



Orion Annual Report 2013



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# BACK TO BASICS





# BACK TO BASICS

A tree that has deep roots can withstand the force of storms, and strong rocks bear all weather patterns for millennia.

With its focus on the basic principle of “making honest food”, Orion stands tall like a deeply rooted tree, a strong rock that understands its corporate value and remains unfazed by industry buzz words about innovation and change.

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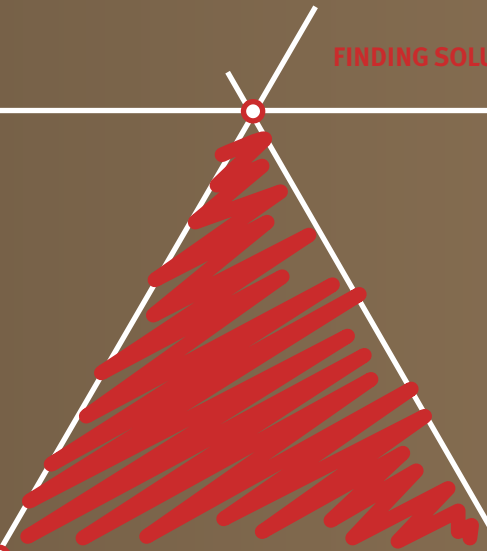
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# IT'S ALL ABOUT

FINDING SOLUTIONS



MAKING IT DIFFERENT

MOVING AHEAD

## The basic principle of honest food

Food cannot be compromised by any other interest. At Orion, making honest food is the overriding value of all business activities. Since its establishment, the company has devoted itself to making products that bring happiness to customers. For decades, Orion has been striving to attain that goal, while remaining steadfast to its basic principles.

# THE BASICS

We were finding solutions when everyone said our goals were unattainable. We made it different when others were bent on not thinking outside the box. And we made the first move when others were only preparing for the next one.





01. FOOD SAFETY 

# FINDING SOLUTIONS

Today, Orion continues to carry out research and find the best ways of delivering its heartfelt passion through its products.

### How does a confectionery maker create healthy food?

Since its foundation in 1956, Orion has committed its research efforts to developing healthy snacks that parents can give to their children without any worry about nutritional value.



The corporate philosophy that honesty is the best ingredient gave birth to the healthy snack brands Dr. YOU and Market O, both of which defied conventional thinking about confectionery products not being nutritional with various synthetic additives.





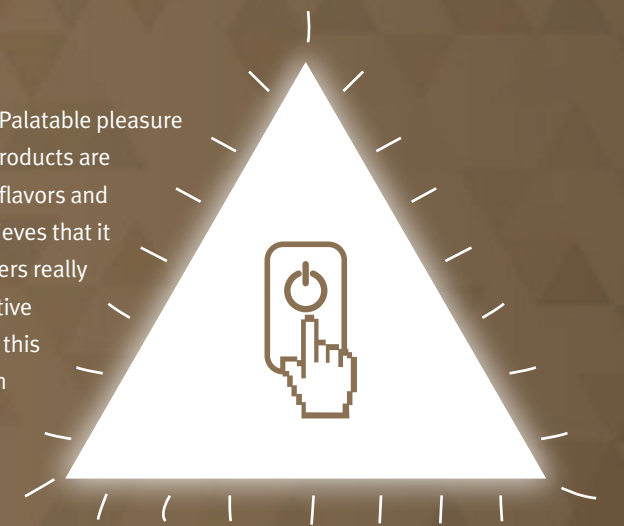
## 02. PREMIUM PRODUCT

# MAKING IT DIFFERENT

Orion simply makes products differently.

### What do customers want with food and snacks?

The act of eating is more than just appeasing one's hunger. Palatable pleasure has become a new trend for many. In fact, millions of food products are bombarding the market every day, offering a variety of new flavors and innovative concepts. However, Orion believes that it is important to understand what customers really want rather than just introducing innovative products for the sake of newness. Under this firm belief, Orion makes its products with honest ingredients.





03. GLOBAL BUSINESS 

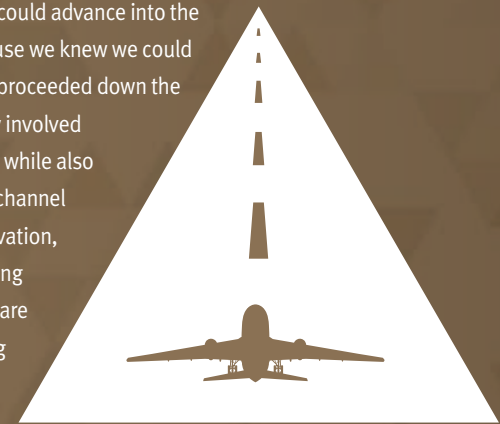
# MOVING AHEAD

Orion is moving ahead of the competition with excellent products that customers around the world actually want.



### What appeals to global customers?

Back in the early 1990s, few Koreans ever thought a confectionery firm could advance into the global market. But Orion did. We were confident we could do this because we knew we could make the impossible possible if we clearly understood the market and proceeded down the right path based on accurate data and the right strategies. Our strategy involved understanding local lifestyles, tastes, and values, while also carrying out effective marketing and distribution channel expansion activities. Based on our years of observation, Orion's global operations grew every year, achieving remarkable results on an annual basis. Today, we are one step closer to realizing our vision of becoming Asia's No. 1 confectionery company by 2015.



## CHAIRMAN'S MESSAGE

**We will remain steadfast to the true Orion spirit, growing as a company that is respected and trusted by customers around the world**

Dear Valued Customers and Shareholders of Orion,

Orion worked relentlessly amid the global economic recession and unpredictable competitive market environment to achieve tangible results in 2013.

While remaining undaunted by unfavorable market developments, Orion achieved 5 percent year-on-year sales growth in 2013, reaching KRW 2,485.2 billion, with its operating margin reaching 10.4 percent. Despite low-growth trends internationally, Orion realized monthly sales of KRW 100 billion in China in 2012, successfully positioning itself as a top global food company. These achievements were only made possible through the unwavering support of our customers, shareholders and investors.

