

GS Engineering & Construction Corporation 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
GS Engineering & Construction Corporation

We have audited the accompanying consolidated financial statements of GS Engineering & Construction Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2014 and the consolidated statements of profit or loss and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Korean International Financial Reporting Standards (KIFRS), and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 GS Engineering & Construction Corporation and its subsidiaries as at December 31, 2014 and the results of its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other Matter

The consolidated financial statements of GS Engineering & Construction Corporation and its subsidiaries for the year ended December 31, 2013, were audited by PWC who expressed an unqualified opinion on those statements on March 13, 2014.

Ernst & Young Han Young

February 24, 2015

This audit report is effective as at February 24, 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.

GS Engineering & Construction Corporation and Subsidiaries
Consolidated statements of financial position
as at December 31, 2014 and 2013

(Korean won in millions)

	Notes	2014	2013
Assets			
Current assets			
Cash and cash equivalents	10,32,33	₩ 2,151,187	₩ 1,865,508
Trade and other receivables	7,8,10,30,32,33	4,573,822	4,785,254
Inventories	9	613,225	499,240
Short-term financial assets	6,10,12,32,33	332,671	323,187
Other current assets	9	982,042	941,278
Total current assets		8,652,947	8,414,467
Non-current assets			
Property, plant and equipment	14	2,456,041	2,242,896
Intangible assets	15	169,962	194,899
Investment properties	16	121,138	167,188
Investments in associates	13	36,973	32,446
Long-term trade and other receivables	7,10,30,32,33	842,194	615,442
Long-term financial assets	6,10,11,32,33	347,466	333,278
Deferred tax assets	28	467,988	426,697
Total non-current assets		4,441,762	4,012,846
Total assets		₩ 13,094,709	₩ 12,427,313
Liabilities			
Current liabilities			
Trade and other payables	10,17,30,32,33	₩ 1,633,207	₩ 1,527,396
Short-term financial liabilities	10,12,18,32,33	1,709,989	2,190,045
Income tax payable		15,200	2,443
Other current liabilities	8,10,17,33	2,768,787	2,417,028
Total current liabilities		6,127,183	6,136,912
Non-current liabilities			
Long-term trade and other payables	10,17,32,33	136,080	-
Long-term financial liabilities	10,12,14,18,32,33	2,487,230	2,356,362
Net defined benefit liabilities	19	93,539	49,501
Non-current provisions	10,20,32,33	287,078	301,751
Deferred tax liabilities	28	148,854	215,544
Other non-current liabilities	10,17,33	233,133	207,964
Total non-current liabilities		3,385,914	3,131,122
Total liabilities		9,513,097	9,268,034
Equity			
Equity attributable to owners of the Parent			
Issued capital	1,22	355,000	255,000
Share premium	22	610,634	159,136
Other components of equity	22	(140,811)	(145,244)
Accumulated other comprehensive loss	12,22	(87,938)	(21,614)
Retained earnings	23	2,534,051	2,616,700
		3,270,936	2,863,978
Non-controlling interests		310,676	295,301
Total equity		3,581,612	3,159,279
Total liabilities and equity		₩ 13,094,709	₩ 12,427,313

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

GS Engineering & Construction Corporation and Subsidiaries
Consolidated statements of profit or loss
for the years ended December 31, 2014 and 2013

(Korean won in millions, except per share amounts)

	Notes	2014	2013
Sales	5,8,30		
Construction operations		₩ 8,819,513	₩ 8,331,544
Housing construction and sales operations		183,026	889,049
Other operations		485,012	345,165
		<u>9,487,551</u>	<u>9,565,758</u>
Cost of sales	29,30		
Construction operations		8,440,626	8,885,712
Housing construction and sales operations		180,605	728,585
Other operations		437,647	330,645
		<u>9,058,878</u>	<u>9,944,942</u>
Gross profit (loss)		<u>428,673</u>	<u>(379,184)</u>
Selling, general and administrative expenses	25,29	<u>377,504</u>	<u>556,267</u>
Operating profit (loss)	5	51,169	(935,451)
Other operating income	10,26	334,933	377,112
Other operating expenses	10,26	349,622	412,076
Income from investments in associates	12	5,935	9,519
Finance income	10,27	264,832	211,859
Finance costs	10,27	<u>336,866</u>	<u>244,140</u>
Loss before income tax	5	(29,619)	(993,177)
Income tax benefit	28	<u>(7,166)</u>	<u>(165,830)</u>
Loss for the year		<u>₩ (22,453)</u>	<u>₩ (827,347)</u>
Profit (loss) attributable to:			
Equity holders of the Parent		(41,072)	(828,196)
Non-controlling interests		18,619	849
Loss per share attributable to the equity holders of the parent (in won)			
Basic and diluted loss per share	24	(667)	(16,012)

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

GS Engineering & Construction Corporation and Subsidiaries
Consolidated statements of other comprehensive income
for the years ended December 31, 2014 and 2013

(Korean won in millions)

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Loss for the year		₩ (22,453)	₩ (827,347)
Other comprehensive income (loss)			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Gain on valuation of available-for-sale financial assets	22	(1,004)	292
Loss on valuation of available-for-sale financial assets	22	356	598
Gain on exchange differences on translations of foreign operations	22	(2,769)	(6,856)
Loss on exchange differences on translations of foreign operations	22	(7,681)	4,381
Gain on valuation of derivative instruments	12,22	(14,413)	9,228
Loss on valuation of derivative instruments	12,22	(42,330)	7,546
Share of other comprehensive income of associates	12,22	120	(112)
Share of other comprehensive loss of associates	12,22	60	(72)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Remeasurement of the net defined benefit liabilities	19,23	(38,025)	52,010
Other comprehensive income (loss) for the year		(105,686)	67,015
Total comprehensive loss for the year		₩ (128,139)	₩ (760,332)
Attributable to:			
Equity holders of the Parent		(145,004)	(760,320)
Non-controlling interests		16,865	(12)

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

**Consolidated statements of changes in equity
for the years ended December 31, 2014 and 2013**
(Korean won in millions)

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

GS Engineering & Construction Corporation and Subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2014 and 2013

(Korean won in millions)

	Notes	2014	2013
Cash flows from operating activities			
Cash generated from (used in) operations	31	₩ 652,458	₩ (1,071,149)
Interest received		63,912	54,106
Interest paid		(96,200)	(101,371)
Dividends received		780	533
Income tax paid		(49,418)	(36,393)
Net cash flows from (used in) operating activities		571,532	(1,154,274)
Cash flows from investing activities			
Decrease in other receivables		862,946	177,001
Decrease in short-term financial instrument assets		7,250	25,557
Decrease in long-term other receivables		124,098	88,752
Decrease in long-term financial instrument assets		37,209	15,914
Disposal of property, plant and equipment		71,788	154,763
Disposal of intangible assets		18	18
Disposal of investment property		53,579	255,045
Decrease in cash and cash equivalents due to changes in subsidiaries subject to consolidation		-	488
Disposal of subsidiary		1,079	-
Increase in other receivables		(893,541)	(313,554)
Increase in short-term financial instrument assets		(47,383)	(57,771)
Increase in long-term other receivables		(185,539)	(149,684)
Increase in long-term financial instrument assets		(56,575)	(62,256)
Decrease in cash and cash equivalents due to changes in subsidiaries subject to consolidation		-	-
Acquisition of property, plant and equipment		(307,954)	(176,780)
Acquisition of intangible assets		(1,221)	(19,432)
Acquisition of investment property		(232)	(2,816)
Acquisition of investments in associates		-	(249)
Net cash flows used in investing activities		(334,478)	(65,004)
Cash flows from financing activities			
Increase in short-term financial instrument liabilities		1,450,859	1,252,709
Increase in long-term financial instrument liabilities		776,565	2,169,789
Increase in other non-current liabilities		69,394	102,021
Disposal of treasury stock		548,369	-
Decrease in the non-controlling interest		578	646
Decrease in short-term financial instrument liabilities		(2,578,751)	(1,404,005)
Decrease in other current liabilities		(15,332)	(20,480)
Decrease in long-term financial instrument liabilities		(174,631)	(228,209)
Decrease in other non-current liabilities		(40,373)	(202,118)
Increase in the non-controlling interest		-	(12,406)
Dividends		(1,519)	(13,379)
Net cash flows from financing activities		35,159	1,644,568
Net foreign exchange difference		13,466	9,939
Net increase in cash and cash equivalents		285,679	435,229
Cash and cash equivalents at January 1		1,865,508	1,430,279
Cash and cash equivalents at December 31		₩ 2,151,187	₩ 1,865,508

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

GS Engineering & Construction Corporation and its subsidiaries
Notes to the consolidated financial statements
December 31, 2014 and 2013

1. General information

In accordance with KIFRS 1110, *Consolidated Financial Statements*, The general information of GS Engineering & Construction corporation ("the Company") and its subsidiaries (collectively referred to as "the Group") is as follows.

1.1 Summary of parent entity

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

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

As at December 31, 2014, the Company maintains overseas branches and construction sites in several foreign countries, including the United Arab Emirates, Oman, Canada, China and Singapore.

The Group's issued capital as at December 31, 2014, amounts to ₩355,000 million.

The consolidated financial statements of the Group for the year ended December 31, 2014 were authorized for issue in accordance with a resolution of the Board of Directors on February 24, 2015.

1.2 Summary of consolidated subsidiaries

The Group's consolidated subsidiaries as at December 31, 2014, are as follows.

Subsidiary	Location	Year end	Industry	Equity ownership (%)
Parnas Hotel Co., Ltd. (*1)	Korea	12.31	Hotel	67.56
EziVille Inc.	Korea	12.31	Home network system development and operation	84
Xi service	Korea	12.31	Construction service	100
G-Estec Co., Ltd.	Korea	12.31	Construction service	100
GCS Plus	Korea	12.31	Resort maintenance Service	100
BSM	Korea	12.31	Processing	100
GS O&M	Korea	12.31	Plant operation and maintenance service	100
Sanglak Food Co., Ltd.	Korea	12.31	Providing food service	98.46
GS E&C Nanjing co., Ltd.	China	12.31	Construction	100
GS Nha Be Development One-member LLC	Vietnam	12.31	Construction	100
GS Saigon Development One-member LLC	Vietnam	12.31	Construction	100
GS E&C Delhi Pvt. Ltd. (GS E&C India Private Ltd.)	India	3.31	Construction service	100
GS(Cambodia) Development Co.,Ltd.	Cambodia	12.31	Construction	100
GS Engineering & Construction Mumbai Pvt. Ltd. (*2)	Cambodia	3.31	Construction service	100
GS Construction Arabia Co.,Ltd.	Thailand	12.31	Construction	98
GS Saudi Co., Ltd.	Saudi Arabia	12.31	Construction	75
GS E&C Poland SP.ZO.O	Saudi Arabia	12.31	Construction	100

GS Engineering & Construction Corporation and its subsidiaries
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GS Engineering & Construction Spain, S.L	Poland	12.31	Construction	100
GS E&C Construction Canada Ltd.	Spain	12.31	Construction	100
GS E&C Panama S.A.	Canada	12.31	Rental	100
GS Inima Environment S.A. (*4)	Panama	12.31	Construction	79.62
GS PP Development Co., Ltd. (*3)	India	3.31	Construction	49
GS E&C Thai Co., Ltd.(*3)	Cambodia	8.31	Real estate Business	49
GS East Asia Manila Inc.(*2)	Philippines	12.31	IT Consulting	100

(*1) Summarized information of the subsidiary of Parnas Hotel Co., Ltd. is as follows.

Subsidiary	Location	Industry	Year end	Equity ownership (%)
PNS Co., Ltd.	Korea	management and operation	12.31	100

(*2) Newly established in 2014.

(*3) Although the Group owns less than 50% of the voting rights, the Group is considered to have control of the companies based on the mutual agreement between the shareholders; so, the investees are classified as subsidiaries.

(*4) Summarized information of the subsidiaries of GS Inima Environment S.A. is as follows.

Subsidiary	Location	Industry	Year end	Equity ownership (%)
Aguas de Ensenada, S.A. de C.V.	Mexico	Construction	12.31	100
Ambient Servicos Ambientais de Ribeirao Preto, S.A.	Brasil	Construction	12.31	100
Aquaria Water LLC	USA	Construction	12.31	87.5
Araucaria Saneamento, S.A.	Brasil	Construction	12.31	51
Desalinizadora Arica Ltda.	Chile	Construction	12.31	100
GS Inima Chile S.A.	Chile	Construction	12.31	100
GS Inima Mexico, S.A. de C.V.	Mexico	Construction	12.31	100
GS Inima USA Construction Corporation	USA	Construction	12.31	100
GS Inima USA Corporation	USA	Construction	12.31	100
GS Inima Brasil Ltda.	Brasil	Construction	12.31	100
Promoaqua Desalacion de los Cabos, S.A. de C.V.	Mexico	Construction	12.31	98
Saneamento do Vale do Paraiba, S.A.	Brasil	Construction	12.31	50.1
Servicos de Saneamento de Mogi Mirim, S.A.	Brasil	Construction	12.31	57
Tecnicas y Gestion Medioambiental, S.A.	Spain	Construction	12.31	100
Tractament Metropolitana de Fangs, S.L.	Spain	Construction	12.31	50.4
CASINIMA - Empreitada Ponte da Baia, A.C.E.	Portugal	Construction	12.31	50
GS Inima Servicios Corporativos, S.A. de C.V.	Mexico	Construction	12.31	100
SOCIEDAD DE ECONOMIA MIXTA AGUAS DE SORIA S.L.	Spain	Construction	12.31	59.2
VALORINIMA S.L.	Spain	Construction	12.31	80
Inima Amarante Sociedades Unipessoal, Ltda.(*)	Portugal	Construction	12.31	100
Sanama Saneamento Alta Maceio S.A.(*)	Brasil	Construction	12.31	60

(*) Newly established in 2014.

GS Engineering & Construction Corporation and its subsidiaries
Notes to the consolidated financial statements
December 31, 2014 and 2013

1. General information (continued)

1.3 Summary of financial information on subsidiaries

Summary of financial information of subsidiaries as at December 31, 2014 and 2013 are as follows.

(Korean won in millions)

Subsidiary	2014			
	Assets	Liabilities	Sales	Profit (loss) for the year
Parnas Hotel Co., Ltd. (*1)	₩ 1,250,319	₩ 542,935	₩ 198,949	₩ 9,261
EziVille Inc.	34,334	13,166	77,448	823
Xi service	8,356	7,498	13,579	92
G-Estec Co., Ltd.	809	724	4,413	(22)
GCS Plus	10,031	5,565	38,110	324
BSM	1,106	988	7,881	58
GS O&M	3,982	1,490	25,683	135
Sanglak Food Co., Ltd.	4,910	2,072	14,101	(37)
GL Project Financing Vehicle 1 Ltd. (*2)	23,713	5,232	(2,382)	11,390
GS E&C Nanjing co., Ltd.	112,055	70,524	283,292	24,093
GS Nha Be Development One-member LLC	144,853	121,568	-	(1,627)
GS Saigon Development One-member LLC	314,072	280,424	50,443	11,108
GS E&C Delhi Pvt. Ltd. (GS E&C India Private Ltd.)	18,336	13,262	18,094	(5,796)
GS(Cambodia) Development Co., Ltd.	1,455	53	-	(3)
GS Engineering & Construction Mumbai Pvt. Ltd. (*3)	6,609	3,418	3,660	(6,374)
GS Construction Arabia Co., Ltd.	216,012	435,885	235,206	(94,367)
GS Saudi Co., Ltd.	307	4,021	816	(1,172)
GS E&C Poland SP.ZO.O	440	386	-	6
GS Engineering & Construction Spain, S.L	85,034	87,614	121,910	11,866
GS E&C Construction Canada Ltd.	13,285	19,978	80,005	(1,883)
GS E&C Panama S.A.	840	-	79	(41)
GS Inima Environment S.A. (*1)	536,819	318,740	147,822	1,784
GS PP Development Co., Ltd.	59,058	139,998	79,561	29,256
GS E&C Thai Co., Ltd.	684	15	-	(277)
GS East Asia Manila Inc. (*3)	3,816	97	-	(274)

(*1) Includes the financial information of its subsidiaries.

