to KIFRS 1019 Defined Benefit Plans: Employee Contributions
KIFRS 1019 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1, 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Amendments to KIFRS 1111 Joint Arrangements: Accounting for Acquisitions of Interests
The amendments to *KIFRS 1111* require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant *KIFRS 1103* principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to *KIFRS 1111* to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to KIFRS 1016 and KIFRS 1038: Clarification of Acceptable Methods of Depreciation and Amortization
The amendments clarify the principle in *KIFRS 1016* and *KIFRS 1038* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to KIFRS 1027: Equity Method in Separate Financial Statements
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying KIFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of KIFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to KIFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's separate financial statements.

3. Segment information

(1) Details of the Group's reportable segments are as follows:

The Chief Operating Decision Maker monitors the operating results of its business units separately for the purpose of making decision about resource allocation and performance assessment.

Business units are organized based on its products and services and has three reportable segments, as follows

Business Unit	Principal activity
Lease	Lease of water purifiers and bidets, or provide regular services to registered customers
Sales	Sales of water purifiers, bidets and cosmetics to customers
Others	Construction contract water management facilities and others

Most of the Company's operations are conducted within Korea with some lease and sales operations provided in the U.S.A, China and elsewhere. Regional information is not disclosed as it is not considered. A small portion of the Company's property, plant and equipment are located in China.

(2) Financial performance information by segment for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

	2014			
	Lease	Sales	Other	Total
Sales	₩ 1,682,932,810	₩ 448,385,692	₩ 85,298,168	₩ 2,216,616,670
Inter-segment revenue	-	(50,225,434)	(6,075,706)	(56,301,140)
Revenue from external customers	1,682,932,810	398,160,258	79,222,462	2,160,315,530
Gross profit	1,230,308,187	177,991,090	25,449,094	1,433,748,371

	2013			
	Lease	Sales	Other	Total
Sales	₩ 1,593,859,652	₩ 455,660,459	₩ 104,302,071	₩ 2,153,822,182
Inter-segment revenue	-	(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	1,151,960,794	220,426,393	24,970,602	1,397,357,789

(3) Geographic information for the years ended December 31, 2014 and 2013, are as follows:

	2014			
	Domestic	U.S.A.	Asia	Total
Total revenue	₩ 2,040,149,583	₩ 44,024,370	₩ 132,442,717	₩ 2,216,616,670
Internal revenue	(56,301,140)	-	-	(56,301,140)
Net revenue	1,983,848,444	44,024,370	132,442,717	2,160,315,531
Tangible assets, intangible assets and investment properties	832,473,762	12,304,046	27,446,627	872,224,435

3. Segment information (cont'd)

	2013			
	Domestic	U.S.A.	Asia	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	1,944,260,647	38,872,513	135,208,405	2,118,341,565
Tangible assets, intangible assets and investment properties	805,295,512	10,809,978	25,807,876	841,913,366

(4) There are no customers contribution 10% or more the Group's total revenue.

4. Financial instruments

(1) Categories of the Group's financial instruments as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014			
	Loans and receivables	Available-for-sale financial assets	Financial liabilities that are measured at amortized cost	Total
Assets				
Cash and cash equivalents	₩ 147,363,023	₩ -	₩ -	₩ 147,363,023
Trade receivables	208,800,401	-	-	208,800,401
Other short-term financial assets(*1)	22,201,169	-	-	22,201,169
Other long-term financial assets	52,584,883	-	-	52,584,883
Available-for-sale financial assets	-	2,417,367	-	2,417,367
	₩ 430,949,476	₩ 2,417,367	₩ -	₩ 433,366,843
Liabilities				
Trade payable	₩ -	₩ -	₩ 59,047,507	₩ 59,047,507
Other short-term financial liabilities	-	-	176,409,759	176,409,759
Short-term borrowings	-	-	164,403,282	164,403,282
Other long-term financial liabilities	-	-	10,792,643	10,792,643
Long-term borrowings	-	-	932,000	932,000
	₩ -	₩ -	₩ 411,585,191	₩ 411,585,191

4. Financial instruments (cont'd)

	2013		
	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Cash and cash equivalents	₩ 238,665,065	₩ -	₩ 238,665,065
Trade receivables	212,606,268	-	212,606,268
Other short-term financial assets(*1)	43,396,429	-	43,396,429
Other long-term financial assets	52,525,362	-	52,525,362
Available-for-sale financial assets	-	2,467,078	2,467,078
	₩ 547,193,124	₩ 2,467,078	₩ 549,660,202

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

(*1) Excludeds dues from customers for construction contracts amounting to ₩4,552 million and ₩22,287 million for the years ended December 31, 2014 and 2013, respectively.

4. Financial instruments (cont'd)

(2) Gains or losses on financial instruments for the years ended December 31, 2014 and 2013 are as follows (Korean won in thousands):

		2014		2013
Loans and receivables:				
Interest income	₩	2,700,904	₩	4,131,432
Gain on foreign currency translations		4,263,487		148,100
Loss on foreign currency translations		(52,538)		(4,767,014)
Loss on impairment of trade receivables		(14,355,239)		(15,655,723)
Loss on impairment of other receivables		(4,397,736)		(237,906)
Available-for-sale financial assets:				
Gain or loss on valuation(other comprehensive income) (*1)		9,369		4,416
Dividend income		2,556		4,471
Gain on disposal of available- for-sales		-		1,420
Impairment of available-for-sales		(62,111)		-
Derivatives used for hedging:				
Loss on valuation of derivatives(profit or loss)		-		(1,738,000)
Gain on valuation of derivatives(other comprehensive income)(*1)		195,728		561,223
Financial liabilities measured at amortized cost:				
Interest expense		(11,530,471)		(18,620,949)
Gain on foreign exchange translation		2,241,587		4,949,125
Loss on foreign exchange translation		(4,531,483)		-

(*1) Represents net of related income tax.

The Group accounted for ₩3,410 million (2013: ₩3,203 million) as gain on foreign exchange transactions and ₩5,455 million (2013: ₩3,525 million) as loss on foreign exchange transactions through trade receivables, other short-term financial assets, other long-term financial assets and trade payables.

5. Cash and cash equivalents

Details of cash and cash equivalents as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

		2014		2013
Cash	₩	56,981	₩	100,536
Checking account		59,342,666		222,571
Current deposit		87,325,316		238,264,899
Other cash equivalents		638,060		77,059
	₩	147,363,023	₩	238,665,065

6. Trade receivables

(1) Trade receivables as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

		2014		2013
Trade receivables	₩	255,342,997	₩	250,105,425
Less: Allowance for doubtful accounts		(46,542,596)		(37,499,157)
	₩	208,800,401	₩	212,606,268

6. <u>Trade receivables (cont'd)</u>

(2) The aging analyses of trade receivables as at December 31, 2014 and 2013, are as follows:(Korean won in thousands):

		2014		2013
A. Receivables neither past due nor impaired (*1)	₩	192,936,870	₩	184,665,207
		192,936,870		184,665,207
B. Past due but not impaired (*1)				
Less than 6 months		20,789,009		31,717,289
6 to 12 months		1,277,188		7,769,367
		22,066,196		39,486,656
C. Impaired				
6 to 12 months		6,127,148		1,514,013
More than 12 months		34,212,782		24,439,549
		40,339,930		25,953,562
	₩	255,342,997	₩	250,105,425

(*1)Trade receivables not past due and past due but not impaired relate to a number of unrelated customers for whom there is no recent history of default.

(3) Changes in the allowance for bad debts of trade receivables for the years ended December 31, 2014 and 2013, are as follows *(Korean won in thousands)*:

		2014		2013
At January 1	₩	37,499,157	₩	31,218,204
Impairment loss (operating)		14,135,239		14,088,587
Write-off of uncollectable amounts		(5,593,296)		(7,599,555)
Reversal of write-off		88,956		706,261
Exchange difference		412,539		(914,340)
At December 31	₩	46,542,595	₩	37,499,157

7. <u>Other financial assets</u>

Details of other financial assets as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

		2014		2013
Other short-term financial assets				
Short-term loans	₩	6,350,523	₩	6,454,187
Other receivables		36,453,593		32,635,544
Accrued income		21,778		17,726
Due from customers for construction contract		4,551,773		22,287,181
Less : provision for other short-term financial assets		(20,624,725)		(17,998,209)
	₩	26,752,942	₩	43,396,429
Other long-term financial assets				
Long-term financial instruments	₩	8,333,658	₩	9,732,326
Long-term loans		763,314		500,000
Guarantee deposits		43,492,421		42,226,065
Other long-term trade receivables and other receivables		3,179,073		2,959,073
Other		490		71,971
Less : provision for other long-term financial assets		(3,184,073)		(2,964,073)
	₩	52,584,883	₩	52,525,362

7. Other financial assets (cont'd)

The impairment has occurred on refund receivables for sales commission and leasehold deposits for the year ended December 31, 2014. The Group recognizes impairment expense on the impaired financial assets by evaluating individually.