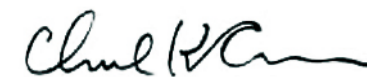
In meeting the challenging market environment, which stemmed from stagnant domestic consumption and sagging consumer sentiment amid economic uncertainties, Orion's Korean headquarters continued to solidify its market power through its main products and brand power. Our overseas subsidiaries also recorded double-digit growth in sales,

further enhancing the power of Korean confectionary firms. Choco Pie, O'gamja, and Xylitol Gum further enhanced the company's local market dominance, while maintaining the largest share of Vietnam's snack market. In Russia, Choco Pie also led to the sustainable growth of our business.

In 2014, Orion plans to further consolidate its foundation for becoming a leading global company. After establishing practical targets, we will carry out changes to our work process and implement the necessary tasks to make this happen. Driven by an enterprising spirit of learning from trial and error, we will continue to work on growth momentum both in Korea and overseas.

Orion has been through several crises to date, continually turning risks into opportunities. In 2014, we will remain steadfast to the true Orion spirit, growing as a company that is respected and trusted by customers around the world. I humbly ask all our customers and shareholders to join Orion on its journey of innovation and change.

**We set practical targets and put them into action**



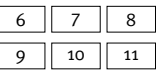
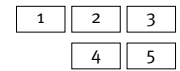
Chairman, Orion Group **Tam Chul Kon**



# BOARD OF DIRECTORS

We explore the infinite potential of the future through tireless innovation, passion and an enterprising spirit.

- 1. KANG WEON KEE  
President
- 2. LEE KYU HONG  
EVP / Production
- 3. YUN YEONG GEOL  
EVP / Public Relations
- 4. HAN CHANG SOO  
EVP / Finance & Accounting
- 5. KIM HEUN SEOP  
EVP / R&D Center
- 6. HWANG SOON IL  
EVP / Audit
- 7. HA SANG IL  
EVP / Legal · Management Support
- 8. KIM YONG SUK  
EVP / N · H★ORION SBU
- 9. KIM ILJOO  
EVP / P★ORION SBU
- 10. LEE JONG WOOK  
EVP / Sales
- 11. KIL JUNG MIN  
EVP / Creative

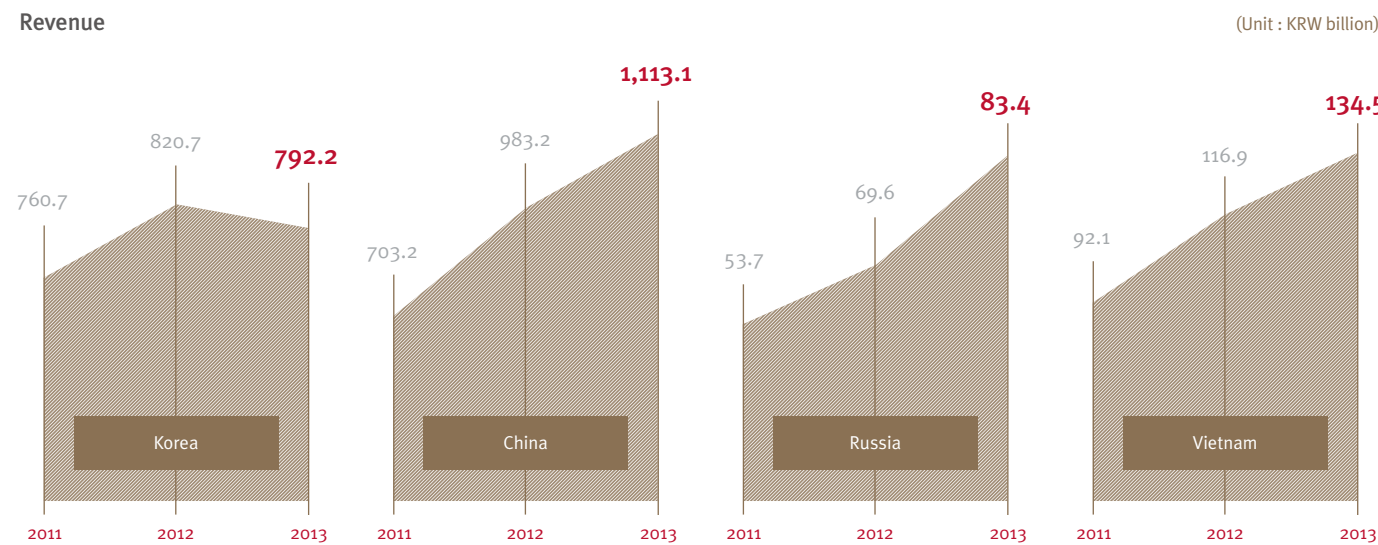




# FINANCIAL HIGHLIGHTS

(Unit : KRW billion)

	2011	2012	2013
<b>Profit and Loss Status</b>			
Net Sales	1,912.6	2,368.0	<b>2,485.2</b>
Gross Margin	837.1	1,019.6	<b>1,077.3</b>
Operating Income	215.1	263.7	<b>258.8</b>
Non-operating Income	16.2	11.5	<b>18.6</b>
Non-operating Expenses	19.0	23.1	<b>25.2</b>
Financial Income	30.2	27.9	<b>18.1</b>
Financial Costs	62.2	53.0	<b>44.4</b>
Net Income Before Income Tax Expenses	178.1	224.1	<b>226.1</b>
Net Income	110.5	169.8	<b>160.2</b>
<b>Financial Status</b>			
Total Assets	2,319.9	2,647.6	<b>2,973.6</b>
Current Assets	899.2	1,032.3	<b>1,068.4</b>
Non-current Assets	1,420.7	1,615.3	<b>1,905.2</b>
Total Liabilities	1,310.3	1,519.6	<b>1,704.3</b>
Capital Stock	29.8	29.8	<b>29.9</b>
Capital Surplus	191.3	179.4	<b>183.6</b>
Retained Earnings	388.5	918.8	<b>1,055.9</b>
Total Shareholders' Equity	1,009.6	1,128.0	<b>1,269.3</b>
<b>Key Financial Ratios (%)</b>			
Liquidity Ratio	108.8	120.6	<b>97.0</b>
Debt Ratio	129.8	134.7	<b>134.3</b>
ROA	4.9	6.8	<b>5.7</b>
ROE	11.6	15.9	<b>13.4</b>