(*2) Liquidated in 2014.

(*3) Newly established in 2014.

(Korean won in millions)

Subsidiary	2013			
	Assets	Liabilities	Sales	Profit (loss) for the year
Parnas Hotel Co., Ltd. (*)	₩ 1,210,595	₩ 510,190	₩ 180,841	₩ 5,401
EziVille Inc.	32,552	12,214	74,609	562
Xi service	4,028	3,263	14,439	(6)
G-Estec Co., Ltd.	957	851	5,088	(34)
GLS Service	508	96	3,935	1
GCS Plus	9,024	4,882	36,504	(276)
BSM	1,135	1,076	8,641	(518)
GS O&M	3,723	2,367	25,705	(440)
Sanglak Food Co., Ltd	5,753	2,879	19,403	634
GL Project Financing Vehicle 1 Ltd.	265,738	50,121	685,744	159,902
GS E&C Nanjing Co., Ltd	166,354	130,627	244,966	19,820

GS Engineering & Construction Corporation and its subsidiaries
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GS Nha Be Development One-member LLC	133,543	109,207	-	(1,503)
GS Saigon Development One-member LLC	261,118	239,518	153,065	2,016
GS E&C India Private Ltd.	10,581	5,177	11,982	(2,179)
GS(Cambodia) Development Co., Ltd.	1,400	51	-	(3)
GS Construction Arabia Co., Ltd.	105,344	221,990	83,379	(86,702)
GS Saudi Co., Ltd.	752	3,144	1,715	(3,153)
GS E&C Poland SP.ZO.O	516	461	-	6
GS E&C Spain S.L.	17,831	20,118	28,054	2,304
GS E&C Construction Canada Ltd.	71,938	76,988	342,397	(2,419)
GS E&C Panama S.A.	998	151	160	(126)
GS Inima Environment S.A (*)	520,070	297,199	194,181	1,913
GS PP Development Co., Ltd.	42,916	149,937	-	(2,590)
GS E&C Thai Co., Ltd.	924	5	-	(143)

(*) Includes the financial information of its subsidiaries.

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 Korean International Financial Reporting Standards (KIFRS) enacted by the *Act on External Audit of Stock of Companies*. 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 for investment properties, land and buildings classified as property, plant and equipment, derivative financial instruments, available-for-sale (AFS) financial assets, contingent consideration and non-cash distribution liabilities that have been measured at fair value. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortized cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The consolidated financial statements are presented in Korean won (KRW) and all values are rounded to the nearest millions, except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group 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

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 consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

2. Basis of preparation and a summary of significant accounting policies (continued)

2.2 Basis of consolidation (continued)

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 Summary of significant accounting policies

2.3.1 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 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. Basis of preparation and a summary of significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

2.3.2 Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of profit or loss and other comprehensive income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss and other comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as 'Share of profit of an associate and a joint venture' in the consolidated statement of profit or loss and other comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

2.3.3 Segment reporting

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

2. Basis of preparation and a summary of significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

2.3.4 Current versus non-current classification

The Group presents assets and liabilities in the consolidated 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

The Group classifies all other liabilities as non-current.

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

2.3.5 Fair value measurement

The Group measures financial instruments, such as, derivatives at fair value at each balance sheet date. Fair values of financial instruments and fair value hierarchy are disclosed in Note 33.

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.

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 consolidated 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 (continued)

2.3 Summary of significant accounting policies (continued)

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.

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.

2.3.6 Foreign currencies

The Group's consolidated financial statements are presented in Korean won, which is also the Group's functional and reporting currency.

1) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities 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.

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).

2) Translation in foreign operations

The assets and liabilities of foreign operations are translated into Korean won at the rate of exchange prevailing at the reporting date and their statements of profit or loss and other comprehensive income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation of foreign operations are recognized in other comprehensive income. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in profit or loss.

2.3.7 Financial instruments - initial recognition and subsequent measurement

1) Financial assets

Initial recognition and measurement

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.

The Group's principal financial assets include cash and other financial assets, trade and other receivables, marketable (non-marketable) financial instruments, and derivative instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

2. Basis of preparation and a summary of significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

Loans and receivables

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 method (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 profit or loss and other comprehensive income. The losses arising from impairment are recognized in consolidated the statement of profit or loss and other comprehensive income in operating expenses.

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 consolidated statement of profit or loss and other comprehensive income. The losses arising from impairment are recognized in the consolidated statement of profit or loss and other comprehensive income in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which 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 in the available-for-sale 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 available-for-sale reserve to the consolidated statement of profit or loss and other comprehensive income in finance costs.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When in rare circumstances, the Group is unable to trade those financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available-for-sale category, the fair value at the date of reclassification becomes its new amortized cost and any previous gain or loss on that 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 of the asset using the EIR.

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, or
- 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.

2. Basis of preparation and a summary of significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

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. 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 Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that 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 indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of 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.

If there is objective evidence that an impairment loss has incurred, the amount of the loss 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 assets 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 amount of the loss is recognized in the consolidated statement of profit or loss and other comprehensive income. Interest 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 for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of profit or loss and other comprehensive income. 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.

2. Basis of preparation and a summary of significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

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' is to be 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 consolidated statement of profit or loss and other comprehensive income – is removed from other comprehensive income and recognized in the consolidated statement of profit or loss and other comprehensive income. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss and other comprehensive income; increases in their fair value after impairment are recognized directly in OCI.

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 consolidated 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 consolidated statement of profit or loss and other comprehensive income, the impairment loss is reversed through the consolidated statement of profit or loss and other comprehensive income.

3) Financial liabilities

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, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, current financial liabilities and long-term financial liabilities.

Subsequent measurement

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

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 consolidated statement of profit or loss and other comprehensive income.

2. Basis of preparation and a summary of significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

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

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 consolidated 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 consolidated 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.

2.3.8 Derivative financial instruments and hedge accounting

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

The Group designates certain derivatives as either:

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

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 12. Movements on the hedging reserve in other comprehensive income are shown in Note 12. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is longer than the Group's normal business cycle and as a current asset or liability when the remaining maturity of the hedged item is shorter than the Group's normal business cycle. Trading derivatives are classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statements of profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

2. Basis of preparation and a summary of significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of profit or loss within other operating income (expenses). Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast purchase that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated statements of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statements of profit or loss within other operating income (expenses).

2.3.9 Inventories

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

2.3.10 Property, plant and equipment

All property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. 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 profit or loss as incurred.

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

➤ Buildings	10 to 50 years
➤ Structures	10 to 40 years
➤ Machinery	5 to 20 years
➤ Construction equipment	6 to 12 years
➤ Vehicles	6 to 10 years
➤ Tools	5 to 6 years
➤ Equipment	3 to 20 years

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

2.3.11 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. Basis of preparation and a summary of significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

2.3.12 Intangible assets

Amortization of intangible assets is calculated using the straight-line method over their estimated useful lives. Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to be utilized.

➤ Rental rights	20 years
➤ Technical rights	10 years
➤ Concession assets	18 years
➤ Software	4 to 6 years
➤ Others	4 to 6 years

2.3.13 Investment properties

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

2.3.14 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. Impairment losses of continuing operations are recognized in the consolidated statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset.

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 consolidated 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 each assets or at the CGU level.

2. Basis of preparation and a summary of significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

2.3.15 Pension benefits

The Group operates defined benefit plan, which requires contributions to be made to insurance companies or trustee administered funds. The contributions are determined by periodic actuarial calculations.

Typically amount of pension benefit that an employee will receive on retirement is defined based on one or more factors such as age, years of service and compensation and others. The liability recognized in the consolidated statements of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds whose maturity is approximate to the payment date of related pension obligation. The remeasurements of the net defined benefit liability are recognized in profit or loss.

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

2.3.16 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 consolidated asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss and other comprehensive income net of any reimbursement.

2.3.17 Current and deferred income tax

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.

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:

- Where 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.

2. Basis of preparation and a summary of significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

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:

- Where 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. 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.

2.3.18 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and rendering of services arising from normal activities of the Group. It is stated as net of value added taxes, returns, rebates and discounts, after elimination of inter-company transactions.

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

(a) Construction contracts

A construction contract as defined by KIFRS 1011, *Construction Contracts*, is a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract by reference to the stage of completion. Contract costs are recognized as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss on the construction contract 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. Contract costs are recognized as an expense in the period in which they are incurred.

2. Basis of preparation and a summary of significant accounting policies (continued)

2.3 Summary of significant accounting policies (continued)

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

On the consolidated statements of financial position, the Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognized profits (less recognized losses) exceed progress billings (due from customers for contract work); a contract represents a liability where the opposite is the case (due to customers for contract work).

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

(b) Rendering of services

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

(c) Interest income

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

(d) Dividend income

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

2.4 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 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under *KIFRS 1110 Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since the Group is not qualified to be an investment entity under *KIFRS 1110*.

Offsetting Financial Assets and Financial Liabilities - Amendments to KIFRS 1032

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 and is applied retrospectively. These amendments have no impact on 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.

2.4 New and amended standards and interpretations (continued)

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to KIFRS 1039

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

KIFRS 2021 Levies (Enactment)

KIFRS 2021 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. The Group is expecting that the impact of this enactment is not material to its consolidated financial statements.

3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties are provided in Note 32.

3.1 Estimates and assumptions

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 discussed 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 control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. Goodwill and Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired. Other non-financial assets are assessed when there is an indication that an asset may be impaired.

To calculate the value in use, the Group estimates the expected future cash inflows derived from cash generating units and selects the appropriate discount rate to calculate the present value of the expected future cash inflows.

Taxes

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.

3. Significant accounting judgments, estimates and assumptions (continued)

Defined benefit plans

The present value of the defined benefit pension plan is 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 and mortality rates. 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.

Further details about pension obligations are given in Note 19.

4. 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 consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, 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.

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4. Standards issued but not yet effective (continued)

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 consolidated financial statements.

5. Segment information

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

Operating segments	Major businesses
Infra works	Road, railroad and others
Architectural construction	Office building, factory, apartment and others
Plant construction	Petroleum refining facility, waste water treatment plant and others
Power	Power plant, power control facility and others
Hotel	Hotel operations and others
Others	Resort, Rental and others

(2) Sales and operating profit (loss) for the years ended December 31, 2014 and 2013 are as follows:

(Korean won in millions)

2014

	Infra works	Architectural construction	Plant construction	Power	Hotel	Others	Total	Consolidation adjustment	Consolidated total
Sales	₩ 1,109,335	₩ 2,956,215	₩ 4,280,901	₩ 1,062,509	₩ 198,949	₩ 186,753	₩ 9,794,662	₩ (307,110)	₩ 9,487,552
Inter-company sales	(23,522)	(144,419)	(79,286)	(270)	(346)	(59,267)	(307,110)	307,110	-
Net sales	1,085,813	2,811,796	4,201,615	1,062,239	198,603	127,486	9,487,552		9,487,552
Operating Profit (loss) (*)	10,031	96,377	(14,308)	(72,658)	19,128	12,599	51,169		51,169
Profit (loss) before income tax (*)	(76,457)	224,448	(76,181)	(97,288)	14,355	(18,496)	(29,619)		(29,619)

(*) Operating profit (loss) and profit (loss) before income tax are stated after eliminating the intercompany transactions.

(Korean won in millions)

2013

	Infra works	Architectural construction	Plant construction	Power	Hotel	Others	Total	Consolidation adjustment	Consolidated total
Sales	₩ 1,175,285	₩ 3,601,494	₩ 3,861,285	₩ 1,044,743	₩ 180,841	₩ 112,971	₩ 9,976,619	₩ (410,861)	₩ 9,565,758
Inter-company sales	(28,237)	(262,887)	(65,095)	(342)	(513)	(53,787)	(410,861)	410,861	-
Net sales	1,147,048	3,338,607	3,796,190	1,044,401	180,328	59,184	9,565,758		9,565,758
Operating Profit (loss) (*)	(30,329)	231,689	(1,084,083)	(46,173)	18,412	(24,967)	(935,451)		(935,451)
Profit (loss) before income tax (*)	(76,505)	270,897	(1,111,433)	(52,638)	6,355	(29,853)	(993,177)		(993,177)

(*) Operating profit (loss) and profit (loss) before income tax are stated after eliminating the intercompany transactions.