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

(3) Changes in provision for doubtful accounts on other financial assets for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

		2014		2013
Other short-term financial assets:				
At January 1	₩	17,998,209	₩	16,637,793
Impairment loss (non-operating)		4,397,736		1,805,043
Disposal of impaired receivables		(559,448)		(14,688)
Exchange difference		(1,211,772)		(429,939)
At December 31	₩	20,624,725	₩	17,998,209
Other long-term financial assets:				
At January 1	₩	2,964,073	₩	2,964,073
Impairment loss (operating)		220,000		-
At December 31	₩	3,184,073	₩	2,964,073

8. Other assets

Details of other assets as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

		2014		2013
Other current assets				
Advance payments	₩	4,019,504	₩	3,960,641
Prepaid expenses		147,283,526		126,691,580
Prepaid VAT		649,197		311,723
Others		26,583		16,689
	₩	151,978,810	₩	130,980,633
Other non-current assets				
Long-term prepaid expenses	₩	96,607,389	₩	79,168,787
Others		124,330		105,331
	₩	96,731,719	₩	79,274,118

9. Inventories

Details of inventories as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014					
		Acquisition cost		Valuation allowance		Net book value
Merchandise	₩	38,135,422	₩	(3,404,303)	₩	34,731,119
Finished goods		31,702,068		(13,146,999)		18,555,069
Work-in-process		153,111		-		153,111
Raw materials		9,480,918		(3,765,969)		5,714,949
Materials in transit		2,755,402		-		2,755,402
	₩	82,226,921	₩	(20,317,271)	₩	61,909,650

9. Inventories (cont'd)

	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
	₩	74,545,986	₩	(8,779,834)	₩	65,766,152

10. Available-for-sale financial assets

(1) Details of available-for-sale financial assets as at December 31, 2014 and 2013, are as follows (Korean won in thousands):

	2014						2013	
	Acquisition cost		Fair value		Book value		Book value	
Unmaketable equity securities	₩	4,133,920	₩	2,417,197	₩	2,417,197	₩	2,466,908
Public bond:		170		170		170		170
	₩	4,134,090	₩	2,417,367	₩	2,417,367	₩	2,467,078

(2) The Group presents available-for-sale financial assets at acquisition cost less any impairment when the fair value can not be determined reliably or difference between fair value and book value is not significant. Loss on impairment of unmarketable securities amounted to ₩62,111 millions and ₩1,738 for the years ended 2014 and 2013, respectively.

(3) Changes in available-for-sale financial assets for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

	2014		2013	
At January 1,	₩	2,467,078	₩	2,461,264
Disposals		-		(3,787)
Transfer		388		-
Gain or loss on valuation directly recognized in equity		12,012		9,601
Impairment		(62,111)		-
At December 31,		2,417,367		2,467,078
Less: non-current portions		(2,417,367)		(2,467,078)
Current portion	₩	-	₩	-

11. Property, plant and equipment

(1) Details of property, plant and equipment as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014			
	Acquisition cost	Accumulated depreciation and impairment	Government grants	book value
Land	₩ 37,523,496	₩ -	₩ -	₩ 37,523,496
Buildings	46,572,054	(6,737,843)	-	39,834,211
Structures	2,811,828	(1,170,531)	-	1,641,297
Machinery and equipment	29,875,667	(12,931,757)	-	16,943,910
Vehicles	955,629	(780,922)	-	174,707
Tools	131,413,205	(89,725,524)	-	41,687,681
Furniture and fixtures	100,624,679	(80,219,230)	-	20,405,449
Lease assets	927,467,022	(430,922,296)	-	496,544,726
Others	26,346,730	(22,032,248)	(111,632)	4,202,850
Construction-in-progress	18,176,801	-	(1,947,263)	16,229,538
	₩ 1,321,767,111	₩ (644,520,351)	₩ (2,058,895)	₩ 675,187,865

	2013			
	Acquisition cost	Accumulated depreciation and impairment	Government grants	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
Lease 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
	₩ 1,221,731,047	₩ (583,382,360)	₩ (42,558)	₩ 638,306,129

(2) Changes in the book value of property, plant and equipment for the years ended December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014						
	Jan.1,2014	Acquisitions and capitalized expenses	Disposal, termination and impairment	Depreciation	Transfer (*1)	Exchange difference	Dec.31,2014
Land	₩ 38,705,828	₩ -	₩ -	₩ -	₩ (1,182,332)	₩ -	₩ 37,523,496
Buildings	41,070,030	-	-	(1,235,819)	-	-	39,834,211
Structures	1,065,439	547,891	-	(249,433)	277,400	-	1,641,297
Machinery and Equipmen	17,533,213	1,095,534	(11,733)	(2,741,357)	1,080,600	(12,347)	16,943,910
Vehicles	273,034	7,081	(4,613)	(100,107)	-	(688)	174,707
Tools	40,244,519	13,437,123	233,815	(16,314,461)	4,087,459	(775)	41,687,680
Furniture and fixtures	24,343,598	4,469,584	(701,650)	(8,759,001)	1,080,482	(27,564)	20,405,449
Lease assets	465,513,390	263,917,693	(57,813,639)	(172,250,289)	(2,803,477)	(18,951)	496,544,727
Others	7,778,592	1,953,064	(2,324,356)	(3,684,312)	535,880	(56,018)	4,202,850
Construction-in-Progress	1,778,486	20,330,541	-	-	(5,879,489)	-	16,229,538
	₩638,306,129	₩305,758,511	₩ (60,622,176)	₩(205,334,779)	₩ (2,803,477)	₩ (116,343)	₩675,187,865

11. Property, plant and equipment (cont'd)

	2013						
	Jan.1,2013	Acquisitions and capitalized expenses	Disposal, termination and impairment	Depreciation	Transfer (*1)	Exchange difference	Dec.31,2013
Land	₩ 37,523,496	₩ 1,182,332	₩ -	₩ -	₩ -	₩ -	₩ 38,705,828
Buildings	42,242,857	-	(57,171)	(1,234,335)	118,679	-	41,070,030
Structures	737,619	467,060	-	(183,880)	44,640	-	1,065,439
Machinery and Equipmen	17,996,215	1,465,962	(29,758)	(2,405,057)	505,851	-	17,533,213
Vehicles	388,709	28,695	-	(123,653)	(5,609)	(15,108)	273,034
Tools	45,885,456	12,760,455	(2,120,635)	(17,357,035)	1,128,217	(51,939)	40,244,519
Furniture and fixtures	27,047,289	3,741,311	(3,277,396)	(9,513,156)	7,152,557	(807,008)	24,343,597
Lease assets	449,050,561	235,565,816	(55,543,902)	(154,982,249)	(7,098,706)	(1,478,129)	465,513,391
Others	6,445,315	5,193,253	-	(4,447,659)	496,774	90,909	7,778,592
Construction-in-Progress	3,104,466	7,548,583	-	-	(8,874,563)	-	1,778,486
	₩630,421,983	₩267,953,467	₩ (61,028,862)	₩(190,247,024)	₩ (6,532,160)	₩ (2,261,275)	₩638,306,129

(*1) Differences between transfer-in and transfer-out of tangible assets were recognized in inventory.

(3) Operating lease commitments

Lease assets are provided under operating lease contracts with numerous customers, and the book value of the lease assets as at December 31, 2014 and 2013, are as follows (Korean won in thousands):

	2014	2013
lease assets	₩ 496,544,726	₩ 465,513,391

12. Intangible assets

(1) Details of intangible assets as at December 31, 2014 and 2013, are as follows (Korean won in thousands):

	2014					
	Acquisition cost		Accumulated amortization, impairment and government grants		book value	
Goodwill	₩	132,241,170	₩	(3,240,475)	₩	129,000,695
Industrial rights		1,540,863		(699,561)		841,302
Software		50,968,603		(39,425,215)		11,543,388
Development expenditures		340,453		(331,239)		9,214
Usage rights		6,137,433		-		6,137,433
Others		34,773,534		(12,318,247)		22,455,287
Intangible assets in development		639,000		-		639,000
	₩	226,641,056	₩	(56,014,737)	₩	170,626,319

	2013					
	Acquisition cost		Accumulated amortization, impairment and government grants		book value	
Goodwill	₩	132,241,170	₩	-	₩	132,241,170
Industrial rights		1,531,171		(548,126)		983,045
Software		48,210,164		(33,546,213)		14,663,951
Development expenditures		340,453		(322,025)		18,428
Usage rights		3,809,999		-		3,809,999
Others		34,823,534		(10,498,243)		24,325,291
Intangible assets in development		805,674		-		805,674
	₩	221,762,165	₩	(44,914,607)	₩	176,847,558

12. Intangible assets (cont'd)

(2) Changes in book value of intangible assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014						
	Jan.1,2014	Acquisition and capital expenditures	Amortization	Disposal, termination and impairment	Transfer(*1)	Exchange difference	Dec.31,2014
Goodwill	₩132,241,170	₩ -	₩ -	₩ (3,240,475)	₩ -	₩ -	₩129,000,695
Industrial rights	983,046	-	(151,435)	-	9,692	-	841,303
Software	14,663,950	1,457,461	(5,893,491)	-	1,308,600	6,867	11,543,386
Development expenditures	18,429	-	(9,214)	-	-	-	9,215
Usage rights	3,809,999	3,411,795	-	(1,127,081)	42,720	-	6,137,433
Others	24,325,291	-	(1,870,004)	-	-	-	22,455,287
Intangible assets in development	805,674	1,135,926	-	-	(1,302,600)	-	639,000
	₩176,847,559	₩ 6,005,182	₩ (7,924,144)	₩ (4,367,556)	₩ 58,412	₩ 6,867	₩170,626,319