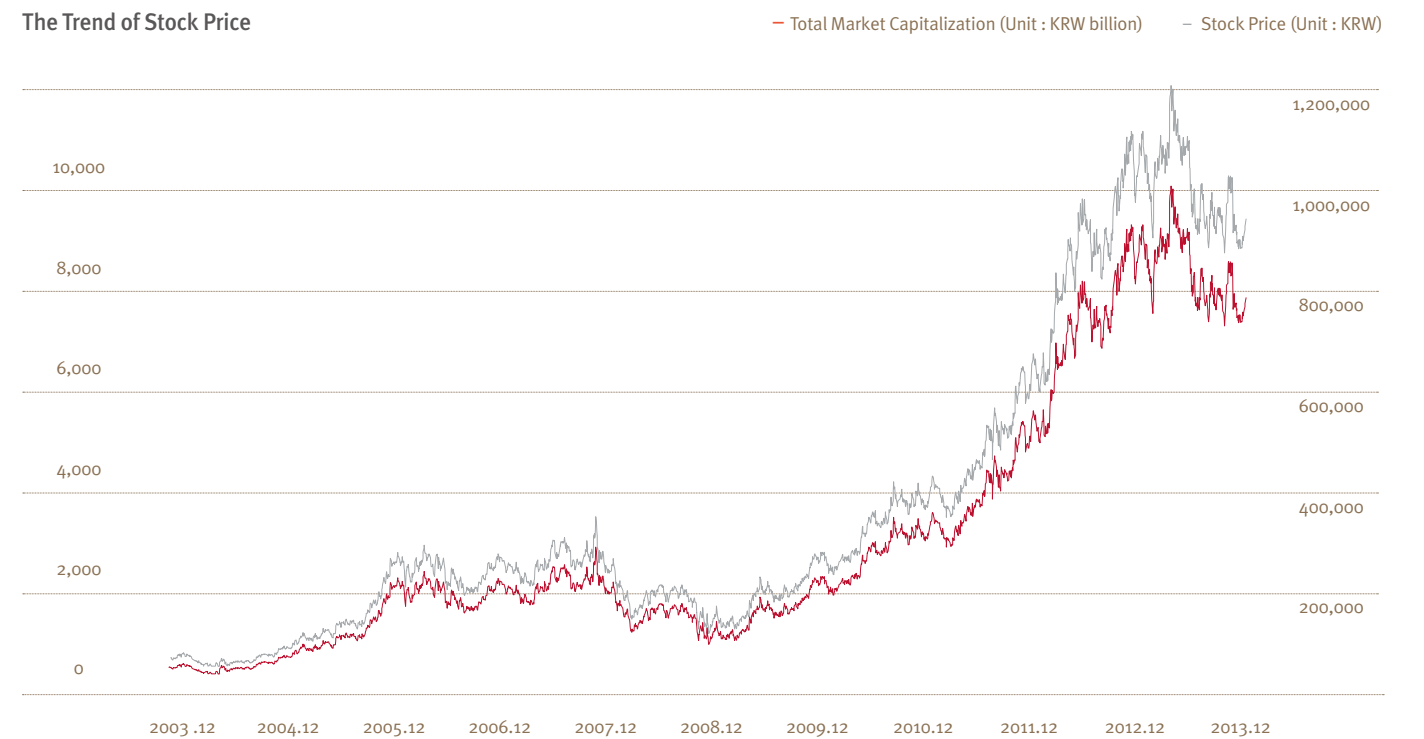
# STOCK INFORMATION

**Number of Shares Issued (As of December 31, 2013)** (Unit : share)

Registered Common Stock	5,971,135
Treasury Stock	709,233
Floating Stock	5,261,902

**Stock Performance (Common Stock)** (Unit : KRW)

	2011	2012	2013
Average Daily Trading Value	12,278,965,540	14,544,290,497	<b>16,058,788,027</b>
Share Price High	687,000	1,149,000	<b>1,239,000</b>
Share Price Low	349,500	599,000	<b>867,000</b>
Share Price (Year End)	678,000	1,099,000	<b>949,000</b>
Market Capitalization (Year End, trillion)	4.0	6.6	<b>5.7</b>
Dividend per Share	3,000	3,000	<b>3,000</b>
Dividend Paid (billion)	15.8	15.8	<b>15.8</b>



# THE WORLD IS CONNECTED



## Connecting the world through the basics

FINDING SOLUTIONS: a commitment to honest food with the highest possible nutrition,  
MAKING IT DIFFERENT: ceaseless research and development to make food differently,  
MOVING AHEAD: honing our power of execution to attain Orion's goal of bringing happiness to the lives of customers around the world with honest food products.  
Orion is growing each and every day, firmly rooted in the basic principles of making honest food products.

# BY THE BASICS



Orion is moving ahead with heartfelt understanding, heeding the opinions of customers as it translates these principles into action.

# KOREA



Established in 1956, Orion has been dedicated to the confectionery business ever since then, remaining Korea's top confectionery brand for over half a century. Today, we are preparing to take the next step forward as a growing number of consumers begin recognizing our products internationally.

## ORION IN KOREA

• **ORION Corp.**  
13, Baekbeom-ro, 90 Da-gil, Yonksan-gu, Seoul, Korea  
T. 82-2-710-6000 F. 82-2-718-4825

• **ORION Snack Int'l**  
13, Baekbeom-ro, 90 Da-gil, Yonksan-gu, Seoul, Korea  
T. 82-2-710-6317 F. 82-2-704-1093

## New products from Market O

in 2013

# 3 NEW PRODUCTS

(Real Brownie Blondy, Real Cheese Chip, Classic Mini Creamy)

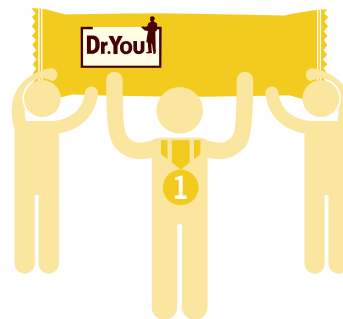


Diversifying the Market O line-up to further its brand power.