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5. Segment information (continued)

(3) Assets and liabilities as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

	Infra works	Architectural construction	Plant construction	Power	Hotel	Others	Total	Consolidation adjustment	Consolidated total
2014									
Assets	₩ 1,462,900	₩ 4,562,077	₩ 4,279,147	₩ 536,812	₩ 1,250,319	₩ 2,346,830	₩ 14,438,085	₩ (1,343,376)	₩ 13,094,709
Liabilities	842,329	1,769,391	4,148,836	554,210	542,935	2,420,044	10,277,745	(764,648)	9,513,097
2013									
Assets	1,306,250	4,554,852	3,690,315	468,239	1,210,595	2,476,882	13,707,133	(1,279,820)	12,427,313
Liabilities	744,320	2,078,653	3,325,733	371,994	510,190	2,663,295	9,694,185	(426,151)	9,268,034

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

(Korean won in millions)

	Korea	Middle East	China & South-East Asia	Others	Total
2014					
Sales	₩ 4,065,574	₩ 2,053,738	₩ 2,419,439	₩ 1,255,911	₩ 9,794,662
Inter-company sales	(200,981)	(39,320)	(55,172)	(11,637)	(307,110)
Net sales	3,864,593	2,014,418	2,364,267	1,244,274	9,487,552
2013					
Sales	4,938,508	2,184,709	1,832,031	1,021,371	9,976,619
Inter-company sales	(346,774)	(19,347)	(27,900)	(16,840)	(410,861)
Net sales	4,591,734	2,165,362	1,804,131	1,004,531	9,565,758

6. Restricted financial instruments

(Korean won in millions)

	Bank	2014	2013	Remarks
Short-term financial assets	Shinhan	₩ 4,212	₩ 4,182	Pledge for leasehold deposits
	Shinhan and others	30,000	30,000	Shared-growth agreement
	Shinhan	4,800	6,000	Loans for employees' housing
	KEB	50,000	50,000	Construction performance guarantees
	Caixa (Metrofang) and others	1,883	2,730	Other deposits
	TD Canada Trust	125	130	Deposit for corporate credit card
	ANZ	2,618	2,468	Bank Guarantee
	Qatar National	877	-	Bond issued for overseas sites
Long-term financial assets	Caixa (Metrofang)	-	5,588	Other deposits
	Shinhan and others	30	30	Deposit for overdraft

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7. Trade and other receivables

(1) Trade and other receivables as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

		2014		
		Receivables	Allowance for doubtful accounts	Receivables, net
Current assets				
Trade receivables	Receivables from construction contracts	₩ 1,590,438	₩ (188,656)	₩ 1,401,782
	Receivables from apartment sales	91,161	-	91,161
	Unbilled amount related to construction	2,381,578	-	2,381,578
	Notes receivable	10,588	-	10,588
	Other trade receivables	22,121	(568)	21,553
Sub-total		4,095,886	(189,224)	3,906,662
Other receivables	Other receivables	408,032	(18,177)	389,855
	Accrued revenues	19,781	(2,050)	17,731
	Short-term loans	337,689	(78,115)	259,574
Sub-total		765,502	(98,342)	667,160
Total		₩ 4,861,388	₩ (287,566)	₩ 4,573,822
Non-current assets				
Long-term trade and other receivables	Long-term trade Receivables	₩ 82,697	₩ -	₩ 82,697
	Long-term loans	633,071	(130,669)	502,402
	Leasehold deposits	132,738	-	132,738
	Deposits provided for business	124,849	(492)	124,357
Total		₩ 973,355	₩ (131,161)	₩ 842,194

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7. Trade and other receivables (continued)

(Korean won in millions)

		2013		
		Receivables	Allowance for doubtful accounts	Receivables, net
Current				
Trade receivables	Receivables from construction contracts	₩ 2,128,981	₩ (223,698)	₩ 1,905,283
	Receivables from apartment sales	245,707	-	245,707
	Unbilled amount related to construction	1,952,680	-	1,952,680
	Notes receivable	35,481	-	35,481
	Other trade receivables	16,992	(465)	16,527
Sub-total		4,379,841	(224,163)	4,155,678
Other receivables	Other receivables	304,993	(8,381)	296,612
	Accrued revenues	25,020	(2,056)	22,964
	Short-term loans	401,872	(91,872)	310,000
Sub-total		731,885	(102,309)	629,576
Total		₩ 5,111,726	₩ (326,472)	₩ 4,785,254
Non-current				
Long-term trade and other receivables	Long-term trade receivables	₩ 80,625	₩ -	₩ 80,625
	Long-term loans	527,267	(124,115)	403,152
	Leasehold deposits	90,951	-	90,951
	Deposits provided for business	41,206	(492)	40,714
Total		₩ 740,049	₩ (124,607)	₩ 615,442

(2) Aging analyses of trade and other receivables are as follows:

(Korean won in millions)

	2014		2013	
	Trade Receivables	Other receivables	Trade receivables	Other receivables
Receivables not impaired				
Up to 1 year	₩ 3,119,215	₩ 215,161	₩ 3,221,766	₩ 492,297
1 to 2 years	84,308	72,256	169,519	61,438
Over 2 years	407,541	154,449	392,955	75,457
Sub-total	3,611,064	441,866	3,784,240	629,192
Individually impaired	484,822	323,636	595,601	102,693
Total	₩ 4,095,886	₩ 765,502	₩ 4,379,841	₩ 731,885
Allowance for doubtful accounts	₩ (189,224)	₩ (98,342)	₩ (224,163)	₩ (102,309)

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7. Trade and other receivables (continued)

(3) Changes in allowance for doubtful accounts as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

		2014			
		Beginning	Allowance for doubtful accounts	Reversal / write-off	Ending
Trade and other receivables	Trade receivables	₩ 224,163	₩ 1,565	₩ (36,504)	₩ 189,224
	Other receivables	8,381	11,686	(1,890)	18,177
	Accrued revenues	2,056	-	(6)	2,050
	Short-term loans	91,872	-	(13,757)	78,115
Sub-total		326,472	13,251	(52,157)	287,566
Long-term trade and other receivables	Long-term loans	124,115	19,370	(12,816)	130,669
	Deposits provided for business	492	-	-	492
Sub-total		124,607	19,370	(12,816)	131,161
Total		₩ 451,079	₩ 32,621	₩ (64,973)	₩ 418,727

(Korean won in millions)

		2013			
		Beginning	Allowance for doubtful accounts	Reversal / write-off	Ending
Trade and other receivables	Trade receivables	₩ 266,244	₩ 62,539	₩ (104,620)	₩ 224,163
	Other receivables	10,573	6,008	(8,200)	8,381
	Accrued revenues	2,378	1,913	(2,235)	2,056
	Short-term loans	194,903	2,385	(105,416)	91,872
Sub-total		474,098	72,845	(220,471)	326,472
Long-term trade and other receivables	Long-term loans	139,646	15,065	(30,596)	124,115
	Deposits provided for business	1,117	-	(625)	492
	Leasehold deposits	-	181	(181)	-
Sub-total		140,763	15,246	(31,402)	124,607
Total		₩ 614,861	₩ 88,091	₩ (251,873)	₩ 451,079

8. Construction contracts

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

(Korean won in millions)

		2014			
		Beginning	Increase (*)	Sales recognized	Ending
Infra works	₩	3,360,436	₩ 1,475,382	₩ 1,078,656	₩ 3,757,162
Architectural construction		3,861,800	2,868,179	2,523,841	4,206,138
Plant construction		8,630,228	5,594,009	4,073,389	10,150,848
Power		1,408,845	1,109,978	1,058,368	1,460,455
Total	₩	17,261,309	₩ 11,047,548	₩ 8,734,254	₩ 19,574,603

(*) Includes increase from changes in scope of consolidation.

GS Engineering & Construction Corporation and its subsidiaries
Notes to the consolidated financial statements
December 31, 2014 and 2013

8. Construction contracts (continued)

(Korean won in millions)

	2013			
	Beginning	Increase (*)	Sales recognition	Ending
Infra works	₩ 3,879,815	₩ 626,081	₩ 1,145,460	₩ 3,360,436
Architectural construction	4,358,543	1,888,508	2,385,251	3,861,800
Plant construction	8,817,074	3,433,508	3,620,354	8,630,228
Power	2,145,163	352,082	1,088,400	1,408,845
Total	₩ 19,200,595	₩ 6,300,179	₩ 8,239,465	₩ 17,261,309

(*) Includes increase from changes in scope of consolidation.

(2) Details of construction contracts in progress as at December 31, 2014 and 2013:

(Korean won in millions)

	2014				
	Accumulated sales	Accumulated cost	Accumulated profit	Advances	Reserve receivables (*)
Infra works	₩ 6,855,032	₩ 6,440,882	₩ 414,150	₩ 163,298	₩ 35,694
Architectural construction	12,640,609	11,322,644	1,317,965	83,493	12,557
Plant construction	22,398,299	21,815,083	583,216	955,121	145,842
Power	3,694,450	3,525,166	169,284	128,857	36,782
Total	₩ 45,588,390	₩ 43,103,775	₩ 2,484,615	₩ 1,330,769	₩ 230,875

(*) Included in trade receivables.

(Korean won in millions)

	2013				
	Accumulated sales	Accumulated cost	Accumulated profit	Advances	Reserve receivables (*)
Infra works	₩ 6,145,715	₩ 5,750,038	₩ 395,677	₩ 167,633	₩ 23,652
Architectural construction	11,769,449	10,445,144	1,324,305	116,258	2,314
Plant construction	19,810,909	19,071,906	739,003	684,501	165,849
Power	2,778,610	2,575,922	202,688	117,756	9,262
Total	₩ 40,504,683	₩ 37,843,010	₩ 2,661,673	₩ 1,086,148	₩ 201,077

(*) Included in trade receivables.

(3) Details of unbilled and overbilled amount related to construction are as follows:

(Korean won in millions)

	2014		2013	
	Unbilled amount	Overbilled amount	Unbilled amount	Overbilled amount
Infra works	₩ 522,476	₩ 131,348	₩ 424,852	₩ 88,084
Architectural construction	209,023	391,807	321,628	291,718
Plant construction	1,336,437	326,120	866,824	281,448
Power	313,642	35,765	339,375	70,767
Total	₩ 2,381,578	₩ 885,040	₩ 1,952,679	₩ 732,017

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December 31, 2014 and 2013

8. Construction contracts (continued)

(4) Details of major joint construction contracts as at December 31, 2014 are as follows:

(Korean won in millions)

	Total contract amount	Amounts attributable to the Group	(%) attributable to the Group	Principal contractee
Karbala Refinery Project	₩ 6,573,981	₩ 2,465,243	37.50%	Hyundai E&C
Clean Fuels Project	4,811,704	1,603,741	33.33%	JGC
NSRP Project	5,543,912	1,385,978	25.00%	JGC
STAR Project	4,033,744	1,344,447	33.33%	GS E&C
Ruwais 4th NGL Project	2,407,027	1,272,836	52.88%	Petrofac
PP-12 Combined Thermal Power Plant	1,365,940	682,970	50.00%	Arabian Bemco Contracting Co., Ltd.
UHV Plant Project	1,092,478	655,487	60.00%	GS E&C
Singapore Marina South	1,379,130	551,652	40.00%	Hyundai E&C
P8E C/R & Utility Construction	751,215	450,729	60.00%	GS E&C
Boryeong LNG Terminal Project	781,629	429,896	55.00%	GS E&C

9. Inventories and other current assets

(1) Inventories as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

	2014	2013
Land held for development	₩ 249,993	₩ 156,534
Finished housing	10,394	42,618
Goods and products	500	432
Raw materials	23,220	32,314
Supplies	1,275	1,314
Finished buildings	-	7,599
Unfinished building construction	-	111,787
Unfinished housing construction	327,843	146,642
Total	₩ 613,225	₩ 499,240

(2) Other current assets as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

	2014	2013
Prepaid construction cost	₩ 355,363	₩ 372,527
Advance payments	451,366	449,875
Prepaid expenses	62,270	35,665
Prepaid value added tax	80,279	63,970
Prepaid income taxes	32,765	19,241
Total	₩ 982,043	₩ 941,278

GS Engineering & Construction Corporation and its subsidiaries
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10. Category of financial assets and liabilities

(1) Category of financial assets as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

2014					
	Loans and other receivables	Financial assets at fair-value through profit or loss	Derivative financial instruments	Available-for- sale financial assets	Total
Cash and cash equivalents	₩ 2,151,187	₩ -	₩ -	₩ -	₩ 2,151,187
Trade and other receivables (*)	2,192,243	-	-	-	2,192,243
Short-term financial assets	170,811	23	161,837	-	332,671
Long-term trade and other receivables	842,194	-	-	-	842,194
Long-term financial assets	169,624	-	-	177,842	347,466
Total	₩ 5,526,059	₩ 23	₩ 161,837	₩ 177,842	₩ 5,865,761

(*) Excludes unbilled amount related to construction.

(Korean won in millions)

2013					
	Loans and other receivables	Financial assets at fair-value through profit or loss	Derivative financial instruments	Available-for- sale financial assets	Total
Cash and cash equivalents	₩ 1,865,508	₩ -	₩ -	₩ -	₩ 1,865,508
Trade and other receivables (*)	2,832,574	-	-	-	2,832,574
Short-term financial assets	130,919	1,175	191,094	-	323,188
Long-term trade and other receivables	615,442	-	-	-	615,442
Long-term financial assets	172,884	-	-	160,394	333,278
Total	₩ 5,617,327	₩ 1,175	₩ 191,094	₩ 160,394	₩ 5,969,990

(*) Excludes unbilled amount related to construction.

GS Engineering & Construction Corporation and its subsidiaries
Notes to the consolidated financial statements
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10. Category of financial assets and liabilities (continued)

(2) Category of financial liabilities as December 31, 2014 and 2013 are as follows:

(Korean won in millions)

2014				
	Financial liabilities at fair-value through profit or loss	Derivative financial instruments	Other financial liabilities at amortized costs	Total
Trade and other payables	₩ -	₩ -	₩ 1,633,207	₩ 1,633,207
Short-term financial liabilities	-	200,632	1,509,357	1,709,989
Other current liabilities (*1)	-	-	249,776	249,776
Long-term trade and other payables	-	-	136,080	136,080
Other non-current liabilities (*2)	-	-	223,747	223,747
Long-term financial liabilities	-	4,647	2,482,583	2,487,230
Non-current provision liabilities (*3)	-	-	146,526	146,526
Total	₩ -	₩ 205,279	₩ 6,381,276	₩ 6,586,555

(*1) Consists of accrued expenses, accrued dividends and current membership guarantee deposits.

(*2) Consists of security deposits and non-current membership guarantee deposits.

(*3) Represents provision for financial guarantees.

(Korean won in millions)

2013				
	Financial liabilities at fair-value through profit or loss	Derivative financial instruments	Other financial liabilities at amortized costs	Total
Trade and other payables	₩ -	₩ -	₩ 1,527,396	₩ 1,527,396
Short-term financial liabilities	9,970	122,071	2,058,005	2,190,046
Other current liabilities (*1)	-	-	292,565	292,565
Other non-current liabilities (*2)	-	-	191,750	191,750
Long-term financial liabilities	-	4,321	2,352,042	2,356,363
Non-current provision liabilities (*3)	-	-	162,474	162,474
Total	₩ 9,970	₩ 126,392	₩ 6,584,232	₩ 6,720,594

(*1) Consists of accrued expenses, accrued dividends and current membership guarantee deposits.

(*2) Consists of security deposits and non-current membership guarantee deposits.

(*3) Represents provision for financial guarantees.