	2013						
	Jan.1,2013	Acquisition and capital expenditures	Amortization	Disposal, termination and impairment	Transfer(*1)	Exchange difference	Dec.31,2013
Goodwill	₩132,582,059	₩ -	₩ -	₩ (348,480)	₩ -	₩ 7,591	₩132,241,170
Industrial rights	1,131,432	2,335	(150,722)	-	-	-	983,045
Software	16,368,036	1,208,945	(5,566,269)	(63,386)	2,716,625	-	14,663,951
Development expenditures	37,804	-	(19,376)	-	-	-	18,428
Usage rights	6,287,015	1,040,003	-	(3,517,019)	-	-	3,809,999
Others	26,152,147	48,545	(1,875,401)	-	-	-	24,325,291
Intangible assets in development	1,106,580	2,415,719	-	-	((2,716,625)	-	805,674
	₩183,665,073	₩ 4,715,547	₩ (7,611,768)	₩ (3,928,885)	₩ -	₩ 7,591	₩176,847,558

(3) Impairment test of goodwill

Goodwill allocated to the respective Cash Generating Unit (CGU) as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014	2013
Health appliances division	₩ 99,262,568	₩ 99,262,568
Cosmetics division	8,128,348	8,128,348
Green Environment Technology Co., Ltd Division	21,609,779	24,850,254
	₩ 129,000,695	₩ 132,241,170

Goodwill is reviewed annually for impairment. Impairment tests indicate that the carrying amount of CGUs does not exceed the recoverable amount. The recoverable amounts of CGUs 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 cash flow calculations beyond the five-year period are listed below. The key assumptions used for value-in-use calculations in conversion date, are as follows:

	Sales growth rate (*1)	Permanent growth rate (*2)	Pre-tax discount rate (*3)
Health appliances division	7.78%	1%	7.1%
Cosmetics division	9.06%	1%	10.7%
Green Environment Technology Co., Ltd Dvision	4.96%	1%	8.6%

(*1) Represent projected growth rate of average annual sales. The Group estimates cash flows based on past experience, operating performance and business forecast. Revenues included in cash flows reflect business characteristics of each individual reporting segment.

12. Intangible assets (cont'd)

(*2) The Group used the Permanent growth rate to estimate the future cash flows of periods following 2020.

(*3) The Group used weighted average cost of capital as the discount rate to determine the recoverable amount of each reporting segment. Risk-free discount rates, market risk premium and Beta (β) were verified by external information supplied by Bloomberg and were used to calculate capital ratio of each reporting segment.

13. Investment properties

Details of investment properties as at December 31, 2014 and 2013, are as follows (Korean won in thousands):

	2014		
	Acquisition cost	Accumulated depreciation and impairment	Book value
Land	₩ 15,856,335	₩ -	₩ 15,856,335
Buildings	11,791,190	(1,237,275)	10,553,915
	₩ 27,647,525	₩ (1,237,275)	₩ 26,410,250

	2013		
	Acquisition cost	Accumulated depreciation and impairment	Book value
Land	₩ 15,856,335	₩ -	₩ 15,856,335
Buildings	11,791,190	(887,846)	10,903,344
	₩ 27,647,525	₩ (887,846)	₩ 26,759,679

(2) Changes in investment properties for the years ended December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014		
	Jan.1, 2014	Depreciation	Dec.31, 2014
Land	₩ 15,856,335	₩ -	₩ 15,856,335
Buildings	10,903,344	(349,429)	10,553,915
	₩ 26,759,679	₩ (349,429)	₩ 26,410,250

	2013		
	Jan.1, 2013	Depreciation	Dec.31, 2013
Land	₩ 15,856,335	₩ -	₩ 15,856,335
Buildings	11,252,774	(349,430)	10,903,344
	₩ 27,109,109	₩ (349,430)	₩ 26,759,679

The fair value of investment properties as at December 31, 2014, amounts to ₩28,128 million (December 31, 2013: ₩26,029 million). lease income generated from investment properties for the year ended December 31, 2014, amounts to ₩1,196 million (2013: ₩1,093 million).

14. Other financial liabilities and other liabilities

Other financial liabilities and other liabilities as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

		2014		2013
Other short-term financial liabilities:				
Other payables	₩	155,784,949	₩	154,368,117
Accrued expenses		20,550,590		20,567,598
Others		74,220		58,033
	₩	176,409,759	₩	174,993,748
Other long-term financial liabilities:				
Reserve for agent losses	₩	8,219,381	₩	7,060,875
Long-term other payables		914,319		647,809
Guarantee deposits withheld		361,174		412,720
Lease deposits provided		1,212,942		1,227,130
Others		84,827		-
	₩	10,792,643	₩	9,348,534
Other current liabilities:				
Advanced receipts	₩	57,213,775	₩	46,138,881
Withholdings		10,014,928		10,028,911
Advanced revenue		2,679,650		3,317,354
Liabilities for government grants		3,069,518		1,045,135
Overbilled amount for construction contract work		5,130,936		2,534,680
Others		1,712,481		1,730,489
	₩	79,821,288	₩	64,795,450
Other non-current liabilities:				
Long-term advances receipts	₩	7,549,182	₩	10,266,402
Other		200,000		150,000
	₩	7,749,182	₩	10,416,402

15. Short-term borrowings

Short-term borrowings as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

Description	Financial institution	Interest rate (%)		2014		2013
Purchase Loan	Hana Bank	3.29	₩	40,157,755	₩	33,471,774
〃	Shinhan Bank	3.30		21,527,977		27,521,586
〃	Woori Bank	3.41		21,117,550		21,015,779
Working capital loans	KDB	-		-		50,000,000
〃	Woori Bank	-		-		40,000,000
Facility loans	Woori Bank	4.16		1,600,000		1,600,000
Foreign currency loans	Shinhan Bank	-		-		3,471,047
〃	Hana Bank	-		-		4,693,650
CP (commercial paper)	Shinhan Bank	2.68		30,000,000		-
〃	Woori Investment Bank	2.68		20,000,000		-
〃	KB Investment & securities Co.,Ltd.	2.65		30,000,000		-
			₩	164,403,282	₩	181,773,836

16. Long-term borrowings

Long-term borrowings as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

Description	Financial institution	Interest rate (%)	2014	2013
Foreign currency loans	Hana Bank	-	₩ -	₩ 30,000,000
Facility loans and foreign currency loans	IBK Bank	-	-	83,333
PF	KDB	6.50	932,000	-
	Subtotal		932,000	30,083,333
	Less: current portion		-	(30,083,333)
			₩ 932,000	₩ -

17. Debentures

Debentures as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

	Issuance date	Maturity date	Interest rate (%)	2014	2013
Non- guaranteed foreign debentures	2011.01.14	2014.01.14	-	₩ -	₩ 52,765,000
〃	2011.04.18	2014.04.18	-	-	63,318,000
	Less: current portion			-	(116,083,000)
				₩ -	₩ -

18. Net employee defined benefit liability

(1) Net employee defined benefit liability as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014	2013
Defined benefit obligation	₩ 111,355,074	₩ 85,474,316
Plan assets	(95,403,671)	(77,053,149)
	₩ 15,951,403	₩ 8,421,167

(2) Gain and loss related to the defined benefit plan are as follows (Korean won in thousands):

	2014	2013
Current service cost	₩ 19,966,792	₩ 17,946,134
Interest cost on benefit liability	836,764	754,269
Retirement bonus and others	704,228	177,822
	₩ 21,507,784	₩ 18,878,225

18. Net employee defined benefit liability (cont'd)

(3) Changes in the present value of the defined benefit obligation for the years ended December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014	2013
Beginning balance	₩ 85,474,316	₩ 70,812,359
Pension cost charged to profit or loss		
-Current service cost	19,966,792	17,943,826
-Interest cost	3,477,555	2,576,324
	23,444,347	20,520,150
Benefits paid	(7,922,928)	(6,508,445)
Re-measurement gains or losses		
-Actuarial changes arising from changes in demographic assumptions	8,209,320	5,129
-Actuarial changes arising from changes in financial assumptions	(313,883)	(1,619,135)
-Experience adjustments	2,463,902	3,148,439
Subtotal	10,359,339	1,534,433
Others	-	(932,928)
Ending balance	₩ 111,355,074	₩ 85,474,316

(4) Changes in the fair value of plan assets for the years ended December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014	2013
Beginning balance	₩ 77,053,148	₩ 57,993,345
Interest income	2,640,791	1,827,364
Contributions by employer	24,000,000	23,500,000
Benefits paid	(7,725,434)	(6,301,135)
Re-measurement gains or losses	(564,835)	33,575
Ending balance	₩ 95,403,670	₩ 77,053,149

(5) Key assumptions used for defined benefit plan calculations are as follows:

	2014	2013	Remark
Discount rate	3.10%~3.11%	3.87%~4.25%	Interest rate of high-quality corporate bonds
Future salary increases	rate by age	rate by age	Historical experience

(6) Details of operating plan assets as at December 31, 2014 and 2013, are as follows:

	2014	2013
Cash and bank deposits	56.63%	94.62%
Securities	43.37%	5.38%
	100.00%	100.00%

(7) A quantitative sensitivity analysis for significant assumptions as at December 31, 2014 is as shown below:

	Discount rate		Future salary increases	
	0.5% increase	0.5% decrease	0.5% increase	0.5% decrease
Impact on defined benefit obligation	4.33% decrease	4.66% increase	4.62% increase	4.34% decrease

19. Provisions

(1) Changes in the significant provisions for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

	2014		
	Jan.1, 2014	Utilized	Dec.31, 2014
Provision for product warranties	₩ 2,934,255	₩ (1,961,269)	₩ 972,986
Provisions for return of goods sold	1,402,046	(843,287)	558,759
Warranty provisions	546,722	(2,162)	544,560
	₩ 4,883,023	₩ (2,806,718)	₩ 2,076,305

	2013		
	Jan.1, 2013	Utilized	Dec.31, 2013
Provision for product warranties	₩ 3,887,676	₩ (953,421)	₩ 2,934,255
Reward points provision	1,013,537	(1,013,537)	-
Provisions for return of goods sold	1,475,847	(73,801)	1,402,046
Warranty provisions	522,692	24,030	546,722
	₩ 6,899,752	₩ (2,016,729)	₩ 4,883,023

20. 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.