## Three-year average growth rate for Dr. YOU's energy bar

# 34%

(2011~2013)



Korea's largest market share.



## The only Orion way

Since the company's establishment, Orion has pioneered confectionery markets at home and abroad. We have accomplished this by going down the path not taken by competitors and through ceaseless innovation and an enterprising spirit. Under the firm belief that a confectionery maker should make honest food, Orion has always been looking for the best way to realize healthier, better tasting products.

As part of that goal, Orion has been devoting itself to a six-step innovation project since 2001: reducing our use of trans fats to zero; lowering saturated fats by 1/4 of previous levels; minimizing the use of organic compounds in product packaging; launching the healthy snack brand Dr. YOU; introducing the premium brand with all-natural ingredients Market O; and earning the Hazard Analysis & Critical Control Points (HACCP) certificate for our entire production line. All these endeavors are meant to ensure we keep making healthy products that our customers can trust.

## Fostering greater brand power

Exporting its products to 75 countries around the world, including Japan, the Middle East and Americas, Orion has grown into one of the world's leading confectionery makers. At the same time, the company is consolidating its brand competitiveness through product innovation and a diversified product line-up. With top-selling products that include Choco Pie, Marine Boy, O'gamja, and Gosomi, Orion is also expanding its customer bases in other countries around the world. Additionally, the Dr. YOU and Market O brands are continuing to introduce new products, leading the market's premium snack trend.

# CHINA



Growing beyond the Korean market, Orion is actively pursuing business overseas. Today, our Chinese subsidiary is spearheading the company's global expansion drive, while also solidifying its market position through sustainable growth and raising Orion's market power across the Chinese market.

## ORION IN CHINA

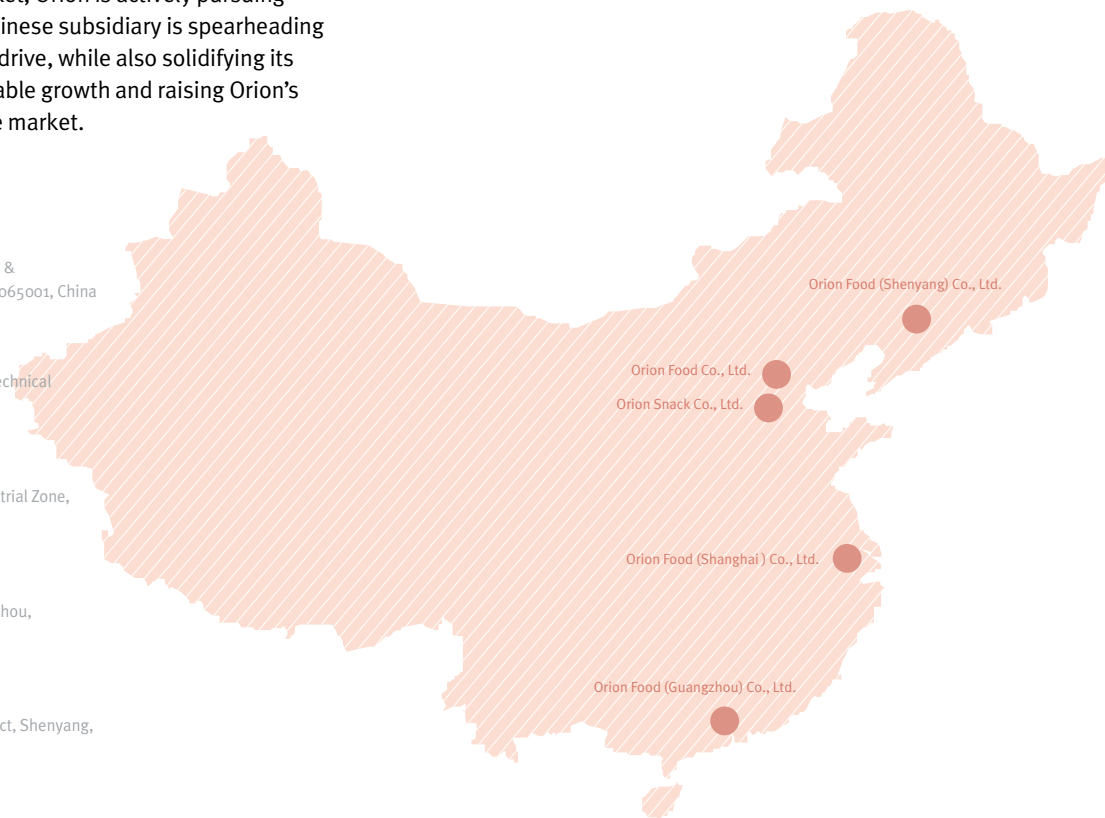
• **Orion Food Co., Ltd.**  
 Number 11 Quanxing Road, Langfang Economic & Technical Development Zone, Langfang, Hebei 065001, China  
 T.86-316-607-7888 F.86-316-608-8964

• **Orion Snack Co., Ltd.**  
 Number 8 Baihe Road, Langfang Economic & Technical Development Zone, Hebei 065001, China  
 T.86-316-5919-700 F.86-316-5919-701

• **Orion Food (Shanghai) Co., Ltd.**  
 Number 5151 Waiqingsong Road, Qingpu Industrial Zone, Qingpu, Shanghai 201700, China  
 T.86-21-6921-1888 F.86-21-6921-1889

• **Orion Food (Guangzhou) Co., Ltd.**  
 Xiandai Ave., Huadong, Huadu District, Guangzhou, Guangdong Province, China  
 T.86-20-8675-7777 F.86-20-8675-7775

• **Orion Food (Shenyang) Co., Ltd.**  
 Number 15 Xiahua Road, Shenbei New District, Shenyang, Liaoning Province, 110000, China  
 T.86-24-3162-1000 F.86-24-3162-1001



## Yatudo (O'gamja) Sales

in 2013

# 940 million RMB

(RenMinBi)

Positioning itself as a new potato chip snack.