GS Engineering & Construction Corporation and its subsidiaries
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10. Category of financial assets and liabilities (continued)

(3) Net gains and losses on financial instruments by category for the years ended December 31, 2014 and 2013 are as follows:

(Korean won in millions)

2014						
	Loans and receivables	Assets (liabilities) at fair-value through profit or loss	Derivative financial instruments	Available- for-sale financial assets	Other financial liabilities at amortized costs	Total
Interest income	₩ 59,626	₩ -	₩ -	₩ 134	₩ -	₩ 59,760
Interest expense	-	-	-	-	(116,031)	(116,031)
Gain (loss) on foreign currency transactions	40,819	-	-	-	(67,757)	(26,938)
Gain (loss) on foreign currency translation	(938)	-	-	-	51,882	50,944
Gain (loss) on derivative valuation	-	8	15,117	-	-	15,125
Gain (loss) on derivative transactions	-	(12,615)	2,719	-	-	(9,896)
Dividend income	-	-	-	265	-	265
Other finance income (loss)	15,302	(329)	-	(4,283)	31,016	41,706
Total	₩ 114,809	₩ (12,936)	₩ 17,836	₩ (3,884)	₩ (100,890)	₩ 14,935

(Korean won in millions)

2013						
	Loans and receivables	Assets (liabilities) at fair-value through profit or loss	Derivative financial instruments	Available- for- sale financial assets	Other financial liabilities at amortized costs	Total
Interest income	₩ 60,695	₩ -	₩ -	₩ 157	₩ -	₩ 60,852
Interest expense	-	-	-	-	(131,023)	(131,023)
Gain (loss) on foreign currency transactions	(47,953)	-	-	-	61,541	13,588
Gain (loss) on foreign currency translation	(16,186)	-	-	-	19,279	3,093
Gain (loss) on derivative valuation	-	(9,357)	24,301	-	-	14,944
Gain (loss) on derivative transactions	-	27,343	(11,797)	-	-	15,546
Dividend income	-	-	-	136	-	136
Other finance income (loss)	(47,774)	(58)	-	(77,591)	16,187	(109,236)
Total	₩ (51,218)	₩ 17,928	₩ 12,504	₩ (77,298)	₩ (34,016)	₩ (132,100)

GS Engineering & Construction Corporation and its subsidiaries
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11. 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 millions)

	2014	2013
Government bonds	₩ 894	₩ 3,616
Debt securities	5,242	5,242
Marketable equity securities	-	303
Non-marketable equity securities	171,706	151,233
Total	₩ 177,842	₩ 160,394

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

(Korean won in millions)

	2014	2013
Beginning	₩ 160,394	₩ 214,053
Acquisition	54,050	41,366
Disposal	(32,518)	(19,196)
Impairment	(4,401)	(76,770)
Valuation	425	941
Changes in consolidation scope	(108)	-
Ending	₩ 177,842	₩ 160,394

(3) Details of Marketable equity securities as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

Investee	Number of shares	Equity Interest (%)	2014		2013	
			Acquisition cost	Book value	Acquisition cost	Book value
Dongyang Engineering & Constructon CORP.	-	-	₩ -	₩ -	₩ 402	₩ 152
NamKwang Engineering & Constructon	-	-	-	-	43	21
Byucksan Engineering & Constructon	-	-	-	-	653	130
Total	-	-	₩ -	₩ -	₩ 1,098	₩ 303

GS Engineering & Construction Corporation and its subsidiaries
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11. Available-for-sale financial assets (continued)

(4) Details of Non-marketable equity securities as at December 31, 2014, and 2013 are as follows:

(Korean won in millions)

Investee	Number of shares	Equity Interest (%)	Acquisition cost		Book value	
			2014	2013	2014	2013
Public Development Co., Ltd.	394,655	17.09	₩ 3,947	₩ 3,947	₩ 4,258	₩ 4,258
Asiad Country Club Co., Ltd. (Formerly, Busan Travel & Development Co., Ltd.)	80,000	2.67	400	400	-	-
Alpha Dome City Co., Ltd.	3,933,600	4.25	19,668	19,668	17,587	17,587
Bichaenoori Development Co., Ltd. (*1)	657,800	11.50	3,289	3,289	-	3,289
Bichaenoori Co., Ltd. (*1)	11,500	11.50	58	58	-	58
The 2nd YoungDong Highway Co., Ltd.	3,116,993	5.84	15,585	17,120	15,000	16,535
Junju Drain Co., Ltd.	207,060	7.90	1,035	1,035	1,035	1,035
Eumseong Sewage Pipe Co., Ltd.	67,210	6.30	336	336	336	336
Y-S highway Co., Ltd.	4,324,000	10.00	21,620	17,255	21,620	17,255
Youngduk&Bio Co., Ltd.	34,870	4.22	174	174	174	174
Yangju Eco Corporation	1,900	19.00	10	10	10	10
Alpharos PFV Co., Ltd.	2,299,200	9.58	11,496	11,496	-	-
Alpharos Mixed-use Development Co., Ltd.	9,580	9.58	48	48	-	-
Alpha Dome City Asset Management Co., Ltd	4,000	4.00	20	20	20	20
Seoul Northern Highway Co., Ltd.	2,730,560	7.67	13,653	14,017	13,653	14,017
New Seoul Railroad Co., Ltd.	62,735	7.46	314	314	314	314
MILESEUM Co., Ltd.	86,645	1.63	433	433	433	433
Midan City Development Co., Ltd.	1,809,760	10.14	9,049	9,049	7,938	7,938
Masan Drain Co., Ltd.	220,890	8.14	1,104	1,104	1,104	1,104
Dream Hub Project Financial Investment	4,000,000	2.00	20,000	20,000	-	-
Daejeon Sewage Pipe Co., Ltd.	108,456	4.00	830	830	830	830
Dangyul Co., Ltd.	128,228	11.29	641	564	641	564
Nonsan Drain Co., Ltd.	91,868	11.90	459	459	459	459
South-Seoul LRT Co., Ltd.	1,370	13.70	7	7	7	7
Gyeonggi Highway Co., Ltd.	495,000	4.57	2,475	2,475	2,475	2,475
Kangreung Sewage Pipe Co., Ltd.	50,682	3.30	253	253	253	253
Kangnam Inter Circular Road Co., Ltd.	414,000	0.17	2,070	2,070	2,070	2,070
Gaya Railway Co., Ltd.	305,490	2.30	1,527	1,527	1,527	1,527
The Korea Economic Daily International Convention Center Jeju	646	0.00	14	14	14	14
M-Ciety Development Co., Ltd.	100,000	0.30	500	500	500	500
M-Cieta Co., Ltd.	-	-	-	2,244	-	2,244
Wonju Green Co., Ltd.	-	-	-	13	-	13
Wonju Green Co., Ltd.	226,376	11.03	1,132	1,132	1,132	1,132
Mugung Hwa Trust Co., Ltd.	-	-	-	950	-	950
GS Cu Chi Development One-member Ltd.	0.1	5.00	713	713	615	615
Uiyeongbu LRT Inc.	8,663,394	47.54	45,226	45,226	-	-
Ulsan green Co., Ltd.	701,368	39.47	3,507	3,507	3,507	3,507
Clean Gimpo Co., Ltd.	403,032	22.81	1,949	1,949	1,949	1,949

GS Engineering & Construction Corporation and its subsidiaries
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11. Available-for-sale financial assets (continued)

Investee	Number of shares	Equity Interest (%)	Acquisition cost		(Korean won in millions) Book value	
			2014	2013	2014	2013
Seoul Tunnel Co., Ltd.	270,689	12.05	1,353	65	1,353	65
Green Energy Development Co., Ltd.	81,000	27.00	405	405	405	405
Seoul-Munsan Highway Co., Ltd.	572,815	46.14	2,864	2,637	2,864	2,637
Oksan Ochang Highway Corporation	3,782,040	60.00	18,910	3,015	18,910	3,015
Eun Pyung New Road Corp.	435,200	55.06	2,176	2,176	2,176	2,176
Gumi Green Water Co., Ltd.	380	0.45	2	2	2	2
Paju-Yangju Powerful Army Co., Ltd.	89,289	8.00	447	442	447	442
Evergreen Goyang Co., Ltd.	24,267	1.83	121	95	121	95
Seoul Beltway Corporation	400	20.00	2	2	2	2
Daegu Green Energy Center CO., Ltd.	474,400	40.01	2,372	2,372	2,372	2,372
Geoje Big Island PFV CO., Ltd.	-	-	-	1,000	-	1,000
Geoje Big Island asset Management	-	-	-	10	-	10
HANIL ENGINEERING & CONSTRUCT CO., Ltd.	13,810	0.46	69	154	69	154
KUKDONG E&C	28,948	0.59	145	145	145	145
POONGLIM INDUSTRIAL CO.,LTD.	280	0.00	1	1	1	1
Bumyang Kunyoung	-	-	-	9	-	9
DAEJEON Green Energy Centre Ltd.	396,792	51.08	1,984	-	1,984	-
Bumyang asset management	725	0.14	4	-	4	-
Seo-seoul City Expressway Co., Ltd.	290	29.00	1	-	1	-
Seoseoul highway (Fnds)	35,158	39.06	176	-	176	-
Seoul National University Medical Hub Co., Ltd.	3,750	25.00	19	-	19	-
Shiheung echopia Co., Ltd.	30,530	3.51	153	-	153	-
Ssangyong E&C Co., Ltd.	70,608	0.48	353	-	353	-
STX E&C Co., Ltd.	7,598	0.25	38	-	38	-
Korea Investment Trust Management	1	29.07	9,960	-	9,960	-
Engineering Construction Financial Cooperative	8,950	1.26	3,925	180	3,925	180
Electric Construction Financial Cooperative	600	0.02	98	98	98	98
Construction Guarantee Cooperative	14,263	0.36	14,092	12,092	14,244	12,244
Information & Communication Financial Cooperative	440	0.05	61	61	61	61
Fire Guarantee Cooperative	40	0.02	20	20	20	20
Korea Housing Guarantee Co., Ltd. (*2)	1,038,490	0.16	21,532	21,532	8,462	8,462
LIG E&C and Others	5,035	0.15	846	608	3,880	4,096
Equity fund			-	8,768	-	10,070
Total			₩ 265,671	₩ 240,095	₩ 171,706	₩ 151,233

(*1) Impaired in 2014

(*2) Provided as collateral to Korea Housing Guarantee Co., Ltd. in relation to the long-term borrowings (Note 18).

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12. Derivative instruments

Details of derivative instruments as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

		2014								
		Valuation			Gain or loss			Accumulated other comprehensive income (*)		
		Assets	Liabilities		Gain	Loss	Net	Gain	Loss	Net
Derivative instruments	Forwards	₩ 33,751	₩ 149,300	₩	9,990	₩ 82,299	₩ (72,309)	₩ 37,502	₩ 118,215	₩ (80,713)
	Interest rate swap	-	4,647	-	-	-	-	1,474	-	1,474
Sub-total		₩ 33,751	₩ 153,947		₩ 9,990	₩ 82,299	₩ (72,309)	₩ 38,976	₩ 118,215	₩ (79,239)
Firm commitments	Forwards	128,108	51,332		109,391	21,957	87,434	-	-	-
Total		₩ 161,859	₩ 205,279		₩ 119,381	₩ 104,256	₩ 15,125	₩ 38,976	₩ 118,215	₩ (79,239)

(*) Gain (loss) on valuation of derivatives are presented prior to income tax effects.

(Korean won in millions)

		2013								
		Valuation			Gain or loss			Accumulated other comprehensive income (*)		
		Assets	Liabilities		Gain	Loss	Net	Gain	Loss	Net
Derivative instruments	Forwards	₩ 123,654	₩ 57,603	₩	58,524	₩ 17,586	₩ 40,938	₩ 56,517	₩ 59,557	₩ (3,040)
	Interest rate swap	-	4,321	-	-	1	(1)	1,972	-	1,972
Sub-total		₩ 123,654	₩ 61,924		₩ 58,524	₩ 17,587	₩ 40,937	₩ 58,489	₩ 59,557	₩ (1,068)
Firm commitments	Forwards	68,615	74,437		48,987	74,981	(25,994)	-	-	-
Total		₩ 192,269	₩ 136,361		₩ 107,511	₩ 92,568	₩ 14,943	₩ 58,489	₩ 59,557	₩ (1,068)

(*) Gain (loss) on valuation of derivatives are presented prior to income tax effects.

13. Investments in associates

(1) Changes in investments in associates for the years ended December 31, 2014 and 2013 are as follows:

(Korean won in millions)

		2014						
		Equity ownership (%)	Beginning	Increase (Decrease)	Gain (loss) on equity method	Changes in equity	Changes in scope of consolidation	Ending
Major Development Co.,Ltd.	40.00	₩	-	₩	-	₩	-	₩
GS-HP Corp.	30.00		3,058	(515)	626	79	-	3,248
Cadiz San Fernando, A.I.E.	21.95		1,394	-	183	(229)	-	1,348
Participes de Biorreciclaje S.A.	33.33		4,440	-	687	(396)	-	4,731
Shariket Miyeh Ras Djinet, Spa	25.49		6,237	-	1,862	(548)	-	7,551
Shariket Tahlya Miyah Mostaganem, Spa	25.50		17,046	-	3,872	(1,442)	-	19,476
HNH Development Co., Ltd (*)	40.00		150	-	-	-	(150)	-
Total			₩ 32,325	₩ (515)	₩ 7,230	₩ (2,536)	₩ (150)	₩ 36,354

(*) The Group lost significant influence due to change of equity interest.

GS Engineering & Construction Corporation and its subsidiaries
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13. Investments in associates (continued)

(Korean won in millions)

	Equity ownership (%)	2013					Changes in scope of consolidation	Ending
		Beginning	Increase (Decrease)	Gain (loss) on equity method	Changes in equity			
Major Development Co., Ltd.	40.00	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	-
GS E&C Thai Co., Ltd.	49.00	618	-	(65)	35	(588)		-
GS PP Development Co., Ltd.	49.00	-	-	-	--	-		-
GS-HP Corp.	30.00	2,977	(396)	572	(95)	-		3,058
Cadiz San Fernando, A.I.E.	21.95	1,373	-	179	(158)	-		1,394
Participes de Biorreciclaje S.A.	33.33	3,663	-	672	105	-		4,440
Shariket Miyeh Ras Djinet, Spa	25.49	4,524	-	1,830	(117)	-		6,237
Shariket Tahlya Miyah Mostaganem, Spa	25.50	11,053	-	6,310	(317)	-		17,046
HNH Development Co., Ltd.	20.00	-	150	-	-	-		150
Total		₩ 24,208	₩ (246)	₩ 9,498	₩ (547)	₩ (588)		₩ 32,325

(2) Changes in joint venture for the year ended December 31, 2014 and 2013 are as follows:

(Korean won in millions)

2014	Equity ownership (%)	Beginning	Gain (loss) on equity method	Changes in equity	Ending
G&M Estate Co., Ltd.	50.00	₩ 121	₩ 140	₩ -	₩ 261
Hialeah Water, LLP	50.00	-	(1,435)	1,793	358
Total		₩ 121	₩ (1,295)	₩ 1,793	₩ 619

(Korean won in millions)

2013	Equity ownership (%)	Beginning	Gain (loss) on equity method	Changes in equity	Ending
G&M Estate Co., Ltd.	50.00	₩ -	₩ 100	₩ 21	₩ 121

(3) Equity method of accounting has been suspended due to its accumulated losses, and therefore unrecognized losses in equity for the years ended December 31, 2014 and 2013 are as follows:

(Korean won in millions)

	2014		
	Beginning	Increase (Decrease)	Ending
Major Development Co., Ltd.	₩ 47,336	₩ (222)	₩ 47,114

(Korean won in millions)

	2013		
	Beginning	Increase (Decrease)	Ending
Major Development Co., Ltd.	26,706	20,630	47,336
GS PP Development Co., Ltd.	51,249	(51,249)	-
Total	₩ 77,955	₩ (30,619)	₩ 47,336

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13. Investments in associates (continued)

(4) Summary of financial information on associates and joint ventures is as follows:

(Korean won in millions)

		2014				
		Assets	Liabilities	Net assets	Sales	Net income (loss)
		₩	₩	₩	₩	₩
Associates	Major Development Co., Ltd.	414,569	532,354	(117,785)	71,417	555
	GS-HP Corp.	7,764	546	7,218	5,302	2,086
	Cadiz San Fernando, A.I.E.	11,484	5,340	6,144	6,706	838
	Participes de Biorreciclaje S.A.	100,521	86,033	14,488	23,174	2,104
	Shariket Miyeh Ras Djinet, Spa	128,948	99,322	29,626	28,064	7,305
	Shariket Tahlya Miyah					
	Mostaganem, Spa	235,217	158,844	76,373	42,458	15,183
	G&M Estate Co., Ltd.	837	369	468	1,500	226
Joint Venture	Hialeah Water, LLP	3,035	3,751	(716)	117	(2,869)

(Korean won in millions)