21. Commitments and contingencies

(1) As at December 31, 2014, the Group is involved in litigation domestically and overseas. The Group is currently a defendant in eleven lawsuits with total claims amounting to ₩12,032 million and a plaintiff in seven cases with total claims amounting to ₩341 million. In relation to infringement water purifying systems with cooling and heating functions held by Chung Ho Nais Co., Ltd., the Group lost the first trial and the second trial is in progress. As at December 31,2014, the outcome of lawsuits cannot be reasonably estimated.

(2) Contingencies

As at December 31, 2014, details of available credit lines with various financial institutions are as follows (Korean won in thousands):

Credit provider		Limit	Description of credit line
Shinhan Bank and six others	₩	229,184,342	Purchase loan
Korea development Bank (KDB) and three others	₩	125,000,000	General loan
NH Bank	₩	5,000	Credit sales agreement
Hana Bank	₩	5,000	B2B
Shinhan Bank	USD	1,000,000	Lines of credit
Kookmin Bank and two others	₩	7,000,000	B2B
Woori Bank and one others	₩	2,500,000	Working capital loan
Woori Bank	₩	1,600,000	Facility loan
NH Bank	₩	3,000,000	Overdraft loan
KSCFC (*1)	₩	143,678	Operating credit loan
Shinhan bank	USD	5,000,000	Usance L/C

21. Commitments and contingencies (cont'd)

(*1) Represents Korea Specialty Contractor Financial Cooperative

(3) Guarantees and collateral

1) Details of guarantees provided by others as at December 31, 2014 are as follows (Korean won in thousands):

	Description	Guarantee amount	
Seoul Guarantee Insurance	Performance guarantee	₩	18,718,877
Machinery Financial Cooperative (MFC)	Guarantee against defaults		14,788,687
KSCFC	〃		381,531
IBK Bank	Payment guarantees	USD	4,727.57
〃	〃	EUR	210,256
		₩	33,889,095
		USD	4,727.57
		EUR	210,256

2) As at December 31, 2014, performance guarantees provided by the Group is as follows (Korean won in thousands):

Provided to	Collateralized asset	Collateralized amount		Details
KT Capital, KDB	Two blank notes	₩	20,639,000	Borrowings collateral
Woori Bank	(Land and buildings)		2,080,000	〃
KDB	〃		3,700,000	〃
IBK Bank	Property, plant and equipment (Land and buildings)		260,000	〃
LG U+	〃		150,000	Leasehold depart
Plant Mechanical Contractors Financial Cooperative of Korea	Available-for-sale financial assets		170,722	Construction contract
MFC	〃		456,485	〃
KSCFC	〃		178,209	〃
Electric Contractors Financial Cooperative	〃		50,000	〃
		₩	27,684,416	

(4) Restricted deposits as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

Account	Financial institution	2014		2013		Details
Cash and cash equivalents	KDB	₩	2,385,820	₩	365,002	Pledge
Long- term financial instruments	NH Bank		4,300,000		5,700,000	payment guarantee (*1)
	IBK Bank		4,000,000		4,000,000	
	Shinhan Bank etc		8,500		8,500	〃
Long- term guarantee deposits	Shinhan Bank		2,500		2,500	Maintenance of a checking account
	Woori Bank		2,500		2,500	
		₩	10,699,320	₩	10,078,502	

(*1) Represents guarantees to support collaborative cooperation between small and medium enterprises

22. Issued capital

Details of the Group's issued capital as at December 31, 2014, are as follows:

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

The Group had previously retired 4,200,000 treasury shares through an appropriation of retained earnings. As a result, the number of ordinary shares outstanding of 77,124,796 shares with a face value of ₩38,562 million differs from the face value and number of shares issued (issued capital : ₩40,662 million) recorded in the statement of financial position as at December 31, 2014.

Under Article 340.2 of the Commercial Law, the Group may grant share options to its employees and directors within the limit prescribed by law (Note 26) when the shareholders of the Group approves by special resolution.

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 at December 31, 2014, no convertible bonds or bonds with warrants have been issued.

23. Retained earnings

(1) Retained earnings as at December 31, 2014 and 2013, consist of the following (Korean won in thousands):

	2014	2013
Legal reserve (*1), (*2)	₩ 20,347,427	₩ 20,347,427
Voluntary reserve	746,486,035	696,453,035
Unappropriated retained earnings	219,041,788	151,191,997
	₩ 985,875,250	₩ 867,992,459

(*1) The Group appropriated, 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 or used to reduce accumulated deficit.

(*2) 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 transferred to capital stock or used to reduce accumulated deficit.

(2) The dividends paid by the Group for the years ended December 31, 2014 and 2013 were as follows
(Korean won in thousands)

	2014	2013
Dividends per share	₩ 1,660	₩ 1,050
Payment of dividends	123,613,380,720	78,413,785,800

Proposed dividends in above were subject to approval at the annual shareholders' meeting in 2012 and 2013. The corresponding amounts of dividends were paid in 2013 and 2014, respectively.

24. Other components of equity

Other components of equity as at December 31, 2014 and 2013, consist of the following (Korean won in thousands):

	2014	2013
Gain on disposal of treasury share	₩ 33,284,673	₩ 33,062,329
Treasury share	(129,603,414)	(103,021,771)
Share options	15,135,609	8,616,667
Gain on valuation of available-for-sale financial assets	30,397	21,029
Loss on valuation of derivatives	-	(195,728)
Gain (loss) on overseas operations translation	(30,763)	569,577
Others	(4,584,855)	(4,591,900)
	₩ (85,768,353)	₩ (65,539,797)

25. Treasury share

(1) Changes in treasury share for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

	Jan.1, 2014		Increase (decrease) (*1)		Dec.31, 2014	
	Number of shares	Book value	Number of shares	Book value	Number of shares	Book value
Exercise of share option	2,658,904	₩ 103,021,771	410,933 (119,000)	₩ 31,477,668 (4,896,025)	2,950,837	₩ 129,603,414

	Jan.1, 2013		Increase (decrease) (*1)		Dec.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

(*1) Represents the treasury shares of the Group from where the share options were granted.

(2) The Group recorded treasury share in other components of equity, which will be used for share options.

26. Share-based payments

(1) Details of share options granted by the Group as at December 31, 2014, are as follows:

- Shares issued through share option: registered ordinary shares
- Grant method: Based on the resolution of the Board of Directors, additional share captial or treasury shares will be issued upon the exercise of share options cash settlement and treasury share for the difference between the exercise price or fair value are available.
- Vesting condition and exercisable 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 may adjust the exercisable number of share options on 20% of the granted shares each year for five years.

26. Share-based payments (cont'd)

	5th grant	6th grant	7th grant	8th grant
Grant date	2009-03-20	2010-03-19	2011-03-25	2012-03-23
Granted shares	330,000	132,120	69,000	228,000
Outstanding shares	95,000	15,000	23,000	135,000
Exercise price per share	₩ 27,484	₩ 35,260	₩ 34,780	₩ 37,420

	9th grant	10th grant	11th grant	12th grant
Grant date	2013-02-26	2013-03-22	2013-11-12	2014-03-21
Granted shares	1,191,000	581,000	261,800	467,500
Outstanding shares	839,940	-	261,800	467,500
Exercise price per share	₩ 50,000	₩ 50,000	₩ 60,160	₩ 71,470

(2) Changes in share options during the years ended December 31, 2014 and 2013, are as follows:

	2014			
	5th grant	6th grant	7th grant	8th grant
At January 1	₩ 135,000	₩ 55,000	₩ 62,000	₩ 135,000
Granted for the year	-	-	-	-
Forfeited for the year	-	-	-	-
Exercised for the year	40,000	40,000	39,000	-
At December 31	₩ 95,000	₩ 15,000	₩ 23,000	₩ 135,000

	2014			
	9th grant	11th grant	12th grant	Total
At January 1	₩ 1,104,000	₩ 261,800	₩ 261,800	₩ 1,752,800
Granted for the year	-	-	467,500	467,500
Forfeited for the year	264,060	-	-	264,060
Exercised for the year	-	-	-	119,000
At December 31	₩ 839,940	₩ 261,800	₩ 467,500	₩ 467,500

26. Share-based payments (cont'd)

	2013				
	4th grant	5th grant	6th grant	7th grant	8th grant
At January 1	₩ 45,000	₩ 265,000	₩ 132,120	₩ 69,000	₩ 228,000
Granted for the year	-	-	-	-	-
Forfeited for the year	-	-	77,120	7,000	93,000
Exercised for the year	45,000	130,000	-	-	-
At December 31	₩ -	₩ 135,000	₩ 55,000	₩ 62,000	₩ 135,000