## Sales Network Expansion with the Establishment of Shenyang HQ

since December, 2013

# 5 Sales HQs

(Sales headquarters expanded from four to five)

Orion's Shenyang plant went into operation in 2013 and is now serving as the strategic logistics point for the northern China region.



## Going further than the competition

The Chinese market is special to Orion for its consistently sustainable growth. In 1993, when the confectionery market had yet to take root in China, Orion set up its Beijing Office, taking the first step into the world's most populous market. Orion then finished its first Chinese production line in Beijing in 1997, constructing other plants of strategic importance throughout China soon after and completing a product portfolio spanning everything from pies and gums to biscuits and snacks.

After relentless hard work in the Chinese market over two decades, Orion's sales crossed the KRW 1 trillion threshold there in 2012. That same year, Choco Pie's monthly sales reached KRW 20 billion. In 2013, Yatudo (O'gamja's Chinese brand name) had sales of 940 million RMB and QT Pie's sales reached 410 million RMB. Orion's Shenyang plant entered into operation in 2013, expanding the production of Shuo'en (Ye-gam), Marine Boy and Choco Boy. We are now pursuing expansion in China's three northeastern provinces.

## Understanding customers better

Production expansion and focused marketing were not the only keys to Orion's growth. We also approached local customers with the firm belief that we should first understand their lifestyle and value choices in order to win over their hearts. For example, by understanding that "Perfect Virtue (仁)" is the most important quality to personal relationships in China, we printed the Chinese character 仁 on the packaging of (Good Friend pie). This makes the case for Orion's commitment to building mutual understanding with local customers. (Good Friend pie's market share in China stood at 85 percent in 2012.) Thus, the company's success in the Chinese market was backed by a localization strategy that embraced local culture and traditional trade channels, while also making every effort to develop markets in smaller cities throughout China.



# RUSSIA



Orion's steady growth in Russia can be attributed to our commitment at providing the best possible taste and nutrition. Under the goal of making differentiated products, our R&D efforts continue day and night.

## ORION IN RUSSIA

• **Orion International Euro Co., Ltd.**  
117574 Ul. Profsoyuznaya Bld. 129A TK Prince Plaza  
5th floor, Moscow, Russia  
T. 7-495-987-1485 F. 7-495-987-1480

• **Orion Food Rus Co., Ltd.**  
15 Nab. Lazuri 170028 Tver, Russia  
T. 7-482-249-4828 F. 7-482-249-4831

• **Orion Food Novo Co., Ltd.**  
630088 St. Severny Poezd 35 (Kiro vsky Rayon),  
Novosibirsk, Russia  
T. 7-383-344-7055 F. 7-383-344-0291



Number of Choco Pie products sold

in 2013

# 4 million pies

(sold in Russia and the CIS)



Put another way, that works out to all 300 million people in Russia and the CIS purchasing at least one Choco Pie.

Certificate of Food Safety Standard

in 2013

# FSSC 22000

(Food Safety System Certificate)

Earning a highly recognized international food safety certificate.



## Venturing into new markets with confidence

In the early 1990s, Russia was a difficult market for Korean companies to penetrate. Today, however, Orion's Choco Pie products can be found throughout Russia. Since its first entry into the Russian market in 1993, Orion has not expanded its product line-up. Instead, we have concentrated on building stronger public recognition of Choco Pie as a high-end confectionary product based on our strong confidence in our products. Furthermore, rather than lowering the price of Choco Pie in order to raise short-term sales results, we are adhering to a premium brand marketing strategy for Choco Pie and successfully raising its brand recognition across Russia.

## Making food safe

Russian consumers have wanted something different with their food products for quite a long time. As a result, Orion has continued its product innovation to satisfy this demand. In fact, Orion became the first company in the Russian food market to introduce zero trans-fat products and in 2013 earned the Food Safety System Certificate (FSSC 22000), a global food safety standard. As such, Orion is making its presence known as a leading confectionery maker that realizes both tasty and healthy products.

# VIETNAM



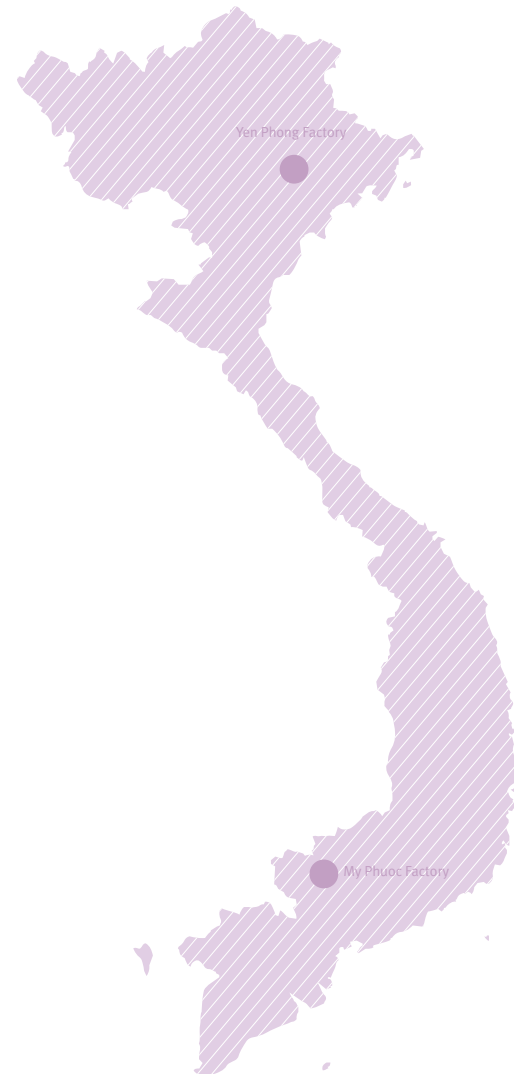
Trustworthy, high-quality products have always been a consumer's first choice. At Orion, we have also established a strong trust-based brand that is recognized for its honesty in Vietnam.

## ORION IN VIETNAM

• Orion Food Vina Co., Ltd.