		2013				
		Assets	Liabilities	Net assets	Sales	Net income (loss)
		₩	₩	₩	₩	₩
Associates	Major Development Co., Ltd.	659,285	777,625	(118,340)	39,026	(51,577)
	GS-HP Corp.	7,973	1,298	6,675	5,285	1,908
	Cadiz San Fernando, A.I.E.	14,271	7,919	6,352	5,999	817
	Participes de Biorreciclaje S.A.	104,657	90,971	13,686	24,854	2,058
	Shariket Miyeh Ras Djinet, Spa	141,579	117,108	24,471	29,724	7,181
	Shariket Tahlya Miyah					
	Mostaganem, Spa	245,971	179,120	66,851	45,473	24,747
	HNH Development Co., Ltd.	108,110	152,235	(44,125)	-	(6,286)
Joint Venture	G&M Estate Co., Ltd.	343	101	242	430	42

14. Property, plant and equipment

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

(Korean won in millions)

	2014				2013			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book value	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Net book value
Land	₩ 1,436,253	₩ -	₩ -	₩ 1,436,253	₩ 1,373,258	₩ -	₩ -	₩ 1,373,258
Buildings	909,259	(297,074)	-	612,185	852,230	(288,727)	(12,068)	551,435
Structures	111,201	(32,956)	-	78,245	110,249	(30,290)	-	79,959
Machinery	61,626	(43,145)	-	18,481	52,284	(43,204)	(45)	9,035
Construction equipment	77,878	(20,342)	-	57,536	40,575	(15,871)	-	24,704
Vehicles	21,117	(17,992)	-	3,125	20,615	(18,888)	-	1,727
Tools	21,089	(14,592)	-	6,497	21,108	(13,963)	-	7,145
Equipment	218,241	(132,378)	-	85,863	173,877	(124,048)	(95)	49,734
Construction-in progress	157,856	-	-	157,856	145,899	-	-	145,899
Total	₩ 3,014,520	₩ (558,479)	₩ -	₩ 2,456,041	₩ 2,790,095	₩ (534,991)	₩ (12,208)	₩ 2,242,896

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14. Property, plant and equipment (continued)

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

2014									
	Beginning	Acquisition	Disposal	Depreciation	Impairments	Transfer	Exchange differences	Ending	
Land	₩ 1,373,258	₩ 85,717	₩ (22,705)	₩ -	₩ -	₩ -	₩ (17)	₩ 1,436,253	
Buildings	551,435	2,276	(37,351)	(27,993)	116	119,858	3,844	612,185	
Structures	79,959	1,717	-	(3,476)	-	17	28	78,245	
Machinery	9,035	2,711	(393)	(2,071)	1	9,208	(10)	18,481	
Construction equipment	24,704	49,116	(8,831)	(7,565)	-	-	112	57,536	
Vehicles	1,727	2,402	(340)	(662)	-	-	(2)	3,125	
Tools	7,145	1,861	(778)	(1,637)	-	-	(94)	6,497	
Equipment	49,734	32,402	(1,021)	(16,896)	-	21,416	228	85,863	
Construction-in progress	145,899	142,142	-	-	-	(131,548)	1,363	157,856	
Total	₩ 2,242,896	₩ 320,344	₩ (71,419)	₩ (60,300)	₩ 117	₩ 18,951	₩ 5,452	₩ 2,456,041	

(Korean won in millions)

2013									
	Beginning	Changes in consolidation scope	Acquisition	Disposal	Depreciation	Impairments	Transfer	Exchange differences	Ending
Land	₩ 1,411,102	₩ -	₩ 65,227	₩ (105,119)	₩ -	₩ -	₩ 2,044	₩ 4	₩ 1,373,258
Buildings	592,035	490	4,231	(24,743)	(32,074)	(9,595)	22,350	(1,259)	551,435
Structures	80,118	-	2,780	(539)	(2,809)	41	370	(2)	79,959
Machinery	9,686	-	479	(573)	(1,375)	304	546	(32)	9,035
Construction equipment	6,860	-	22,327	(61)	(3,806)	-	(664)	48	24,704
Vehicles	3,065	-	182	(653)	(821)	-	-	(46)	1,727
Tools	5,591	-	3,654	(441)	(1,595)	-	4	(68)	7,145
Equipment	50,203	4	10,437	(1,704)	(12,735)	280	3,532	(283)	49,734
Construction-in progress	95,288	-	167,059	-	-	-	(116,172)	(276)	145,899
Total	₩ 2,253,948	₩ 494	₩ 276,376	₩ (133,833)	₩ (55,215)	₩ (8,970)	₩ (87,990)	₩ (1,914)	₩ 2,242,896

(3) Collateral pledged to financial institutions for borrowings as at December 31, 2014 is as follows.

(Korean won in millions)

2014					
	Carrying amount	Secured amount	Related account	Related amount	Secured party
Land & building	₩ 1,147,555	₩ 347,000	Long-term borrowings and others	₩ 63,812	KDB and others

(Korean won in millions)

2013					
	Carrying amount	Secured amount	Related account	Related amount	Secured party
Land & building	₩ 990,267	₩ 634,368	Long-term borrowings and others	₩ 12,373	KDB

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15. Intangible assets

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

(Korean won in millions)

2014							
	Beginning	Acquisition	Disposal	Amortization	Changes in consolidation scope	Exchange differences	Ending
Goodwill	₩ 62,555	₩ -	₩ -	₩ -	₩ -	₩ (5,119)	₩ 57,436
Rental rights	1,528	-	-	(327)	-	-	1,201
Memberships	52,199	-	(24)	-	-	18	52,193
Computer software	2,700	1,221	-	(768)	(3)	(29)	3,121
Concession assets	40,354	-	-	(10,060)	-	(2,870)	27,424
Technical rights	35,220	-	-	(4,060)	-	(2,715)	28,445
Others	343	-	-	(186)	-	(15)	142
Total	₩ 194,899	₩ 1,221	₩ (24)	₩ (15,401)	₩ (3)	₩ (10,730)	₩ 169,962

(Korean won in millions)

2013							
	Beginning	Acquisition	Disposal	Amortization	Transfer	Exchange differences	Ending
Goodwill	₩ 63,270	₩ -	₩ -	₩ -	₩ -	₩ (715)	₩ 62,555
Rental rights	1,856	-	-	(328)	-	-	1,528
Memberships	52,083	105	-	-	-	11	52,199
Computer software	2,840	567	(19)	(694)	19	(13)	2,700
Concession assets	30,285	18,768	-	(9,572)	-	873	40,354
Technical rights	39,456	-	-	(4,202)	-	(34)	35,220
Others	31,633	36	-	(33,903)	2,567	10	343
Total	₩ 221,423	₩ 19,476	₩ (19)	₩ (48,699)	₩ 2,586	₩ 132	₩ 194,899

(2) Impairment tests for Goodwill

Goodwill is monitored by the management at the operating segment level (cash-generating units or group of cash-generating units). The following is a summary of goodwill allocation for each operating segment:

(Korean won in millions)

Operating segments	Allocated goodwill
Plant	₩ 57,436

Goodwill impairment reviews are undertaken annually. The impairment review performed in 2014 suggests that the carrying value of cash generating units does not exceed the recoverable amount. The recoverable amounts of all CGUs have been determined based on value-in-use calculations. The key assumptions used for value-in-use calculations in 2014 are as follows:

(Korean won in millions)

	Operation profit margin (*1)	Perpetual growth rate (*2)	Post-tax discount rate (*3)
Main assumption	1.3% ~ 5.6%	2.1%	7.5%

(*1) Operation profit margin rate is used to extrapolate cash flows for next five years.

(*2) Perpetual growth rate is consistent with the projected growth rate after five years in industry reports.

(*3) Post-tax discount rate is applied to the cash flow projections.

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16. Investment properties

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

(Korean won in millions)

	2014	2013
Beginning	₩ 167,188	₩ 298,980
Changes in consolidation scope	-	44,906
Acquisition	232	2,817
Transfer	10,876	70,255
Disposal	(55,247)	(242,515)
Depreciation	(1,278)	(2,526)
Impairment	(700)	(1,042)
Exchange differences	67	(3,687)
Ending	₩ 121,138	₩ 167,188
Acquisition cost	₩ 126,472	₩ 176,553
Accumulated depreciation	(2,897)	(5,328)
Accumulated impairment losses	(2,437)	(4,037)

(2) Gain and loss on investment properties recognize in profit or loss for the years ended December 31, 2014 and 2013 are as follows:

(Korean won in millions)

	2014	2013
Lease income	₩ 2,315	₩ 4,971
Operating expenses	4,333	5,847
Total	₩ (2,018)	₩ (876)

(3) Fair value of investment properties approximate their book values as at December 31, 2014 and 2013.

17. Current and non-current liabilities

(1) Trade and other payables as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

	2014	2013
Trade payables	₩ 1,513,449	₩ 1,382,476
Other payables	119,758	144,920
Total	₩ 1,633,207	₩ 1,527,396

(2) Details of other current liabilities as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

	2014	2013
Advances from construction contracts	₩ 1,330,769	₩ 1,086,148
Advances from apartment sales	43,898	9,007
Overbilled amounts related to construction	885,040	732,018
Advances from customers	36,999	52,541
Withholdings	96,282	130,121
Deposits received	7,757	8,494
Accrued expenses	76,770	101,440
Dividends payable	13	13
Unearned revenues	9,364	6,830
Value added tax withheld	31,435	45,825
Membership guarantee deposits	172,993	191,113
Other liabilities	77,467	53,477
Total	₩ 2,768,787	₩ 2,417,027

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17. Current and non-current liabilities (continued)

(3) Details of long-term trade and other payables as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

	2014	2013
Long-term trade and other payables	₩ 136,080	₩ -

(4) Details of other non-current liabilities as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

	2014	2013
Long-term deposits received	₩ 9,387	₩ 16,213
Leasehold deposits received	111,219	83,416
Membership guarantee deposits	112,528	108,334
Total	₩ 233,134	₩ 207,963

18. Financial liabilities

(1) Details of short-term and long-term financial liabilities as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

	2014	2013
Short-term financial liabilities		
Short-term borrowings	₩ 1,025,712	₩ 702,229
Current portion of long-term debts	484,120	1,356,192
Present value discount	(475)	(416)
Derivative liabilities	200,632	132,040
Total	₩ 1,709,989	₩ 2,190,045
Long-term financial liabilities		
Long-term borrowings	₩ 1,573,427	₩ 1,482,926
Present value discount	(95,403)	(121,332)
Debentures	938,760	829,723
Discount on debentures	(3,209)	(2,454)
Conversion right adjustments	(3,510)	-
Derivative liabilities	4,647	4,321
Others (*)	72,518	163,178
Total	₩ 2,487,230	₩ 2,356,362

(*) Fair value of put option, which the Company has provided to financial investors by virtue of the shareholders' agreement as regards participation in the acquisition of a subsidiary.

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18. Financial liabilities (continued)

(2) Details of short-term borrowings as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

			Annual interest rate	(Korean won in million)			
Type	Creditor	Maturity	(%) at	2014		2013	
			December 31,2014				
Usance	ANZ	2015-03-25	0.93~1.03	₩	21,722	₩	16,893
	BNP Paribas	-	-		-		10,376
	BOA	-	-		-		656
	CACIB	2015-06-22	0.85~0.89		219		15,589
	ING BANK	-	-		-		14,848
	JP Morgan	-	-		-		4,472
	NOVASCOTIA	2015-06-16	0.82~1.05		4,449		15,374
	RBS	-	-		-		1,724
	SC	2015-06-22	0.85~1.06		5,880		14,851
	SG	2015-05-25	1.16~1.29		5,683		18,588
	Kookmin	2015-06-29	0.44~1.82		71,646		55,379
	Nonghyup	2015-06-29	0.44~1.18		34,334		20,804
	Deutsche	2015-05-07	0.95~1.07		141		7,736
	KDB	2015-06-29	0.59~0.97		59,026		43,950
	Suhyup	2015-06-22	0.53~0.83		6,731		6,997
	Shinhan	2015-06-29	0.45~0.86		11,311		15,081
	KEB	2015-06-29	0.45~2.75		19,994		10,096
	Woori	2015-06-29	0.44~1.15		39,248		43,069
	ICBC	2015-06-02	1.04~1.05		2,378		13,980
	General borrowings	China	2015-06-19	0.76~2.03		14,150	
Hana		2015-06-26	0.40~1.38		55,274		62,361
Korea Exim		2015-02-17	3M Libor + 1.46		53,481		158,227
Korea Exim		2015-04-30	3M Libor + 1.51		46,117		-
Korea Exim		2015-02-17	3M Libor + 1.56		181,063		-
Korea Exim		2015-06-19	3M Libor + 2.24		100,051		-
Korea Exim		2015-07-23	3M Libor + 2.32		55,219		-
KEB		-	-		-		22,031
KEB		2015-01-06	3M Libor + 1.56		22,559		16,837
KEB		2015-12-09	3M Libor + 1.58		16,777		-
Hana		-	-		-		52,497
Hana		2015-02-06	3M Libor + 1.73		53,901		-
ANZ		-	-		-		3,290
Subsidiaries	KDB	2015-02-26	3M Libor + 2.80		60,300		-
	HSBC	2015-02-26	3M Libor + 2.80		54,818		-
	Shinhan	2015-04-25	LIBOR + 2.00		5,299		-
	HSBC and others (*)	2015-12-31	Euribor + 2.50		23,941		44,083
Total				₩	1,025,712	₩	702,229

(*) Future cash flows that occur in the Service Concession Arrangements have been pledged as collateral (Note 34).

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18. Financial liabilities (continued)

(3) Details of long-term borrowings as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

Type	Creditor	Maturity	Annual interest rate (%)	2014	2013
			at December 31, 2014		
Long-term borrowings in Korean won	Korea Housing Guarantee(*1)	2025-03-24	1.00	₩ 11,940	₩ 11,940
	1st BPFC	2016-05-20	4.70	150,000	-
	SK Securities	2018-01-29	3.48	500,000	500,000
	LIG Insurance	2016-04-29	5.50	29,000	-
	KTB Securities	2019-02-20	3.48~3.49	300,000	300,000
	Korea Exim	2019-05-29	4.25~4.40	180,000	180,000
Long-term borrowings in foreign currency	Korea Exim	2016-07-16	3M Libor + 2.25~2.29	603,036	1,039,826
	HSBC	2017-05-22	3M Libor + 3.25	21,984	21,106
Subsidiaries	KDB	2020-12-15	2.77~3.61	34,812	12,373
	Korea Exim	2016-08-26	3M Libor + 2.37	109,882	106,038
	Bank of China and others	-	-	-	84,529
	Caixa and others (*2)	2035-02-12	TR + 8.30	115,502	66,692
Sub-total				2,056,156	2,322,504
Less: current portion				(482,729)	(839,578)
Sub-total				1,573,427	1,482,926
Less: discount on long-term borrowings				(95,403)	(121,332)
Total				₩ 1,478,024	₩ 1,361,594

(*1) Non-marketable equity securities provided as collateral to Korea Housing Guarantee Co., Ltd.

(*2) Future cash flows that occur in the Service Concession Arrangements have been pledged as collateral (Note 34).