	2013			
	9th grant	10th grant	11th grant	Total
At January 1	₩ -	₩ -	₩ -	₩ 739,120
Granted for the year	1,191,000	581,000	261,800	2,033,800
Forfeited for the year	87,000	581,000	-	845,120
Exercised for the year	-	-	-	175,000
At December 31	₩ 1,104,000	₩ -	₩ 261,800	₩ 1,752,800

(3) The Group uses the fair-value method to calculate compensation expenses of share options and recognizes as compensation expenses and capital adjustments over the vesting period. Details of share options as at December 31, 2014, are as follows (Korean won in thousands):

		5th grant	6th grant	7th grant	8th grant
Total compensation expenses	At grant date	₩ 3,614,757	₩ 1,566,121	₩ 727,214	₩ 2,473,572
	Cancelled	(164,307)	(914,163)	(94,854)	(1,008,957)
	Subtotal	3,450,449	651,958	632,360	1,464,615
Recognized expenses	For prior periods	3,450,449	651,958	617,136	895,043
	For current period	-	-	-	-
	Subtotal	3,450,449	651,958	653,438	1,383,248
Exercised	For prior periods	1,971,685	-	-	-
	For current period	438,152	474,151	411,034	-
	Subtotal	2,409,838	474,151	411,034	-
Outstanding share options		1,040,612	177,807	221,326	1,464,615
Compensation expenses expected to be recognized		₩ -	₩ -	₩ (21,079)	₩ 81,368

		9th grant	11th grant	12th grant	Total
Total compensation expenses	At grant date	₩ 15,382,956	₩ 4,631,242	₩ 9,461,733	₩ 37,857,595
	Cancelled	(4,534,291)	-	-	(6,716,572)
	Subtotal	10,848,665	4,631,242	9,461,733	31,141,022
Recognized expenses	For prior periods	4,709,651	264,116	-	10,588,353
	For current period	2,861,901	1,584,696	2,871,174	7,842,278
	Subtotal	7,571,552	1,848,813	2,871,174	18,430,632
Exercised	For prior periods	-	-	-	1,971,685
	For current period	-	-	-	1,323,337
	Subtotal	-	-	-	3,295,023
Outstanding share options		10,848,665	4,631,242	9,461,733	27,846,000
Compensation expenses expected to be recognized		₩ 3,277,113	₩ 2,782,429	₩ 6,590,558	₩ 12,710,389

26. Share-based payments (cont'd)

(4) The assumptions used in calculating compensation expenses using fair value approach are as follows (Korean won in thousands):

	5th grant	6th grant	7th grant	8th grant	9th grant	11th grant	12th grant
Risk-free interest rate	4.15%	4.30%	4.06%	3.82%	2.80%	3.24%	3.16%
Vesting period	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Expected volatility	45.30%	40.25%	38.12%	35.89%	32.16%	30.52%	29.72%
Expected dividend yield	174.00%	202.00%	210.00%	210.00%	210.00%	210.00%	332.00%
Expected rate of lapsing share option	-	-	-	-	-	-	-
Total compensation expense	₩ 3,614,757	₩ 1,566,121	₩ 727,214	₩ 2,473,572	₩15,382,956	₩ 4,631,242	₩ 9,461,733

27. Derivatives

(1) Derivative instruments with the purpose of hedging as at December 31, 2014, are as follows (Korean won in thousands):

	Number of contracts	Transaction date	Due date	Currency	Interest rate	Amount	2014	2013
Currency / interest rate	1	2011-01-14	2014-01-14	KRW	3.93%	₩57,350,000	₩ -	₩(4,584,013)
swap (*1)	2	2011-04-18	2014-04-18	KRW	4.53%	₩65,340,000	₩ -	₩(2,281,203)

(*1) Derivatives used for hedging for currency rate and interest rate risk of foreign floating rate bonds

(2) Changes in the loss on valuation of cash flow hedges in other comprehensive income for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

	Jan.1,2014	Valuation	Deferred income tax	Dec. 31, 2014
Loss on valuation of derivative instruments	₩ (195,728)	₩ 258,216	₩ (62,488)	₩ -

	Jan.1,2013	Valuation	Deferred income tax	Dec. 31, 2013
Loss on valuation of derivative instruments	₩ (756,951)	₩ 740,400	₩ (179,177)	₩ (195,728)

28. Selling and administrative expenses

Details of selling and administrative expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014		2013	
Wages and salaries	₩	226,633,335	₩	225,040,967
Pension costs		19,519,454		18,518,807
Employee welfare benefits		36,216,091		44,961,203
Travel expenses		7,294,153		8,506,134
Communication expense		9,893,709		12,849,680
Rent expenses		55,407,542		55,595,081
Depreciation expense		13,445,850		15,407,218
Amortization expense		7,586,750		6,927,600
Repairs and maintenance expense		4,307,226		4,157,781
Supplies expenses		25,658,288		24,298,665
Publication expense		1,824,269		2,209,018
Advertising expenses		43,029,918		50,235,494
Sales promotion expense		49,210,316		40,053,682
Transportation expense		4,691,010		5,116,625
Insurance premium		4,378,166		3,586,379
Commission		154,816,171		110,109,846
Training expenses		11,325,215		10,066,705
Usual development expense		7,545,750		7,029,976
Sales commission		309,681,367		337,207,371
Shared-based payment expense		7,212,754		4,032,048
Customer compensation expense		5,050,014		4,783,555
Impairment of accounts receivable		14,355,239		14,088,587
Loss on termination of lease assets		41,504,651		40,975,166
Others		8,732,564		12,567,853
	₩	1,069,319,802	₩	1,058,325,441

29. Other income and expenses

Details of other income and expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014		2013	
Other income:				
Lease income	₩	1,249,368	₩	1,093,284
Gain on foreign currencies transactions		3,410,101		3,202,800
Gain on foreign exchange translation		6,505,074		5,097,225
Miscellaneous income		6,196,191		5,929,734
Other		249,337		649,568
	₩	17,610,071	₩	15,972,611
Other expenses:				
Loss from disposal of property, plant and equipment	₩	9,483,818	₩	9,954,827
Loss from disposal of intangible assets		454,354		1,252,928
Impairment on intangible assets		3,240,475		348,480
Loss on foreign currencies transactions		5,454,919		3,525,151
Loss on foreign exchange translation		4,584,021		8,374,300
Loss on valuation of derivatives		-		1,738,000
Miscellaneous losses		11,533,194		2,214,544
Other		5,946,716		3,573,675
	₩	40,697,497	₩	30,981,905

30. <u>Finance income and expenses</u>

Details of finance income and expenses for the years ended December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014	2013
Financial Income:		
Interest income	₩ 2,700,904	₩ 4,131,432
Dividend income	2,556	4,471
Gain on disposal of available-for-sale financial assets	-	1,420
	₩ 2,703,460	₩ 4,137,323
Financial expenses:		
Interest expense	₩ 11,530,471	₩ 18,620,949
Impairment on available-for-sale financial assets	62,111	-
Others	5,435	-
	₩ 11,598,017	₩ 18,620,949

31. <u>Expenses by nature</u>

Expenses by nature for the years ended December 31, 2014 and 2013, consist of the following (Korean won in thousands):

	2014	2013
Changes in inventories of finished goods and work-in-progress	₩ 8,839,474	₩ (7,807,205)
Changes in inventories of merchandise	(6,370,024)	11,075,298
Use of merchandise and raw materials (raw material costs)	446,124,471	469,675,420
Wages and salaries	269,892,211	275,134,550
Pension costs	21,451,247	17,728,407
Employee welfare benefits	39,386,801	46,316,947
Supplies	27,894,074	26,017,063
Commission	156,149,175	110,109,846
Depreciation expenses	205,684,207	190,596,454
Rent expenses	55,790,882	55,999,238
Advertising expenses	43,031,737	50,235,494
Sales promotion expenses	49,210,316	40,053,682
Sales commissions	309,681,794	337,207,371
Impairment on accounts receivable	14,355,239	14,088,587
Loss on termination of lease assets	41,504,651	40,975,166
Other expenses	113,260,705	101,902,899
	₩ 1,795,886,961	₩ 1,779,309,217

32. <u>Construction contracts</u>

(1) Changes in construction contracts for the years ended December 31, 2014 and 2013 are as follows (Korean won in thousands):

Jan.1, 2014	Increase (decrease)	Contracts revenue for the year	Dec. 31, 2014
₩ 74,974,220	₩ 61,934,968	₩ 54,404,144	₩ 82,505,044

Jan.1, 2013	Increase (decrease)	Contracts revenue for the year	Dec. 31, 2013
₩ 62,242,200	₩ 94,473,175	₩ 81,741,155	₩ 74,974,220

32. Construction contracts (cont'd)

(2) As at December 31, 2014, accumulated profit on major construction contracts in progress are as follows (Korean won in thousands):

2014			2013		
Accumulated construction revenue	Accumulated construction cost	Accumulated profit	Accumulated construction revenue	Accumulated construction cost	Accumulated profit
₩ 102,879,581	₩ 83,650,518	₩ 19,229,063	₩ 99,269,773	₩ 85,806,805	₩ 13,462,968

(3) Amounts due from (to) customers for construction contracts as at December 31, 2014 and 2013, are as follows (Korean won in thousands):

2014		2013	
Due from customers (*1)	Due to customers (*2)	Due from customers (*1)	Due to customers (*2)
₩ 4,551,773	₩ 5,130,936	₩ 22,287,181	₩ 2,534,680

(*1) Classified as other short-term financial assets on the statement of financial position.
(*2) Classified as other current liabilities on the statement of financial position

(4) The Group recognizes provision for construction warranties for expected warranty claims, based on the historical experience of repairs when the Group has an obligation to repair after the completion of the constructions. The warranty expenses are included in construction costs for the year of construction completion.