- My Phuoc Factory  
Ho Chi Minh Road, NA 3, My Phuoc Industrial Park 2,  
Ben Cat District, Binh Duong Province, Vietnam  
T.84-650-553-700 F.84-650-553-720

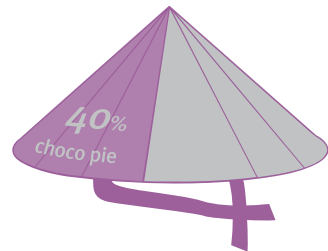
- Yen Phong Factory  
Hanoi, Yen Phong Industrial Park, Yen Phong District,  
Bac Ninh Province, Vietnam  
T.84-0241-369-9000 F.84-0241-369-9111



## Choco Pie Sales Growth

in 2013

+ KRW **10.8** billion  
(as a single product)

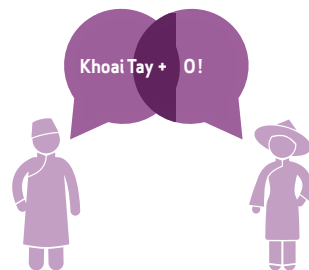


Accounting for 40 percent of the local pie market in 2013.

## The first foreign company to use Vietnamese for a product name

# Khoai Tayo

(khoai tay means "potato" in Vietnamese)



By appealing to local consumers with a familiar name, Orion defied conventional wisdom that Vietnamese would not be appropriate as a product name for a foreign company.



## Outperforming local brands

In Vietnam, Choco Pie is a special food around New Year's Day at temples and at home memorial services. It took less than a decade for Orion to establish deep roots like this within the lives of Vietnamese people. After establishing the company's Vietnamese subsidiary in 2005, we began making our products at local production lines that we built in Ho Chi Minh City in 2006. In 2009, we completed a second plant in Hanoi, which has now become a strategic point for exporting our products to 60 countries around the world. In 2010, Choco Pie's market share reached No. 1 in Vietnam, outpacing local brands such as Kindo and Bibica, and American companies like Wrigley and PepsiCo.

## The power of passion

Orion was able to successfully appeal to Vietnamese consumers thanks to the company's unchanged commitment to high quality and a broad distribution network. While maintaining high-quality products, adhering to a germfree production process, and utilizing precise ingredient ratios, we strategically approached sellers one by one in local traditional markets to promote the company and its products, as these markets account for 90 percent of Vietnamese distribution channels. In step with market trends, we opted to make Tinh (情) 2.0 the company's marketing strategy for Choco Pie. As a result, Orion's enthusiastic efforts have earned the praise of Vietnamese people and resulted in market leadership for the product.

# PRODUCT DIVISIONS

All of Orion's products are designed for customers' health and happiness



## POWER BRAND

Power Brands represent Orion's signature products—long-lasting favorites among our customers. Each of our Power Brand products captures our determination to provide the highest level of products in terms of quality, customer satisfaction and food safety.

The pride we have in our products has fostered Power Brands, which have become the driving engine behind Orion's growth as a global company. Choco Pie is now an undisputed global brand; Ye-gam made a strong debut on the world stage with its differentiated feature as a baked potato chip; O'gamja has become a favorite of Chinese consumers for its unique shape and taste; Marine Boy is succeeding in each of the countries it has been launched; and Gosomi is the unparalleled leader in the savory snack category. Orion's Power Brand products are now sold in more than 75 countries around the world, enjoying popularity among diverse customer bases. Our attempts to introduce new global brands never ends. Most recently, Orion launched a new product called Jelly Day, creating a new market for jelly with the texture of real fruit. As global brand incubators, our Power Brand products will continue to strengthen our brand power, while giving consumers around the world products that are as safe as they are delicious.

## DR.YOU

Dr. YOU is the result of Orion's decades-long commitment to making a healthy snack for people of all ages. As its brand slogan "Making snacks nutritional" implies, we developed a healthy snack for all occasions to reflect modern trends which support health and staying active physically.

The Dr. YOU energy bar created a new market for these types of products as soon as it was launched in Korea, and has since maintained the largest market share. By recreating Diget, which had been popular for over 30 years, Dr. YOU enhanced the whole wheat within the biscuit. Furthermore, we plan on launching new whole wheat-based products as part of our aim to enhance healthy confectionery items. By striking a balance between health and nutrition with great taste, Dr. YOU will become Orion's top-selling healthy product brand.

## MARKET O

Orion's premium brand Market O is helping create a new lifestyle with delicious food. Today, the company is distributing healthy high-end Market O products through its distribution channels as well as running two franchise restaurants. Using the freshest ingredients possible, Market O restaurants cook healthy and delicious food. Since opening the first restaurant in 2003, the Market O restaurant franchise has been a leader in Korea's healthy food trend. Market O's confectionery products have established themselves as premium products by delivering the natural taste of homemade recipes. In particular, the craze in Korea for our Real Brownies and Real Chocolate Classic Mini has carried over to Japan and other overseas markets. Our three new products launched in 2013—Real Brownie Blondie, Real Cheese Chip and Classic Mini Creamy—are successfully gaining market share as well. By providing delicious food and meeting customers' desire for high-end products, Market O is playing a leading role in the evolution of today's food culture.

# BUSINESS DIVISIONS

We are also a leader in Korea's diverse leisure culture



## ORIONS

After moving its training grounds to Goyang for the 2011-2012 season, the Goyang Orions basketball team made it to the playoffs for the second year in a row in the 2013-2014 season. Under the catchphrase "Beyond Expectation" the Orions started the 2013-2014 season slowly but emerged as a dark horse after a big trade in the middle of the season. In fact, the team ended the season with a record-high 9 wins in a row at home, and won 8 consecutive games in the 2013-2014 season. By actively building up a local fan base, the Orions offer local residents a variety of interesting attractions and cultural activities, and have mounted unique marketing campaigns on diverse Orion products at home games.

In the run-up to the new season, the Orions are training hard and aim to do well with such a great fan base behind them.