(4) Details of debentures as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

Type	Series	Maturity	Annual interest rate (%)	2014	2013
			at December 31, 2014		
Bonds with fixed interest rate	125 th - non-guaranteed debentures	-	-	₩ -	₩ 200,000
	127 th - non-guaranteed debentures	2017-10-09	3.36	200,000	200,000
	128-1 st - non-guaranteed debentures	2016-02-05	3.54	320,000	320,000
	128-2 nd - non-guaranteed debentures	2018-02-05	3.70	60,000	60,000
Foreign bonds	126 th - non-guaranteed debentures	-	-	-	316,615
	Convertible Bond (*1)	2019-01-28	3.25	109,882	-
Bonds of subsidiaries in Korean won	29 th - non-guaranteed debentures	2017-07-05	3.82	100,000	100,000
	30 th - non-guaranteed debentures	2018-05-28	3.20	100,000	100,000
Bonds of subsidiaries in foreign currency bond	Bond(*2)	2030-03-01	TR + 9.00	50,269	49,723
Sub-total				940,151	1,346,338
Less: current portion				(1,391)	(516,615)
Balance				938,760	829,723
Less: discount on debentures				(3,209)	(2,454)
Less: conversion right adjustment				(3,510)	-
Total				₩ 932,041	₩ 827,269

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18. Financial liabilities (continued)

(*1) Convertible bond

The Company issued non-guaranteed foreign convertible bonds on January 23, 2014 in accordance with resolution of the Board of Director's meeting. Details of the bond are as follows.

Division	129th - non-guaranteed foreign convertible bond
Aggregate principal amount of the bonds	USD 100,000,000
Par interest rate	3.25%
Yield to maturity	3.25%
Conversion period	From January 28, 2015 to January 21, 2019
Type of shares to be issued in accordance with the conversion	Fully paid ordinary shares
Details of conversion rights	1. Conversion price: 41,602 per share 2. Payments : Paid at once on maturity, redemption at the option of the bondholders, redemption at the option of the issuer 3. Issued : Public offering 4. Adjustments to conversion price : adjustment in the circumstances described under "terms and conditions of the bonds (consolidation, subdivision, reclassification or capital reduction, share dividends, capitalization of profits or reserves;, distributions, rights issues of shares or options over shares;, issues at less than current market price and etc.):

(*2) Future cash flows that occur in the Service Concession Arrangements have been pledged as collateral (Note 34).

19. Net defined benefit liability

The Group operates a defined benefit pension plan for its employees, which is recorded at present value of benefits using the projected unit credit method based on actuarial assumptions and on a discount basis by Aon Hewitt, an independent actuary firm.

(1) The amounts recognized in the consolidated statements of financial position are as follows:

	(Korean won in millions)	
	December 31, 2014	December 31, 2013
Present value of the defined benefit obligation (*) ₩	340,943	₩ 274,058
Fair value of plan assets	(247,404)	(224,557)
Defined benefit liability in the consolidated statements of financial position	₩ 93,539	₩ 49,501

(*) The present value of the defined benefit obligation is calculated by deducting contributions to the National Pension Fund of ₩972 million as at December 31, 2014 (2013: ₩1,057 million).

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19. Net defined benefit liability (continued)

(2) Changes in the carrying amount of defined benefit liabilities for the years ended December 31, 2014 and 2013 are as follows:

	(Korean won in millions)	
	2014	2013
Beginning balance	₩ 274,058	₩ 299,092
Current service cost	47,333	56,948
Interest expense	10,313	10,322
Remeasurements:	47,309	(68,864)
- Actuarial gains and losses arising from changes in demographic assumptions	1,470	(6,043)
- Actuarial gains and losses arising from changes in financial assumptions	30,204	(70,220)
- Experience adjustments	15,635	7,399
Exchange differences	73	35
Payments from plans:	(38,033)	(23,696)
- Benefit payments	(38,033)	(23,696)
Liabilities transferred to a related party	(110)	221
Ending balance	₩ 340,943	₩ 274,058

(3) The movements in the fair value of plan assets for the years ended December 31, 2014 and 2013 are as follows:

	(Korean won in millions)	
	2014	2013
Beginning balance	₩ 224,557	₩ 212,922
Interest income	8,452	7,413
Remeasurements:	(2,854)	(249)
- Return on plan assets (excluding amounts included in interest income)	(2,854)	(249)
Contributions:	47,665	23,850
- Employers	47,665	23,850
Payments from plans:	(30,320)	(19,401)
- Benefit payments	(29,865)	(18,860)
- Management fee	(455)	(540)
Assets transferred from a related party	(96)	22
Ending balance	₩ 247,404	₩ 224,557

(4) The amounts recognized in statement of profit or loss for the years ended December 31, 2014 and 2013 are as follows:

	(Korean won in millions)	
	2014	2013
Current service cost	₩ 47,333	₩ 56,948
Net interest	2,316	3,449
Ending balance (*)	₩ 49,649	₩ 60,397

(*) Represents total expenses for pension benefits:

	(Korean won in millions)	
	2014	2013
Cost of sales	₩ 37,455	₩ 43,051
Selling and administrative expenses	12,194	17,346
Total	₩ 49,649	₩ 60,397

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19. Net defined benefit liability (continued)

(5) The principal actuarial assumptions as at December 31, 2014 and 2013 were as follows:

	2014	2013
Discount rate	2.92%~3.14%	3.99%~4.07%
Future salary increase (including inflation)	3.00%~4.38%	2.90%~3.00%

(Korean won in millions)

Mortality rates used as actuarial assumptions are based on post 2012 figures announced by the Insurance Development Institute, was used.

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

Assumptions	Sensitivity level (%)	Impact on defined benefit obligation	
		1% increase	1% decrease
Discount rate	1.00	₩ (24,934)	₩ 28,691
Future salary increases	1.00	28,500	(25,246)

(Korean won in millions)

20. Non-current provisions

	2014	2013
Provisions for financial guarantee	₩ 146,527	₩ 162,474
Provisions for construction warranty	129,237	130,994
Provisions for others	11,314	8,283
Total	₩ 287,078	₩ 301,751

(Korean won in millions)

21. Commitments and contingencies

(1) As at December 31, 2014, the Group has been provided with guarantees of ₩8,541,380 million (2013: ₩8,635,901 million) from the Construction Guarantee and its business partners in relation to its construction performance, sales of housing lots and construction warranty. As at December 31, 2014, the Group has been provided with guarantees of ₩540,413 million (2013: ₩676,068 million) from the Korea Exim bank and others in relation to letter of credits and ₩4,934,488 million (2013: ₩3,757,760 million) from the Korea Exim Bank and others in relation to the performance of its overseas construction projects.

(2) As at December 31, 2014, the Group has provided construction performance guarantees and payment guarantees of ₩240,403 million (2013: ₩220,588 million) in relation to its overseas construction projects and the Group has provided guarantees of ₩2,475,893 million (2013: ₩1,593,900 million) to its business partners.

(3) As at December 31, 2014, in relation to housing loans and temporary relocation costs of future tenants during the construction period, the Group has provided guarantees of ₩591,712 million (2013: ₩646,611 million) within the limit of ₩767,224 million through agreements with financial institutions. Also, in relation to refurbishment projects such as redevelopment of an area, the Group has provided payment guarantees of ₩686,311 million (2013: ₩614,914 million) within the limit of ₩975,007 million through agreements with refurbishment project cooperatives as at December 31, 2014.

(4) On behalf of the entities incorporated under the Act on Private Investment in Social Overhead Capital, the Group and its partners have provided payment guarantees of ₩908,889 million (Group's share : ₩206,556 million) (2013: ₩1,118,200 million (Group's share: ₩192,879 million)) and pledged investments with a carrying value of ₩73,212 million (2013: ₩85,492 million) as collateral as at December 31, 2014. Also, the Group and its partners have provided put options and other commitments of ₩352,679 million (Group's share : ₩66,317 million) (2013: ₩296,223 million (Group's share: ₩57,472 million)) to the financial investors of Ulsan Green Co., Ltd. and others.

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21. Commitments and contingencies (continued)

(5) In relation to asset securitization, the Group has provided payment guarantees of ₩140,551 million (2013: ₩171,666 million) to MSK Yeonsan Limited and other parties, as at December 31, 2014.

(6) As at December 31, 2014, the Group has provided committed construction guarantees and sales-guarantees of ₩217,300 million (2013: ₩156,322 million), payment guarantees of ₩243,302 million in relation to conditional repurchase of apartment sales, and payment guarantees of ₩10,000 million for the rent to a developer and others.

(7) As at December 31, 2014, the Group has provided twelve blank notes and checks, 27 notes amounting to ₩238,024 million (2013: six blank notes, 31 notes amounting to ₩124,645 million) in face value as collaterals to guarantee its construction contracts.

(8) The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. The Group is involved in 52 lawsuits with aggregated claims sought by the Group amounting to ₩365,697 million (2013: 37 litigations amounting to ₩424,138 million) as the plaintiff, and 119 lawsuits with aggregated claims against the Group amounting to ₩72,919 million (2013: 67 litigations amounting to ₩84,066 million) as the defendant. As at December 31, 2014, the outcome of these cases cannot be reasonably determined.

(9) As at December 31, 2014, the Group has provided put options for Copa Inima, a financial investor who participated in the acquisition of a subsidiary in accordance with of the shareholders' agreement, as regards the participation in the acquisition of a subsidiary, and the put options can be exercised in three months after seven years from May 31, 2012 (acquisition date) at the exercise price which is the principal amount including 3.84% annually compounded interest to the investment principal, etc.

(10) As at December 31, 2014, the Group provided payment guarantees of ₩1,593,675 million (2013: ₩1,480,786 million) within the limit of ₩1,673,375 million through agreements with financial institutions for the borrowings of the developers of the construction projects. Details of guaranteed borrowings are ABCP and ABSTB amounting to ₩1,067,400 million (2013: ₩997,640 million) and other PF loans amounting to ₩526,275 million (2013: ₩483,146 million), respectively. (excluding borrowings for intermediate payments, relocation expenses, completion guarantee, SOC and others.)

Major guarantees for the developers' debts that the Group provided as at December 31, 2014 are as follows:

(Korean won in millions)

Location	creditor	Loan balance	Guarantee money	Details	Loan period	Type
Gyeonggi Province	Securities and others	₩ 279,466	₩ 279,466	Debt guarantee	2014.03~2016.07	ABCP, ABSTB and other loan
Gyeonggi Province	Securities and others	223,500	223,500	Debt guarantee	2014.05~2015.10	ABCP, ABSTB and other loan
Gyeonggi Province	Securities and others	186,500	186,500	Debt guarantee	2014.07~2015.12	ABCP, ABSTB and other loan
Gyeonggi Province	Securities and others	176,300	176,300	Debt guarantee	2014.06~2015.08	ABCP, ABSTB and other loan
Gyeonggi Province	Securities and others	144,473	144,473	Debt guarantee	2014.05~2015.10	ABCP, ABSTB and other loan
Chungcheong Province	Securities and others	112,000	112,000	Debt guarantee	2014.11~2015.11	ABCP, ABSTB and other loan
Gyeonggi Province	Securities and others	110,000	110,000	Debt guarantee	2014.04~2015.04	ABCP, ABSTB
Seoul	Securities and others	80,000	80,000	Debt guarantee	2014.03~2015.03	ABCP, ABSTB
Gyeonggi Province	Securities and others	78,800	78,800	Debt guarantee	2014.10~2015.10	ABCP, ABSTB
Gyeonggi Province	Securities and others	63,900	63,900	Debt guarantee	2014.03~2015.08	ABCP, ABSTB and other loan

21. Commitments and contingencies (continued)

(11) Parnas Hotel Co., Ltd. ("Parnas"), a subsidiary, amended its contract with Intercontinental Hotels Group PLC. ("IHG") on January 1, 2011, wherein, Grand Intercontinental Seoul Parnas and Intercontinental Seoul Coex should be directly managed by Parnas, and only supporting services on hotel operation and sales should be provided by IHG. The supporting service fees recognized for the years ended December 31, 2014 and 2013, amount to ₩4,214 million and ₩3,940 million, respectively.

(12) Parnas, a subsidiary, entered into a lease contract with the Korea International Trade Association ("KITA") on land used by Intercontinental Seoul Coex on July 22, 1997. The lease contract is effective until December 31, 2019, with a renewal option for another ten years upon mutual agreement. According to this contract, Parnas shall pay to KITA rental fees corresponding to a prescribed proportion of the sales. For the years ended December 31, 2014 and 2013, Parnas recognized lease expenses of ₩4,996 million and ₩5,606 million, respectively.

(13) Parnas, a subsidiary, entered into a lease contract with Sengbo No. 1 REITs Co., Ltd. for operation of Nine Tree Hotel on December 15, 2011. The lease contract is effective from December 1, 2012 until December 31, 2032, with a renewal option upon mutual agreement. According to this contract, Parnas shall pay rental fees corresponding to a prescribed proportion of the sales and at least ₩3,300 million should be guaranteed as rental fees each year. For the years ended December 31, 2014 and 2013, Parnas paid expenses of ₩3,325 million and ₩3,300 million (guaranteed amount calculated by daily basis), respectively.

(14) GS Inima Environment S.A., a subsidiary has provided collateral of future cash flows that occur in the Service Concession Arrangements and has pledged supplemental funding obligation for borrowings from financial institute.

22. Issued capital and share premium

(1) Details of issued capital as at December 31, 2014 and 2013 are as follows:

	2014	2013
Authorized shares	200,000,000 shares	200,000,000 shares
Par value per share	₩ 5,000	₩ 5,000
Outstanding shares	71,000,000 shares	51,000,000 shares
Issued capital (*)	₩ 355,000 million	₩ 255,000 million

(*) The Company issued 20,000,000 shares at ₩5,000 par value during the year ended December 31, 2014 and issued at a price of ₩27,600 per share.

(2) Details of share premium as at December 31, 2014 and 2013 are as follows:

	2014	2013
		(Korean won in millions)
Gain on sale of treasury stock	₩ 9,724	₩ 9,724
Additional paid-in capital	558,104	109,735
Gain on business combination	15,002	15,002
Other additional capital	27,804	24,675
Total	₩ 610,634	₩ 159,136

(3) Details of other components of equity as at December 31, 2014 and 2013, are as follows:

	2014	2013
		(Korean won in millions)
Treasury stock (*1)	₩ (75,733)	₩ (75,733)
Other component of equity (*2)	(65,078)	(69,510)
Total	₩ (140,811)	₩ (145,243)

(*1) To stabilize the Group's share price, the Group purchased 1,439,281 shares of own stock.

(*2) Present value of exercising price of put option, which the Group has provided to financial investors by virtue of the shareholders' agreement as regards participation in the acquisition of a subsidiary, was recorded.