33. Income taxes

(1) The component of income tax expense for the years ended December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014	2013
Current income taxes including addition and reverse of income taxes paid	₩ 82,065,881	₩ 85,993,504
Tax effect of temporary differences	(1,921,753)	(4,263,511)
Current and deferred income taxes recognized directly to equity (*1)	2,634,047	332,790
Income tax expense	₩ 82,778,174	₩ 82,062,783

(*1) Deferred income taxes charged directly to equity as at December 31, 2014 and 2013, consist of the following:

	2014		
	Gross amount	Income tax effect	Net of tax
Loss on valuation of available-for-sale financial assets	₩ 12,011	₩ (2,642)	₩ 9,369
Changes in equity in equity method	-	-	-
Re-measurement of defined benefit plan	(10,942,405)	2,770,164	(8,172,241)
Loss on valuation of derivative instruments	258,216	(62,488)	195,728
Gain on disposal of treasury shares	293,332	(70,986)	222,346
	₩ (10,378,845)	₩ 2,634,047	₩ (7,744,799)

33. Income taxes (cont'd)

	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 equity in equity method	5,922,323	(1,433,202)	4,489,121
Re-measurement of defined benefit plan	(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
	₩ 5,457,356	₩ 332,790	₩ 5,790,146

(2) A reconciliation of provision for income taxes applicable to income before income taxes at the Korea statutory tax rate to provision for income taxes at the effective income tax rate of the Group is as follows (Korean won in thousands):

	2014	2013
Profit before income tax	₩ 332,446,587	₩ 327,137,435
Income tax based on statutory rate	79,990,074	78,705,259
Tax credit	(709,982)	(3,040,060)
Permanent differences and others	2,188,035	(1,626,452)
Unrealized deferred tax related to temporary differences	7,205,407	2,695,647
Adjustment on probability that taxable profit will be available against the temporary differences	(4,055,831)	(758,788)
Additional payment of prior year income taxes	(567,805)	6,098,712
Others	(1,271,724)	(11,535)
Income tax expense	₩ 82,778,174	₩ 82,062,783
Effective tax rate	24.90%	25.09%

(3) Details of deferred tax assets (liabilities) as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014	2013
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	₩ 35,458,326	₩ 30,014,602
Deferred tax asset to be recovered within 12 months	27,771,037	22,336,872
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	30,883,011	29,742,596
Deferred tax liabilities to be recovered within 12 months	51,563,094	43,747,373
Net of deferred tax liabilities	₩ (19,216,741)	₩ (21,138,495)

33. Income taxes (cont'd)

(4) Details of changes in cumulative temporary differences and deferred income tax assets (liabilities) for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

	2014		
	Temporary difference		
	Beginning balance	Increase (decrease)	Ending balance
I. Deductible temporary differences			
Advanced receipts	₩ 15,261,933	₩ 3,480,965	₩ 18,742,898
Inventory valuation allowance	4,417,211	900,904	5,318,115
Accrued expenses	15,194,784	1,632,779	16,827,563
Unearned income	6,349,995	3,170,661	9,520,656
Provision for return of goods sold	1,392,095	(844,083)	548,012
Provision for product warranties	1,896,335	5,194,628	7,090,963
Allowance for doubtful accounts	47,429,959	7,909,582	55,339,541
Lease assets	22,697,023	(1,241,751)	21,455,272
Impairment on property, plant and equipment	4,971,478	(3,986,921)	984,557
Employee defined benefit liability	58,822,977	14,947,195	73,770,172
Investments in subsidiaries	15,278,195	7,828,340	23,106,535
Long-term securities	2,388,092	-	2,388,092
Salaries for overseas employees	7,830,411	3,815,532	11,645,943
Others	24,203,137	11,559,105	35,762,242
Subtotal	228,133,625	54,366,935	282,500,560
II. Taxable temporary differences			
Prepaid expenses	180,263,069	32,448,281	212,711,350
Investments in subsidiaries	20,975,527	(31,421,155)	(10,445,628)
Provision for advance depreciation (merger)	7,872,697	-	7,872,697
Provision for temporary depreciation (merger)	678,280	(33,435)	644,845
Plan assets	69,926,982	25,461,380	95,388,362
Goodwill (Woongjin Cuchen)	84,754,782	-	84,754,782
Goodwill (Woongjin Coway Construction)	1,564,734	-	1,564,734
Amortization (goodwill)	18,212,025	1,491,688	19,703,713
Others	6,771,749	(2,832,162)	3,939,587
Subtotal	391,019,845	25,114,597	416,134,442
III. Charged directly to equity			
Gain on valuation of available-for-sale	(36,802)	(46,908)	(83,710)
Re-measurement of net of defined benefit liability	12,697,734	10,942,404	23,078,118
Loss on valuation of derivatives	258,216	(258,216)	-
Subtotal	12,919,148	10,637,280	23,556,428
IV. Deferred Tax expenses due to losses carried forward	-	-	-
	₩ (149,967,072)	₩ 39,889,618	₩ (110,077,454)

33. Income taxes (cont'd)

	2014		
	Deferred income tax assets (liabilities)		
	Beginning balance	Increase (decrease)	Ending balance
I. Deductible temporary differences			
Advanced receipts	₩ 3,693,388	₩ 842,393	₩ 4,535,781
Inventory valuation allowance	1,068,965	304,290	1,373,255
Accrued expenses	3,677,138	389,845	4,066,983
Unearned income	1,561,043	799,414	2,360,457
Provision for return of goods sold	336,887	(204,268)	132,619
Provision for product warranties	458,913	1,450,860	1,909,773
Allowance for doubtful accounts	11,478,050	1,914,119	13,392,169
Lease assets	5,532,666	(1,060,408)	4,472,258
Impairment on property, plant and equipment	1,203,098	(964,835)	238,263
Employee defined benefit liability	14,207,047	3,612,009	17,819,056
Investments in subsidiaries	-	-	-
Long-term securities	-	-	-
Salaries for overseas employees	800,430	(800,430)	-
Others	3,580,849	1,870,583	5,451,432
Subtotal	47,598,474	8,153,572	55,752,046
II. Taxable temporary differences			
Prepaid expenses	43,747,373	37,043,699	201,842,971
Investments in subsidiaries	5,076,078	(22,788,396)	(10,445,628)
Provision for advance depreciation (merger)	1,905,193	-	7,872,697
Provision for temporary depreciation (merger)	164,144	(33,435)	644,845
Plan assets	16,922,330	6,151,227	23,073,557
Goodwill (Woongjin Cuchen)	-	-	-
Goodwill (Woongjin Coway Construction)	-	-	-
Amortization (goodwill)	4,407,310	360,988	4,768,298
Others	1,267,541	(287,631)	979,910
Subtotal	73,489,969	8,956,136	82,446,105
III. Charged directly to equity			
Gain on valuation of available-for-sale	(8,097)	(2,642)	(10,739)
Re-measurement of net of defined benefit liability	3,142,343	2,770,163	5,912,506
Loss on valuation of derivatives	62,488	(62,488)	-
Subtotal	3,196,734	2,705,033	5,901,767
IV. Deferred Tax expenses due to losses carried forward	1,556,266	19,284	1,575,550
	₩ (21,138,495)	₩ 1,921,753	₩ (19,216,741)

33. Income taxes (cont'd)

	2013					
	Temporary difference					
		Beginning balance		Increase (decrease)		Ending balance
I. Deductible temporary differences						
Advanced receipts	₩	13,751,617	₩	1,510,316	₩	15,261,933
Inventory valuation allowance		19,807,686		15,390,475)		4,417,211
Accrued expenses		28,388,274		(13,193,490)		15,194,784
Unearned income		3,840,327		2,509,668		6,349,995
Provision for return of goods sold		1,379,040		13,055		1,392,095
Provision for product warranties		3,580,570		(1,684,235)		1,896,335
Allowance for doubtful accounts		42,795,450		4,634,509		47,429,959
Lease assets		15,543,981		7,153,042		22,697,023
Impairment on property, plant and equipment		-		4,971,478		4,971,478
Employee defined benefit liability		45,718,345		13,104,632		58,822,977
Investments in subsidiaries		16,325,033		(1,046,838)		15,278,195
Goodwill (Woongjin Chemical)		1,718,658		(1,718,658)		-
Goodwill (Woongjin Happyall)		12,627,910		(12,627,910)		-
Payment guarantees for subsidiaries		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
Others		13,445,550		10,757,587		24,203,137
Subtotal		229,030,556		(896,931)		228,133,625
II. Taxable temporary differences						
Prepaid expenses		154,114,674		26,148,395		180,263,069
Investments in subsidiaries		82,697,153		(61,721,626)		20,975,527
Provision for advance depreciation (merger)		7,872,697		-		7,872,697
Provision for temporary depreciation (merger)		711,715		(33,435)		678,280
Provision for temporary depreciation		4,100		(4,100)		-
Plan assets		54,865,931		15,061,051		69,926,982
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
Other		14,745,177		(7,973,428)		6,771,749
Subtotal		417,955,599		(26,935,754)		391,019,845
III. Charged directly to equity						
Gain on valuation of available-for-sale		(31,190)		(5,612)		(36,802)
Changes in share of associates		5,922,323		(5,922,323)		-
Re-measurement of net of defined benefit liability		11,148,129		1,549,605		12,697,734
Loss on valuation of derivatives		998,616		(740,400)		258,216
Subtotal		18,037,878		(5,118,730)		12,919,148
IV. Deferred Tax expenses due to losses carried forward		-		-		-
	₩	(170,887,165)	₩	20,920,093	₩	(149,967,072)