### Orion Leports Corp.

Head Office

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Tel: +82-2-710-6383

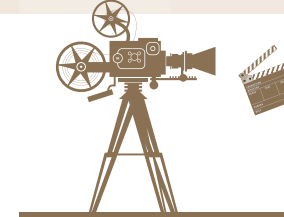
Fax: +82-2-710-6387

Goyang Office

ORIONS Baseketball Team, Goyang Gym, 1601, Jungang-ro, Ilsanseo-gu, Goyang-si, Gyeonggi-do, Korea

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Fax: +82-31-913-0897



## SHOWBOX

In 2013, SHOWBOX/Mediaplex invested in and distributed a total of 10 movies: *Man on the Edge*, *How To Use Guys With Secret Tips*, *My Paparotti*, *Killing Them Softly*, *Secretly Greatly*, *Mr. Go*, *The Face Reader*, *Hwayi: A Monster Boy*, *Commitment*, and *The Suspect*. With *Man on the Edge* and *The Suspect*, the company was involved in the projects from the planning and development stages, each of which took three years to be released in theaters and attracted 4 million viewers. The movie *Secretly Greatly* set a new box office record among all webtoon dramatizations when 6.96 million people went to see it. *The Face Reader* drew the largest audience of the year when 9.13 million viewers went to see it. In total, more than 200 million people have gone to see SHOWBOX movies in theaters.

### MEDIAPLEX, Inc.

5, Nambusunhwan-ro, 379-gil, Gangnam-gu, Seoul, Korea

Tel: +82-2-3218-5500

Fax: +82-2-3444-6688



## SPORTSTOTO

SPORTSTOTO made 2013 a year to promote an enjoyable sports and leisure culture, while also establishing the National Sports Promotion Fund. In September 2013, it became the first Korean company to acquire the highest certification (Level 4) from the World Lottery Association Responsible Gaming Framework (WLA RGF). This certification has proven the professionalism and responsibility of SPORTSTOTO, which now meets the same standards as the world's leading sports gambling companies. At the same time, the company continues carrying out social contribution activities to promote sports for the disabled, youth and the elderly, as well as to enhance the welfare of the underprivileged. In addition, SPORTSTOTO is spearheading a public campaign to eradicate illegal and irresponsible sports gambling practices in the nation. Moving forward, SPORTSTOTO will continue to help establish a vibrant society where everyone can enjoy sports in a healthy and responsible way.

### SPORTSTOTO Co., Ltd.


310, Dosandae-ro, Gangnam-gu, Seoul, Korea

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# SOLID PERFORMANCE WITH VALUE CREATION

# FINANCIAL INFORMATION



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## Management's Discussion and Analysis

The following Management Discussion and Analysis (MD&A) includes information on the company's future management plans, which will increase its investors' understanding of Orion's business forecasts. Future results may differ markedly from those outlined here for reasons that are beyond the company's control. Results are based on K-IFRS-based consolidated financial statements.

### 1. Business Environment

In 2013, moderate signs of recovery in the domestic and global economies were dampened by the slowing growth of Asia's emerging markets and the Chinese market, while domestic consumer sentiment was dragged down by Korea's stagnant economy. Despite the difficult market environment, Orion sustained stable business operations and realized 4.9 percent year-on-year growth in sales, which reached KRW 2,485.2 billion in 2013.

The confectionery operation, Orion's flagship business, recorded sales of KRW 2,105.5 billion, up 6.7 percent over the previous year. Other businesses, including sports and media, suffered a 3.7 percent decline in sales, to KRW 379.7 billion year on year, due mainly to the decrease in the fee rates for SPORTSTOTO. Overall operating income declined by 1.9 percent from 2012, to KRW 258.8 billion, primarily because of the KRW 37.8 billion decrease in SPORTSTOTO's operating income.

On a more positive note, the company is continuously strengthening its market power in Korea's matured market through aggressive marketing initiatives, the successful launch of new products, specifically the Dr. YOU and Market O lines, and ongoing efforts to improve our product line-up in such key categories as snacks and pies.

We are also growing overseas by introducing new product lines, including snacks and biscuits, and expanding our market presence overseas based on the powerful Choco Pie brand.

#### Overseas Sales Trends

(US million)

	2013	2012	2011
China	1,017	873	635
Russia	76	62	48
Vietnam	123	104	83

### 2. Business Results

Despite slowing growth in the Asian and Chinese markets, a slowdown in domestic consumption, and a challenging domestic market environment featuring stronger regulation on wholesale distribution channels, Orion posted net sales of KRW 2,485.2 billion, up 4.9 percent from the previous year. This was due in large measure to the 13.2 percent sales growth in China, which was backed by strong performances of power brands like Choco Pie and other premium products. Operating income declined 1.9 percent, to KRW 258.8 billion, due mainly to the KRW 37.8 billion decrease in SPORTSTOTO's operating income.

Overseas sales—mainly in China, Vietnam, and Russia—exceeded the symbolic USD 100 million mark in 2005, or USD 130 million to be more precise, the first time Orion has achieved this figure since our advance into overseas markets. In 2013, it surged by 17.1 percent over the previous year, to USD 1.22 billion. Sales in China alone surpassed the USD 1 billion threshold in 2013.

#### Income Statement Summary

(KRW billion)

	2013	2012	2011
Sales	2,485.2	2,368.0	1,912.6
Operating Income	258.8	263.7	215.1
Net Income	160.2	169.8	110.5
Earnings per Share (KRW)	27,698.0	28,841.0	18,908.0

Orion's 2013 sales increased by 4.9 percent over the previous year, with operation profit margin dropping by 0.7 percentage points year on year to 10.4 percent. Net profit margin also inched down by 0.9 percentage points from 2012, reaching 6.4 percent in 2013. These declines can be attributed to the KRW 37.8 billion decrease in SPORTSTOTO's operating profit, which was a result of lower income tied to fee rates.

#### Key Financial Indicators

[%]

	2013	2012	2011
Operating Profit Margin	10.4	11.1	11.2
Sales Profit Ratio	6.4	7.2	5.8
Return on Assets (ROA)	5.7	6.8	4.9
Return on Equity (ROE)	13.4	15.9	11.6

### 3. Financial Status

As of the end of 2013, total assets grew by KRW 326.0 billion, from KRW 2,647.6 billion in 2012 to KRW 2,973.6 billion. Current assets expanded by KRW 36.1 billion from the previous year, led by the KRW 39.6 billion growth in short-term financial deposits. Non-current assets increased KRW 289.9 billion over the previous year thanks to the KRW 287.7 billion rise in the value of tangible assets from increased investments.