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22. Issued capital and share premium (continued)

(4) Details of other comprehensive loss as at December 31, 2014 and 2013 are as follows:

	(Korean won in millions)	
	2014	2013
Gain on valuation of derivative instruments	₩ 28,427	₩ 42,840
Loss on valuation of derivative instruments	(86,681)	(44,385)
Gain on valuation of available-for-sale financial assets	6,766	7,765
Loss on valuation of available-for-sale financial assets	(3,337)	(3,773)
Gain on exchange differences on translations of foreign operations	56,814	58,347
Loss on exchange differences on translations of foreign operations	(90,940)	(83,258)
Share of other comprehensive income of associates	1,243	1,122
Share of other comprehensive loss of associates	(230)	(271)
Total	₩ (87,938)	₩ (21,613)

23. Retained earnings

Retained earnings as at December 31, 2014 and 2013 consist of:

	(Korean won in millions)	
	2014	2013
Legal reserves	₩ 79,869	₩ 79,639
Appropriated retained earnings for business stabilization	844,653	844,653
Discretionary reserves	2,870,344	2,871,604
Remeasurements of net defined benefit liability	(26,040)	11,567
Other consolidated retained earnings	18,294	11,222
Unappropriated accumulated deficit	(1,253,069)	(1,201,985)
Total	₩ 2,534,051	₩ 2,616,700

24. Loss per share

Basic and diluted loss per share of equity holders of parent company for the years ended December 31, 2014 and 2013 are as follows:

	(Korean won except for shares)	
	2014 (*1)	2013
Loss attributable to equity holders of the parent company	₩ (41,071,813,801)	₩ (828,196,424,626)
Weighted average number of ordinary shares in issue (*2)	61,595,606	51,724,730
Basic and diluted loss per share	₩ (667)	₩ (16,012)

(*1) Although the Group holds convertible bonds which have a potential dilutive effect, diluted loss per share amounts are the same as basic loss per share amounts due to an anti-dilutive effect on loss per share.

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24. Loss per share (continued)

(*2) Details of calculation of weighted average number of ordinary shares outstanding are as follows:

(Korean won except for shares)

2014				
	Period	Number of shares	Number of days	Number of shares X Number of days
Shares at the beginning	2014.1.1~2014.12.31	51,000,000	365	18,615,000,000
Treasury stock	2014.1.1~2014.12.31	(1,439,281)	365	(525,337,565)
Paid-in capital increase	2014.6.13~2014.12.31	17,089,783	202	3,452,136,166
Increase in capital stock without consideration (*)	2014.6.13~2014.12.31	746,206	202	150,733,612
	2014.1.1~2014.12.31	2,164,011	365	789,864,015
Total				22,482,396,228
Weighted average number of ordinary shares outstanding				61,595,606

(*) Effect of increase in capital stock without consideration due to paid-in capital increase at the price less than under the market price is reflected.

(Korean won except for shares)

2013				
	Period	Number of shares	Number of days	Number of shares X Number of days
Shares at the beginning	2013.1.1~2013.12.31	51,000,000	365	18,615,000,000
Treasury stock	2013.1.1~2013.12.31	(1,439,281)	365	(525,337,565)
increase in capital stock without consideration (*)	2013.1.1~2013.12.31	2,164,011	365	789,864,015
Total				18,879,526,450
Weighted average number of ordinary shares outstanding				51,724,730

(*) Effect of increase in capital stock without consideration due to paid-in capital increase at the price less than under the market price is reflected.

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25. Selling and general administrative expenses

Selling and general administrative expenses for the years ended December 31, 2014 and 2013 are as follows:

(Korean won in millions)

	2014	2013
Salaries	₩ 163,152	₩ 221,798
Retirement benefits	12,194	17,346
Employee welfare benefits	32,890	35,997
Taxes and dues	16,845	11,400
Commission expense	67,797	83,479
Rental expenses	25,623	35,788
Depreciation	6,448	5,930
Depreciation of investment properties	82	539
Advertising expense	13,465	16,158
Bad debt expenses	(34,829)	22,003
Amortization	4,389	38,222
Development expenses	44,204	49,401
Warranty expenses	1,392	(8,743)
Insurance premium	7,385	8,625
Travel expenses	5,062	7,993
Reversal of financial guarantee liability	(584)	(2,458)
Others	11,990	12,789
Total	₩ 377,505	₩ 556,267

26. Other operating income and expenses

(1) Other operating income for the years ended December 31, 2014 and 2013 consists of:

(Korean won in millions)

	2014	2013
Gain on disposal of property, plant and equipment	₩ 21,760	₩ 52,848
Reversal of impairment loss of property, plant and equipment	117	-
Gain on disposal of investment property	2,316	19,685
Gain on disposal of other assets	-	85
Gain on foreign currency transactions	90,402	69,018
Gain on foreign currency translation	29,791	2,170
Reversal of allowance for bad debts	19,104	4,568
Gain on valuation of derivatives	9,990	58,524
Gain on derivatives transactions	29,274	96,813
Gain on valuation of firm commitments	109,391	48,987
Miscellaneous gains	21,657	22,793
Dividend income	236	136
Gain on disposal of available-for-sale financial assets	205	-
Reversal of gain on exchange differences on translations of foreign operations	690	1,282
Gain on disposal of equity-method investments	-	203
Total	₩ 334,933	₩ 377,112

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26. Other operating income and expenses (continued)

(2) Other operating expenses for the years ended December 31, 2014 and 2013 consist of:

	(Korean won in millions)
	2014
	2013
Bad debts expense	₩ 41,692
Loss on disposal of property, plant, and equipment	21,255
Impairment loss of property, plant, and equipment	-
Loss on disposal of intangible assets	6
Loss on disposal of investment property	3,984
Impairment loss of investment property	700
Loss on foreign currency transactions	56,252
Loss on foreign currency translation	14,280
Loss on valuation of derivatives	82,299
Loss on derivatives transactions	26,599
Loss on valuation of firm commitments	21,957
Loss on disposal of trade receivables	1,836
Reversal of gain on exchange differences on translations of foreign operations	20
Loss on disposal of financial assets	811
Impairment loss of financial assets	4,401
Miscellaneous losses and others	73,530
Total	₩ 349,622
	₩ 412,076

27. Finance income and expenses

(1) Finance income for the years ended December 31, 2014 and 2013 consists of:

	(Korean won in millions)
	2014
	2013
Interest income	₩ 59,760
Dividend income	29
Gain on foreign currency transactions	80,554
Gain on foreign currency translation	31,044
Gain on disposal of long-term financial assets	862
Reversal of financial guarantee liabilities	92,583
Total	₩ 264,832
	₩ 211,859

(2) Finance costs for the years ended December 31, 2014 and 2013 are as follows:

	(Korean won in millions)
	2014
	2013
Interest expense	₩ 116,031
Loss on foreign currency transaction	63,760
Loss on foreign currency translation	73,493
Loss on disposal of short-term financial assets	329
Loss on disposal of long-term financial assets	137
Loss on derivatives transactions	12,571
Loss on valuation of derivatives	-
Loss on disposal of equity-method investments	1,915
Financial guarantee expenses	68,629
Total	₩ 336,865
	₩ 244,140

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28. Income tax

(1) Income tax benefit for the years ended December 31, 2014 and 2013 consists of:

	2014		2013	
			(Korean won in millions)	
Current tax:				
Current tax on profits for the year	₩	59,793	₩	29,249
Adjustments in respect of prior years		11,900		7,485
Total current tax		71,693		36,734
Deferred tax :				
Origination and reversal of temporary differences (*1)	₩	(107,980)	₩	(182,946)
Total income tax expense (benefit)		(36,287)		(146,212)
Deferred income tax charged to equity (*2)		(29,120)		19,618
Income tax benefit	₩	(7,167)	₩	(165,830)

(*1) Changes in deferred income tax for the years ended December 31, 2014 and 2013 are as follows:

	2014		2013	
			(Korean won in millions)	
Beginning balance of deferred tax assets	₩	211,153	₩	28,208
Change in deferred income tax		107,980		182,946
Ending balance of deferred tax assets	₩	319,133	₩	211,153

(*2) Income tax (charged)/credited directly to equity as at December 31, 2014 and 2013 is as follows:

	2014			2013		
	Before tax	Tax (charge) credit	After tax	Before tax	Tax (charge) credit	After tax
Gains on valuation of available for-sale securities	₩ (1,324)	₩ 320	₩ (1,004)	₩ 363	₩ (88)	₩ 275
Losses on valuation of available for-sale securities	469	(113)	356	668	(162)	506
Gains on valuation of derivatives	(19,016)	4,602	(14,414)	12,174	(2,946)	9,228
Losses on valuation of derivatives	(57,158)	14,827	(42,331)	12,942	(3,132)	9,810
Gain on exchange differences on translations of foreign operations	2,677	(4,210)	(1,533)	81,552	(23,206)	58,347
Loss on exchange differences on translations of foreign operations	(10,133)	2,452	(7,681)	(109,839)	26,581	(83,258)
Remeasurement of the net defined benefit liability	(50,164)	12,140	(38,024)	66,320	(16,654)	49,666
Equity method and others	4,207	(898)	3,309	49	(12)	37
Total	₩ (130,442)	₩ 29,120	₩ (101,322)	₩ 64,229	₩ (19,618)	₩ 44,611

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28. Income tax (continued)

(2) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax as follows:

	2014	2013
	₩	₩
Profit before tax	(29,619)	(993,177)
Tax calculated at domestic tax rates applicable to profits in the respective countries	(7,168)	(240,349)
Tax effects of:		
Income not subject to tax	(28)	-
Expenses not deductible for tax purposes	12,515	3,201
Foreign income tax expense	19,310	10,974
Re-measurement of deferred tax liabilities	23,136	47,609
Additional income taxes for prior periods and others	(54,932)	12,735
Sub total	1	74,519
Income tax benefit	(7,167)	(165,830)

29. Expenses classified by nature

Expenses classified by nature for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
	₩	₩
Labor cost	982,519	943,410
Materials	2,963,837	2,986,351
Outsourcing	3,543,707	3,819,481
Employee welfare benefits	136,112	133,676
Bad debts expense	(34,829)	22,003
Rent	194,438	175,681
Changes in inventories	(107,805)	333,748
Depreciation	60,300	55,215
Amortization	15,401	48,699
Taxes and dues	78,511	93,402
Service fees	764,854	974,855
Others	839,338	914,688
Total (*)	9,436,383	10,501,209

(*) Includes cost of sales, selling and general administrative expenses.

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30. Related party transactions

(1) Related parties as at December 31, 2014, are as follows:

Relationship	Related parties
Associates	Major Development Co., Ltd, GS-HP Corp., Cadiz San Fernando, A.I.E., Participes de Biorreciclaje S.A., Shariket Miyeh Ras Djinet, Spa, Shariket Tahlya Miyah Mostaganem, Spa
Joint venture	G&M Estate Co., Ltd, Hialeah Water, LLP

(2) Significant transactions with related parties for the years ended December 31, 2014 and 2013 are as follows:

(Korean won in millions)

		2014			
		Sales and others			Purchases
	Related party	Sales	Other income	Total	
Associates	Major Development Co., Ltd	₩ 709	₩ -	₩ 709	₩ -
	GS-HP Corp.	-	8	8	-
Joint venture	G&M Estate Co., Ltd.	217	-	217	920
Total		₩ 926	₩ 8	₩ 934	₩ 920

(Korean won in millions)

		2013			
		Sales and others			Changes in ownership
	Counterparty	Sales	Other income	Total	
Associates	GS PP Development Co., Ltd.	₩ -	₩ 2,316	₩ 2,316	₩ -
	Major Development Co., Ltd.	1,316	-	1,316	-
	HNH development Co., Ltd. (*)	-	85	85	150
	GS-HP Corp.	20	20	40	-
Joint venture	G&M Estate Co., Ltd.	-	-	-	100
Total		₩ 1,336	₩ 2,421	₩ 3,757	₩ 250

(*)The Group lost significant influence due to change in equity interest during the current period.

(3) Receivables and payables from related parties as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

		2014						
		Receivables				Payables		
	Related party	Trade receivables	Other receivables	Loans	Total	Trade payables	Other payables	Total
Associates	Major Development Co., Ltd.	₩ 205,047	₩ -	₩ -	₩ 205,047	₩ -	₩ 23	₩ 23
	Cadiz San Fernando, A.I.E	218	-	-	218	200	-	200
	Participes de Biorreciclaje S.A.	2,334	-	-	2,334	29	-	29
	Shariket Miyeh Ras Djinet, Spa	1,898	-	-	1,898	-	-	-
	Shariket Tahlya Miyah Mostaganem, Spa	7,011	-	-	7,011	-	-	-
Joint venture	G&M Estate Co., Ltd.	-	28	-	28	-	212	212
Total		₩ 216,508	₩ 28	₩ -	₩ 216,536	₩ 229	₩ 235	₩ 464

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30. Related party transactions (continued)

(Korean won in millions)

		2013						
		Receivables			Total	Payables		Total
Related party		Trade receivables	Other receivables	Loans		Trade payables	Other payables	
Associates	Major Development Co., Ltd.	₩ 245,047	₩ -	₩ -	₩ 245,047	₩ 192	₩ -	₩ 192
	HNH development Co., Ltd. (*)	5,630	85	53,798	59,513	-	-	-
	Cadiz San Fernando, A.I.E	242	-	-	242	218	-	218
	Participes de Biorreciclaje S.A.	3,712	-	-	3,712	32	-	32
	Shariket Miyeh Ras Djinet, Spa	7,696	-	-	7,696	1	-	1
	Shariket Tahlya Miyah Mostaganem, Spa	5,438	-	-	5,438	-	-	-
	GS-HP Corp.	-	-	306	306	-	-	-
Total		₩ 267,765	₩ 85	₩ 54,104	₩ 321,954	₩ 443	₩ -	₩ 443

(*)The Group lost significant influence due to change in equity interest during the current period.

Allowance for doubtful receivables from related parties as at December 31, 2014 and 2013 is as follows:

(Korean won in millions)

		Allowance for doubtful accounts	
		2014	2013
Major Development Co., Ltd.	₩	47,741	₩ 47,741
HNH development Co., Ltd. (*)		-	5,400
Total	₩	47,741	₩ 53,141

(*)The Group lost significant influence due to change in equity interest during the current period.

Allowance for doubtful accounts of receivables from related parties includes allowance for doubtful accounts of short and long-term loans, construction receivables, accrued revenues and others.

(4) Changes in loans to related parties for the years ended December 31, 2014 and 2013 are as follows:

(Korean won in millions)

		2014								
		Annual interest rate (%) at December 31, 2014	Maturity date	Beginning	Increase	Repayment	Effects of changes in foreign exchange rates	Ending	Interest income	
Associates	GS-HP Corp.	6M Biber + 1.75	-	₩ 306	₩ -	₩ 311	₩ 5	₩ -	₩ 8	
		2013								
		Annual interest rate (%) at December 31, 2014	Maturity date	Beginning	Increase	Repayment	Effects of changes in foreign exchange rates	Changes in consolidation scope	Ending	Interest income
Associates	GS PP Development Co., Ltd.	6M Libor + 2	2013. 11.13	₩ 141,927	₩ -	₩ -	₩ 10,415	₩ (152,342)	₩ -	₩ 2,316
	GS-HP Corp.	6M Biber + 1.75	-	686	-	395	15	-	306	20
	HNH development Co., Ltd. (*)	4.08~6.66	2014.02	-	53,798	-	-	-	53,798	85
Total				₩ 142,613	₩ 53,798	₩ 395	₩ 10,430	₩ (152,342)	₩ 54,104	₩ 2,421

(*)The Group lost significant influence due to change in equity interest during the current period.