33. Income taxes (cont'd)

	2013		
	Deferred income tax assets (liabilities)		
	Beginning balance	Increase (decrease)	Ending balance
I. Deductible temporary differences			
Advanced receipts	₩ 3,323,869	₩ 369,519	₩ 3,693,388
Inventory valuation allowance	4,737,502	(3,668,537)	1,068,965
Accrued expenses	6,864,556	(3,187,418)	3,677,138
Unearned income	911,233	649,810	1,561,043
Provision for return of goods sold	333,728	3,159	336,887
Provision for product warranties	866,498	(407,585)	458,913
Allowance for doubtful accounts	9,898,160	1,579,890	11,478,050
Lease assets	3,051,287	2,481,379	5,532,666
Impairment on property, plant and equipment	10,929,922	(9,726,824)	1,203,098
Employee defined benefit liability	226,328	13,980,719	14,207,047
Investments in subsidiaries	415,915	(415,915)	-
Goodwill (Woongjin Chemical)	3,055,954	(3,055,954)	-
Goodwill (Woongjin Happyall)	-	-	-
Payment guarantees for subsidiaries	-	-	-
Long-term securities	-	-	-
Salaries for overseas employees	-	800,430	800,430
Others	2,615,548	965,301	3,580,849
Subtotal	47,230,500	367,974	47,598,474
II. Taxable temporary differences			
Prepaid expenses	37,282,224	6,465,149	43,747,373
Investments in subsidiaries	19,831,347	(14,755,269)	5,076,078
Provision for advance depreciation (merger)	1,905,193	-	1,905,193
Provision for temporary depreciation (merger)	172,235	(8,091)	164,144
Provision for temporary depreciation	992	(992)	-
Plan assets	13,270,519	3,651,811	16,922,330
Goodwill (Woongjin Cuchen)	-	-	-
Goodwill (Woongjin Coway Construction)	-	-	-
Amortization (goodwill)	4,023,162	384,148	4,407,310
Others	1,018,647	248,894	1,267,541
Subtotal	77,504,319	(4,014,350)	73,489,969
III. Charged directly to equity			
Gain on valuation of available-for-sale	(6,901)	(1,196)	(8,097)
Changes in share of associates	1,433,202	(1,433,202)	-
Re-measurement of net of defined benefit liability	1,114,031	2,028,312	3,142,343
Loss on valuation of derivatives	241,665	(179,177)	62,488
Subtotal	2,781,997	414,737	3,196,734
IV. Deferred Tax expenses due to losses carried forward	2,089,816	(533,550)	1,556,266
	₩ (25,402,006)	₩ 4,263,511	₩ (21,138,495)

33. <u>Income taxes (cont'd)</u>

(5) Details of the unrecognized deferred income tax assets (liabilities) as at December 31, 2014 and 2013, are as follows (Korean won in thousands):

		2014		2013
Investments in subsidiaries	₩	33,552,163	₩	15,278,195
Long-term investment securities		2,388,092		2,388,092
Payment guarantee for foreign subsidiaries		36,602		36,602
Salaries for overseas employees		11,645,943		4,522,850
Losses available for offsetting against future taxable income of subsidiaries		8,662,209		8,394,342
Trademarks		3,304,173		1,921,927
Oversea advertising expenses		880,744		880,744
Others		1,069,584		2,326,416
Total deferred tax assets	₩	61,539,510	₩	35,749,168
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	₩	86,319,516	₩	87,821,659

34. <u>Earnings per share</u>

(1) Basic earnings per share

Basic earnings per share for the years ended December 31, 2014 and 2013, is as follows (In Korean won):

		2014		2013
Net income	₩	249,691,456,790	₩	245,074,651,953
Weighted average number of ordinary shares (*1)		74,290,473		74,641,655
Basic earnings per share		3,361		3,283

(*1) The weighted average number of ordinary shares for December 31, 2014, is calculated from shares outstanding which are weighted averaged by distribution period. Treasury shares, held from acquisition date until disposal date, are excluded from ordinary shares.

(2) Diluted earnings per share

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

34. Earnings per share (cont'd)

The Group 's diluted earnings per share amounts for the years ended December 31, 2014 and 2013, is computed as follows (In Korean won):

		2014		2013
Net income attributable to ordinary shares	₩	249,691,456,790	₩	245,074,651,953
Share-based compensation expense		26,748,725		-
Net income attributable to ordinary shares adjusted for the effect of dilution		249,718,205,515		245,074,651,953
Weighted average number of ordinary shares		74,290,793		74,641,655
Adjustment for assumed exercise of share options (*1)		111,565		229,353
Weighted average number of ordinary shares adjusted for the effect of dilution		74,402,358		74,871,008
Diluted earnings per share	₩	3,356	₩	3,273

(*1) It indicates the dilutive effect of share options which have been granted to certain executives and senior employees.

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

35. Statements of cash flows

(1) Non-cash adjustments

		2014		2013
Pension costs	₩	21,507,785	₩	17,728,407
Shared-based payment expense		7,842,278		4,408,612
Depreciation expense (tangible assets and investment properties)		205,684,207		190,596,453
Amortization expense		7,924,145		7,611,768
Loss on impairment of trade receivables		14,355,239		15,655,723
Loss on impairment of other receivables		4,601,569		237,906
Loss on valuation of inventories		11,665,716		1,249,934
Loss on termination of lease assets		41,504,651		40,975,166
Loss on valuation of derivative instruments		-		1,738,000
Loss on foreign exchange translation		4,584,021		8,374,300
Income of investment in subsidiaries and associates		-		(17,598,006)
Impairment of property, plant and equipment		9,483,818		9,954,827
Impairment of intangible assets		3,240,475		348,480
Gain on foreign exchange translation		(6,505,075)		(5,097,225)
Other income		(82)		(71,608)
Interest income		(2,700,904)		(4,131,432)
Interest expense		11,530,471		18,620,949
Income tax expense		82,778,174		82,062,783
Others		(2,167,660)		1,567,419
	₩	415,328,828	₩	374,232,456

35. Statements of cash flows (cont'd)

(2) Working capital adjustments

		2014		2013
Increase in trade receivables	₩	(3,385,313)	₩	67,349,061
Decrease (increase) in other short-term financial assets		12,230,673		(10,636,804)
Increase in other current assets		(21,390,784)		(5,675,221)
Decrease (increase) in inventories		(3,370,270)		18,985,554
Decrease (increase) in other non-current assets		(17,467,956)		1,095,088
Increase in trade payables		17,867,874		(82,393,428)
Increase in other short-term financial liabilities		352,304		(820,342)
Decrease (increase) in other short-term liabilities		8,859,272		(5,767,953)
Increase in other long-term liabilities		874,631		542,488
Payment of pension benefits		(8,627,156)		(6,508,445)
Increase in plan assets		(16,274,567)		(17,198,865)
Increase (decrease) on provisions		1,210,857		(42,580)
	₩	(29,120,435)	₩	(41,071,447

(3) Significant transactions not affecting cash flows for the years ended December 31, 2014 and 2013 are as follows (Korean won in thousands):

		2014		2013
Transfer of debentures to current portion	₩	-	₩	117,821,000
Transfer of long-term liabilities to current liabilities		-		30,083,333
Transfer of construction-in-progress to respective tangible assets		7,061,821		8,874,563
Transfer of construction in progress to respective intangible assets		1,302,600		2,716,625
Transfer of Long-term guarantee to Intangible assets		42,720		-
Transfer to construction in progress from freehold land		1,182,332		-

36. Related party transactions

(1) The related parties of the Group as at December 31, 2014, are as follows:

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

(2) There are no transaction with related party except for dividends paid to Coway Holdings in current year and prior year.

(3) Key management includes directors (executive and non-executive), members of the Executive Committee, the Group Secretary and the Head of Internal Audit. The compensation paid or payable to key management for employee services for the years ended December 31, 2014 and 2013 consists of:

		2014		2013
Short-term employee benefits	₩	5,534,212	₩	4,184,203
Pension costs		579,711		546,642
Share-based payment transactions		7,713,881		4,408,612
	₩	13,827,804	₩	9,139,457

37. <u>Fair value measurement</u>

(1) Details of book value and fair value of financial instruments as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

	Financial assets							
	2014				2013			
	Book value		Fair value		Book value		Fair value	
Financial assets:								
Cash and cash equivalents	₩	147,363,023	₩	147,363,023	₩	238,665,065	₩	238,665,065
Trade receivables		208,800,401		208,800,401		212,606,268		212,606,268
Other financial Assets (*1)		74,786,052		74,786,052		73,634,610		73,634,610
Available-for-sale financial assets		2,417,368		2,417,368		2,467,078		2,467,078
	₩	433,366,844	₩	433,366,844	₩	527,373,021	₩	527,373,021
Financial liabilities:								
Trade payables	₩	59,047,507	₩	59,047,507	₩	36,662,814	₩	36,662,814
Borrowings		165,335,283		165,335,283		327,940,169		327,940,169
Derivative financial instruments		-		-		6,865,216		6,865,216
Other financial assets		187,202,402		187,202,402		184,342,282		184,342,282
	₩	411,585,192	₩	411,585,192	₩	555,810,481	₩	555,810,481

(*1) Excluded due from customers for construction contracts amounting to ₩4,551,773 thousands and ₩22,287,181 thousands for the years ended December 31, 2014 and 2013, respectively.