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30. Related party transactions (continued)

(5) Details of payment guarantees that the Group provides to the related parties as at December 31, 2014 and 2013 are as follows:

						(Korean won in millions)	
		Type	Beneficiary	Period		2014	2013
Associates	Major Development Co., Ltd.	Payment guarantees	MERITZ SECURITIES CO., LTD and others	2013.12~ 2015.06	₩	1,006 (1,006)	₩ 4,039 (4,039)
	HNH development Co., Ltd. (*),	Payment guarantees	HMC INVESTMENT SECURITIES CO., LTD. and others	2013.11~ 2014.02		-	96,900 (148,700)

(*)The Group lost significant influence due to change in equity interest during the current period.

(6) Compensation of key management personnel of the Group as at December 31, 2014 and 2013 consists of:

				(Korean won in millions)	
		2014		2013	
Salaries	₩	21,951	₩	27,501	
Severance benefits		4,221		5,649	
Total	₩	26,172	₩	33,150	

(7) Other transactions

The Group issued 20,000,000 shares of ₩5,000 par value per share (issued at a price of ₩27,600 per share.) during the year ended December 31, 2014. Significant transaction with related parties as participants in the paid-in capital increase is as follows:

		(Korean won in millions)	
	Shares		Amount
The largest shareholder and related parties of the largest shareholder	5,041,045	₩	139,133

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31. Cash flows

(1) Cash flows from operating activities for the years ended December 31, 2014 and 2013 is as follows:

(Korean won in millions)

	2014	2013
Loss for the year	₩ (22,453)	₩ (827,347)
Adjustments for:		
Income tax benefit	(7,167)	(165,830)
Interest expenses	116,031	131,023
Interest income	(59,760)	(60,852)
Dividend income	(265)	(136)
Depreciation	60,300	55,215
Depreciation of investment property	1,278	2,526
Amortization	15,401	48,696
Bad debt expenses	43,257	88,412
Reversal of bad debts expense	(55,498)	(45,016)
Provision for severance benefits	49,649	60,754
Losses on disposal of trade receivables	1,836	4,466
Gains or losses on foreign currency translation, net	26,938	(13,588)
Gains or losses on disposal of property, plant and equipment, net	(505)	(51,217)
Impairment losses of property, plant, and equipment	-	8,970
Reversal of impairment losses of property, plant, and equipment	(117)	-
Impairment losses of investment property	700	1,042
Gains or losses on disposal of investment property, net	1,668	(12,530)
Gains or losses on disposal of Intangible assets, net	6	-
Gains or losses on valuation of derivatives, net	72,310	(40,938)
Gains or losses on derivatives transactions, net	9,896	(15,546)
Gains or losses on valuation of firm commitments, net	(87,434)	25,994
Financial guarantee expenses	68,629	50,000
Reversal of provision for financial guarantee	(93,167)	(54,788)
Construction warranty expenses	25,058	6,942
Reversal of provision for construction warranties	(4,573)	(15,685)
Gains or losses on disposal of financial assets, net	210	911
Impairment losses of financial assets	4,401	76,770
Loss on overseas operations translation	20	3,033
Gain on overseas operations translation	(690)	(1,281)
Valuation gain of investments in associates	(5,935)	(9,519)
Others	42,999	605
Sub-total	225,476	78,433
Changes in operating assets and liabilities		
Trade and other receivables	197,574	(447,581)
Inventories	(88,822)	409,327
Settlement of derivatives transactions	41,082	43,222
Other current assets	(152,873)	(192,346)
Other non-current assets	(18,148)	-
Trade and other payables	233,947	59,366
Other current liabilities	318,165	(169,603)
Non-current provision	(7,623)	(7,119)
Other non-current liabilities	(24,887)	9,171
Payment of severance benefits	(55,833)	(24,856)
Overseas operations translation	6,853	(1,816)
Sub-total	449,435	(322,235)
Cash flows from (used in) operations	₩ 652,458	₩ (1,071,149)

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31. Cash flows (continued)

(2) Significant non-cash transactions

	(Korean won in millions)	
	2014	2013
Reclassification bonds payable	₩ -	₩ 521,323
Reclassification borrowings	626,077	640,910
Reclassification from construction-in-progress to property, plant and equipment	150,906	10,797
Reclassification from advance payments to property, plant and equipment	12,321	-
Reclassification from advance payments to inventories	40,347	-
Reclassification from trade receivables to investment property	-	70,255
Reclassification loans to property, plant and equipment	-	30,660
Write off of trade receivables and long-term loans	14,454	94,471
Reclassification from inventories to investment property	10,876	-

32. Financial risk management

The Group's activities are exposed 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 supports to generate stable and continuous business performance and simultaneously focuses on improvement of cost competitiveness by improving financial structure and reducing financial cost.

The Group's overall risk management program focuses to minimize potential adverse effects on the Group's financial risk by monitoring periodical financial risk and rearranging the financial risk management policy.

(1) Financial risk

(a) Market risk

i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group's principal monetary assets and liabilities denominated in currencies other than its functional currency as at December 31, 2014 and 2013 are as follows:

(Korean won in millions / Foreign currencies in thousands)

	2014			
	Financial assets		Financial liabilities	
	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent
USD	₩ 662,846	₩ 728,600	₩ 1,563,486	₩ 1,718,584
EUR	122,803	164,128	163,909	219,068
KWD	14,567	54,714	146	547
JPY	7,574	70	3,921,998	36,088
SGD	-	-	1,758	1,462

32. Financial risk management (continued)

(Korean won in millions / Foreign currencies in thousands)

	2013			
	Financial assets		Financial liabilities	
	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent
USD	₩ 1,259,811	₩ 1,329,479	₩ 2,258,803	₩ 2,383,694
EUR	131,132	142,258	146,084	200,697
KWD	11,526	43,129	20,373	76,238
JPY	815,200	8,190	2,995,782	30,097
SGD	1,030	858	8,769	7,302

As at December 31, 2014 and 2013, if the Group's functional currency had weakened/strengthened by 5% against foreign currencies with all other variables held constant, profit before income tax would have been affected as follows:

(Korean won in millions)

	2014		2013	
	5% increase	5% decrease	5% increase	5% decrease
USD	₩ (49,499)	₩ 49,499	₩ (52,712)	₩ 52,712
EUR	(2,747)	2,747	(1,089)	1,089
KWD	2,708	(2,708)	(1,655)	1,655
JPY	(1,801)	1,801	(1,095)	1,095
SGD	(73)	73	(322)	322

ii) Interest rate risk

The Group's interest rate risk arises from variable-rate borrowings, and related interest expense is exposed to interest risk. As at December 31, 2014, the financial liabilities that are exposed to interest risk are the variable-rate borrowings issued at variable rates amounting to ₩1,580,622 million (2013: ₩2,163,066 million).

As at December 31, 2014, and 2013, if interest rates had been fluctuated by 100bp with all other variables held constant, interest expenses would have been affected as follows:

(Korean won in millions)

	2014		2013	
	100bp increase	100bp decrease	100bp increase	100bp decrease
Interest expense	₩ 12,884	₩ (12,884)	₩ 15,154	₩ (15,154)

(b) Credit Risk

The credit risk occurs in the ordinary course of business and investment activities of the Group when the customers or counterparties could not comply with the obligations of the contract. To manage the credit risk, the Group evaluates the credit of customers periodically, considering past experience and other factors and sets individual credit limit considering the credit quality of customer.

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

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

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32. Financial risk management (continued)

Details of maximum exposure to credit risk as at December 31, 2014 and 2013 are as follows:

	2014		2013	
			(Korean won in millions)	
Cash equivalents (excluding cash on hands)	₩	2,142,808	₩	1,854,816
Trade and other receivables		4,573,822		4,785,254
Short-term financial assets		332,671		323,187
Long-term financial assets (*1)		175,760		181,742
Long-term trade and other receivables		842,194		615,442
Non-current provision (*2)		2,849,829		2,718,190

(*1) Excludes equity securities.

(*2) The maximum exposure to credit risk is the principal amount of contractual cash flow from the PF, redevelopment projects, SOC, overseas operations and others that are subject to provision of non-current liabilities.

(c) Liquidity risk

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

The Group manages possible liquidity risk in advance through monitoring forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.

Major commitments related to the credit limit of domestic financial institutions as at December 31, 2014 and 2013, are as follows:

		2014				2013			
		Limited amount		Used amount		Limited amount		Used Amount	
Financial institutions									
Short-term and long-term financial liability (*)	Korea Eximbank and others	₩	6,302,201	₩	4,145,887	₩	6,933,090	₩	4,471,970

(*) Excludes firm commitment liability.

The table below summarizes the maturity profile of the Group's financial assets based on contractual undiscounted payments.

		2014					
				Residual maturity			
				Between 1 year and 2 years		Between 2 years and 3 years	
		Book value	Cash flow on contract	Less than 1 year			Over 3 years
Trade and other payables	₩	1,633,207	₩ 1,634,002	₩ 1,634,002	₩ -	₩ -	₩ -
Long-term trade and other payables		136,080	147,765	-	49,255	98,510	-
Short-term and long-term financial liability (*1)		4,145,887	4,248,460	1,428,662	881,705	453,001	1,485,092
Non-current provision (*2)		146,526	2,849,829	2,115,807	230,703	327,500	175,819
Total	₩	6,061,700	₩ 8,880,056	₩ 5,178,471	₩ 1,161,663	₩ 879,011	₩ 1,660,911

(*1) Excludes firm commitment liability and includes interest income.

(*2) The cash flow on contract is the principal amount from the PF, redevelopment projects, SOC, overseas operations and others that are subject to provision of non-current liabilities.

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32. Financial risk management (continued)

(Korean won in millions)

		2013					
				Residual maturity			
		Book value	Cash flow on contract	Less than 1 year	Between 1 year and 2 years	Between 2 years and 3 years	Over 3 years
Trade and other payables	₩	1,527,396	₩ 1,527,396	₩ 1,527,396	₩ -	₩ -	₩ -
Long(short)-term financial liability (*1)		4,471,970	4,817,111	2,056,716	323,505	474,770	1,962,120
Non-current provision (*2)		162,474	2,718,190	1,927,322	624,116	59,649	107,703
Total	₩	6,161,840	₩ 9,062,697	₩ 5,511,434	₩ 947,621	₩ 534,419	₩ 2,069,823

(*1) Excludes firm commitment liability and includes interest income.

(*2) The cash flow on contract is the principal amount from the PF, redevelopment projects, SOC, overseas operations and others that are subject to provision of non-current liabilities.

(2) Capital risk management

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

The gearing ratios as at December 31, 2014 and 2013 are as follows:

(Korean won in millions)

	2014	2013
Total liabilities(A)	₩ 9,513,097	₩ 9,268,034
Total equity(B)	3,581,612	3,159,279
Deposits(C)	2,142,808	1,854,816
Borrowings(D)	3,919,423	4,246,867
Debt-to-equity ratio(A/B)	266%	293%
Net borrowings ratio((D-C)/B)	50%	76%

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33. Fair value

For the year ended December 31, 2014, there are no significant changes in the business environment and economic environment that affect the fair value of financial assets and financial liabilities of the Group.

(1) Fair value of financial instruments by category

Carrying amount and fair value of financial instruments by category as at December 31, 2014 and 2013 are as follows:

	2014		2013	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash and cash equivalents	₩ 2,151,187	₩ 2,151,187	₩ 1,865,508	₩ 1,865,508
Trade and other receivables (*1)	2,192,243	2,192,243	2,832,574	2,832,574
Short-term financial instrument assets	332,671	332,671	323,188	323,188
Long-term trade and other receivables	842,194	842,194	615,442	615,442
Long-term financial instrument assets	347,466	347,466	333,278	333,278
Total	₩ 5,865,761	₩ 5,865,761	₩ 5,969,990	₩ 5,969,990
Financial liabilities				
Trade and other payables	₩ 1,633,207	₩ 1,633,207	₩ 1,527,396	₩ 1,527,396
Short-term financial instrument liabilities	1,709,989	1,709,989	2,190,046	2,190,046
Other current liabilities (*2)	249,776	249,776	292,565	292,565
Long-term Trade and other payables	136,080	136,080	-	-
Long-term financial instrument liabilities	2,487,230	2,487,230	2,356,363	2,356,363
Other non-current liabilities (*3)	223,747	223,747	191,750	191,750
Non-current provisions (*4)	146,526	146,526	162,474	162,474
Total	₩ 6,586,555	₩ 6,586,555	₩ 6,720,594	₩ 6,720,594

(*1) Exclude unbilled amount related to construction.

(*2) Consist of accrued expenses, accrued dividends and current membership guarantee deposits.

(*3) Consist of security deposits and non-current membership guarantee deposits.

(*4) Represent financial guarantee provision liabilities.

(2) Financial instruments measured at cost

Some non-marketable shares are in their initial phase of business operation and measured at cost because the variability of estimated cash flows is significant and the probabilities of the various estimates cannot be reasonably assessed and the fair value of the underlying assets cannot be reliably assessed are measured at cost.

(3) Fair value hierarchy

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

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

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33. Fair value (continued)

Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value as at December 31, 2014 and 2013 are as follows:

		(Korean won in millions)			
2014		Level 1	Level 2	Level 3	Total
Financial assets					
Available-for-sale financial assets	₩	-	₩ -	₩ 8,462	₩ 8,462
Derivatives assets		-	161,859	-	161,859
Total	₩	-	₩ 161,859	₩ 8,462	₩ 170,321
Financial liabilities					
Derivatives liabilities	₩	-	₩ 205,279	₩ -	₩ 205,279
Total	₩	-	₩ 205,279	₩ -	₩ 205,279

		(Korean won in millions)			
2013		Level 1	Level 2	Level 3	Total
Financial assets					
Available-for-sale financial assets	₩	303	₩ -	₩ 8,462	₩ 8,765
Derivatives assets		-	192,269	-	192,269
Total	₩	303	₩ 192,269	₩ 8,462	₩ 201,034
Financial liabilities					
Derivatives liabilities	₩	-	₩ 136,361	₩ -	₩ 136,361
Total	₩	-	₩ 136,361	₩ -	₩ 136,361

The Group's financial assets and liabilities that are classified Level 3 are measured based on the fair value of financial instruments using net asset book value. There are no transfers between levels of each fair value hierarchy for the years ended December 31, 2014.

34. Service concession arrangements

GS Inima Environment S.A. has constructed, operated and maintained Service Concession Arrangements by establishing subsidiaries. The subsidiaries and their respective business information are as follows:

		(Korean won in millions)					
Subsidiaries	Business information	Countries	Start date	Expiry date	Date Amount	Classification	
Ambientaisde Ribeirao Preto, S.A.	Sewage purifying plant , DBOOT	Brazil	September 1995	June 2023	₩ 34,937	Financial assets	
Araucaria Saneamento, S.A. (Campos do Jordao)	Sewage purifying plant , DBL	Brazil	April 2010	June 2033	50,129	Financial assets	
Saneamento do Vale do Pariba, S.A.	Sewage purifying plant , DBL	Brazil	March 2011	June 2034	35,809	Financial assets	
Servicos de Saneamento de Mogi Mirim, S.A.	Sewage purifying plant , DBOOT	Brazil	May 2008	September 2038	25,689	Financial assets	
Tractament Metropolitana de Fangs, S.L.	Thermal sludge drying plant, DBOOT	Spain	May 1998	April 2016	10,857	Intangible assets	

35. Events after the reporting period

The Group is negotiating the disposal of equity shares (67.56%) in Parnas Hotel Co., Ltd. with GS Retails Co., Ltd. selected as the preferred bidder on February 17, 2015.