(2) Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique. The level of hierarchy of fair value is as follows:

Level 1 : Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 : Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 : Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

37. Fair value measurement (cont'd)

The level of fair value measurements of financial instruments as at December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	₩ 56,981	₩ 147,306,042	₩ -	₩ 147,363,023
Trade receivables	-	-	208,800,401	208,800,401
Short-term loans	-	-	4,864,933	4,864,933
Other receivables	-	-	17,336,726	17,336,726
Long-term financial instruments	-	8,333,658	-	8,333,658
Long-term loans	-	-	763,314	763,314
Long-term guarantee deposits	-	-	43,487,421	43,487,421
Available-for-sale financial assets	-	-	2,417,367	2,417,367
Financial Liabilities:				
Trade payables	-	-	59,047,507	59,047,507
Other payables	-	-	155,784,949	155,784,949
Accrued expenses	-	-	20,550,590	20,550,590
Short-term borrowings	-	164,403,283	-	164,403,283
Long-term other payable	-	-	914,319	914,319
Long-term borrowings	-	932,000	-	932,000
Guarantee deposits withheld	-	-	361,175	361,175
Lease deposits provided	-	-	1,212,942	1,212,942
Reserve for agent losses	-	-	8,219,380	8,219,380
Others	-	-	159,047	159,047

	2013			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	₩ 100,536	₩ 238,564,529	₩ -	₩ 238,665,065
Trade receivables	-	-	212,606,268	212,606,268
Short-term loans	-	-	6,426,015	6,426,015
Other receivables	-	-	14,665,508	14,665,508
Accrued income	-	-	17,725	17,725
Long-term financial instruments	-	9,732,326	-	9,732,326
Long-term other receivables	-	-	71,971	71,971
Long-term loans	-	-	500,000	500,000
Long-term guarantee deposits	-	-	42,221,065	42,221,065
Available-for-sale financial assets	-	-	2,467,078	2,467,078
Financial Liabilities:				
Trade payables	-	-	36,662,814	36,662,814
Other payables	-	-	154,368,117	154,368,117
Accrued expenses	-	-	20,567,598	20,567,598
Short-term borrowings	-	181,773,836	-	181,773,836
Current portion of long-term liabilities	-	30,083,333	-	30,083,333
Current portion of debentures	-	116,083,000	-	116,083,000
Derivative liabilities	-	-	6,865,216	6,865,216
Long-term other payable	-	-	647,809	647,809
Guarantee deposits withheld	-	-	412,720	412,720
Lease deposits provided	-	-	1,227,130	1,227,130
Reserve for agent losses	-	-	7,060,875	7,060,875
Others	-	-	58,033	58,033

The fair values of financial instruments traded in an active market are calculated, based on market prices on the closing date of the reporting period. If the posted prices are easily and regularly usable through a clearing house, seller, intermediary, industrial group, appraisal institution or supervisory institution, and if the prices represent actual transactions between independent parties, it is regarded as an active market. The posted market price of a financial asset held by the Group is a bid price. The financial instruments are included in level 1. The instruments in the level 1 consist of the listed equity securities of KOSPI or KOSDA that are mostly classified as trading securities or available-for-sale securities.

37. Fair value measurement (cont'd)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

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

Specific valuation techniques used to value financial instruments include:

- Quoted or dealer price of similar instruments.

- The fair value of an interest rate swap is calculated by the present value of the estimated future cash flows that follow an observable earnings rate curve.

- The fair value of forward foreign exchange contracts determined by using forward exchange rates at the reporting date, with the resulting value discounted to present value.

- Other financial techniques such as discounted cash flow analysis.

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

	Available-for-sale financial assets			
	2014		2013	
At January 1	₩	793,455	₩	783,854
Amount recognized in profit or loss		-		-
Amount recognized in other comprehensive		12,011		9,601
At December 31	₩	805,466	₩	793,455

	Derivative liabilities for hedging			
	2014		2013	
At January 1	₩	(6,865,216)	₩	(5,867,616)
Amount recognized in profit or loss		6,865,216		(1,738,000)
Amount recognized in other comprehensive		-		740,400
At December 31	₩	-	₩	(6,865,216)

(4) The following table presents available-for-sale financial assets that are valued at historical cost as at December 31, 2014 and 2013. (Korean won in thousands)

	2014		2013	
Mc-Science Co., Ltd.	₩	1,133,760	₩	1,133,760
NEX Telecom Co., Ltd.		98,516		98,516
Nabi Story Co,. Ltd.		27,889		90,000
Construction guarantee		295,873		295,873
Electric Contractors' Financial Cooperative		50,000		50,000
Others		5,863		5,475
	₩	1,611,901	₩	1,673,624

37. <u>Fair value measurement (cont'd)</u>

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

	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 nontrade 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 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 2014, there is no significant change in business and economic environments which influence the fair value of financial assets and liabilities of the Group.

38. <u>Financial risk management objectives and policies</u>

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.

(1) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks comprise three types of risk: interest rate risk, foreign currency risk and other price risk, such as equity price risk.

1) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowings with floating interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group's borrowings with floating interest rates as at December 31, 2014 and 2013 are ₩82,803,283 thousands and ₩82,009,139 thousands, respectively. The Group's profit before tax is affected through the impact on floating rate borrowings, as follow (Korean won in thousands):

	1% increase			
	2014		2013	
Interest rate	₩	(844,033)	₩	(836,925)

2) 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.

At December 31, 2014, 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 ₩1,789 million (2013: ₩3,047 million) higher / lower.

The Group's financial instruments denominated in major foreign currencies as at December 31, 2014 and 2013, are as follows (Korean won in thousands):

	2014							
	USD		JPY		EUR		Total	
Cash and cash equivalents	₩	12,083,506	₩	150,704	₩	1,302,255	₩	13,536,465
Trade receivables (*1)		23,984,339		178,706		803,923		24,966,968
Trade payables		1,862,791		860,510		-		2,723,301

	2013							
	USD		JPY		EUR		Total	
Cash and 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

(*1) Before offsetting the related impairment

3) Other price risk

Other price risk is the risk that the fair value or cash flows of instrument will fluctuate because of changes in market price other than interest rate risk and foreign currency risk. However, Management assessed that the price movement of equity securities had no material effect on other comprehensive income as at December 31, 2014.

(2) Credit risk

Credit risk is managed on a Group 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.

37. Financial risk management objectives and policies (cont'd)

A summary of maximum exposure to the credit risk as at December 31, 2014 and 2013, are as follows (Korean won in thousands):

	2014		2013	
Cash and cash equivalents (*1)	₩	147,306,042	₩	238,564,529
Trade receivables		208,800,401		212,606,268
Other short-term financial assets (*2)		22,201,169		21,109,248
Other long-term financial assets		52,584,883		52,525,362
Available-for-sale financial assets (*3)		170		170
	₩	146,724,963	₩	128,434,693

(*1) Excluded cash on hand from cash and cash equivalents on the statement of financial position.
(*2) Excluded due from customers for construction contracts from other short-term financial assets on the statement of financial position.
(*3) Excluded equity instruments from available-for-sale on the statement of financial position.

(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.

The Group 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 abovementioned forecasts.

The Group 's liquidity risk as at December 31, 2014 and 2013, are as follows (In thousands of Korean won):

	2014							
	Less than 1 year		Between 1 and 2 years		More than 2 years		Total	
Trade payables	₩	59,047,507	₩	-	₩	-	₩	59,047,507
Trade receivables		176,409,759		10,792,643		-		187,202,402
Short-term borrowing		164,403,283		-		-		164,403,283
Long-term borrowing		-		-		932,000		932,000
		399,860,549		10,792,643		932,000		411,585,192

	2013					
	Less than 1 year		Between 1 and 2 years		Total	
Trade payables	₩	36,662,814	₩	-	₩	36,662,814
Other financial liability		174,993,748		9,348,534		184,342,282
Short-term borrowing		181,773,836		-		181,773,836
Current potion of long-term borrowings		30,083,333		-		30,083,333
Debentures		116,083,000		-		116,083,000
Derivatives (interest swap) -paid (*1)		976,540		-		976,540
Derivatives (interest swap) -received (*1)		(357,265)		-		(357,265)
	₩	547,276,880	₩	9,348,534	₩	549,564,540

(*1) The cash flows of debentures reflect derivatives' 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

37. Financial risk management objectives and policies (cont'd)

(4) 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 at December 31, 2014 and 2013 are as follows (Korean won in thousands):

	2014	2013
Total borrowings	₩ 165,335,283	₩ 327,940,169
Less: cash and cash equivalents	(147,363,023)	(238,665,065)
Net debt	17,972,260	89,275,104
Net equity	1,039,435,029	940,888,509
Total capital	₩ 1,057,407,289	₩ 1,030,163,613
Gearing ratio	1.70%	8.67%

39. Approval date of consolidated financial statements and authority.

The consolidated financial statements of the Group for the year ended December 31, 2014 were approved by the Board of Directors at their meeting on February 11, 2015.