#### Balance Sheet Summary

(KRW billion)

	2013	2012	2011
Total Assets	2,973.6	2,647.6	2,319.9
Total Liabilities	1,704.3	1,519.6	1,310.3
Total Shareholders' Equity	1,269.3	1,128.0	1,009.6

#### Key Financial Indicators

(KRW billion)

	2013	2012	2011
Trade Receivables and Inventories	397.5	406.3	424.7
Trade Payables	111.0	110.3	79.8
Working Capital	286.4	296.0	344.9

## Management's Discussion and Analysis

### Borrowings and Cash Equivalents

(KRW billion)

	2013	2012	2011
Total Borrowings	1,109.2	977.4	764.2
Cash and Cash Equivalents	233.2	211.5	215.5
Short-term Financial Deposits	284.2	244.5	144.8
Net Borrowings	591.9	521.4	403.9

### 4. Cash Flow: Operating, Investing, and Financing Activities

Orion's net cash flow from its operating activities in 2013 jumped by KRW 42.6 billion, reaching KRW 292.4 billion, and mainly driven by the KRW 44.7 billion growth in the depreciation of tangible assets and decline in trade receivables.

Net cash flow from investing activities fell by KRW 27.9 billion from 2012, due to the KRW 31.2 billion decrease in short-term loans.

Net cash flow from financing activities stood at KRW 117.1 billion, down KRW 50.5 billion from the previous year. This was due to the KRW 48.4 billion decline in short- and long-term borrowings and redemptions.

### Cash Flow Summary

(KRW billion)

	2013	2012	2011
Net Cash Flow from Operating Activities	292.4	249.8	170.3
Net Cash Flow from Investing Activities	-386.8	-414.8	-99.3
Net Cash Flow from Financing Activities	117.1	167.6	13.6

### 5. 2014 Outlook

Major economic forecasts estimate that average global economic growth will peak at 3.5 percent in 2014, slightly higher than the 3.0 percent realized in 2013. This relatively upbeat forecast is based on an analysis of the slow yet steady recovery in the global economy, which is being buoyed by quantitative easing in major economies, including the U.S. and Europe, in the aftermath of the European Financial Crisis. Nevertheless, the U.S. tapering of quantitative easing is expected to cause capital flight from emerging markets and ultra-low inflation in major economies, exacerbating volatility in certain global economies. In particular, China and other Asian emerging markets will be exposed to foreign exchange rate fluctuations and interest rate hikes, leading to sagging domestic consumption. The Korean economy will also be exposed to volatility, with the risk of stagnant domestic consumption.

Amid these volatile global market developments, Orion achieved a relatively sound 4.9 percent year-on-year growth in net sales for 2013 through its premium strategy in the domestic market and continued global expansion, with a focus on Asian countries. In addition, its confectionery business realized sound growth of 6.7 percent despite the challenging market conditions, while the company's overseas subsidiaries in China, Russia and Vietnam all realized double-digit growth for the same period.

This relatively high growth in the domestic market, when compared to our competitors, can be attributed to our health-related, five-phase project that was launched in 2001 in response to increasing consumer demand for more nutritious food products. Phase 1 (2001-2007) focused on reducing the use of trans fats, while Phase 2 (2001-June 2007) concentrated on reducing saturated fats. Phase 3 (2007-2008) was directed at our Green Packaging Project,

Phase 4 (2001-2008) focused on the Dr. YOU Project, and Phase 5 (2008-2009) gave precedence to the Market O Project.

In 2014, competition in the confectionery industry will intensify, as companies seek to improve their profitability by increasing both the sophistication and the functionality of their products. Furthermore, we expect competitors to use a strategy of high-quality, small-quantity products by focusing on niche markets for well-being, health, and weight loss products. Given these challenges, Orion will continue to revamp its core Power Brand products, while also introducing new products to respond to the continuing trend toward well-being within society.

We continue to enjoy double-digit growth in China based on our strong brand awareness, and this should continue into 2014 through the expansion of our products, business domains and channels within the market. We also expect to see our growth in Vietnam accelerate based on our continuing position as the market's number one player. Additionally, the same should hold true in Russia as a result of the excellent brand power of Orion Choco Pie.

Our overseas confectionery sales, which have enjoyed continuous double-digit growth since 2003, outperformed our domestic sales in 2009. We expect this success to continue through 2014.

### Management indicators for the past three years

(KRW billion)

	58th	57th	56th
	Jan. 1 – Dec. 31, 2013	Jan. 1 – Dec. 31, 2012	Jan. 1 – Dec. 31, 2011
	2013	2012	2011
<b>Profit/loss</b>			
Net Sales	2,485.2	2,368.0	1,912.6
Gross Margin	1,077.3	1,019.6	837.1
Operating Income	258.8	263.7	215.1
Non-operating Income	18.6	11.5	16.2
Non-operating Expenses	25.2	23.1	19.0
Financial Income	18.1	27.9	30.2
Financial Costs	44.4	53.0	62.2
Net Income Before Income Tax Expenses	226.1	224.1	178.1
Net Income	160.2	169.8	110.5
<b>Financial Status</b>			
Total Assets	2,973.6	2,647.6	2,319.9
Current Assets	1,068.4	1,032.3	899.2
Non-current Assets	1,905.2	1,615.3	1,420.7
Total Liabilities	1,704.3	1,519.6	1,310.3
Capital Stock	29.9	29.8	29.8
Capital Surplus	183.6	179.4	191.3
Retained Earnings	1,055.9	918.8	788.5
Total Shareholders' Equity	1,269.3	1,128.0	1,009.6
<b>Key Financial Ratio (%)</b>			
Liquidity Ratio	97.0	120.6	108.8
Debt Ratio	134.3	134.7	129.8
ROA	5.7	6.8	4.9
ROE	13.4	15.9	11.6

(Figures prior to 2010 and before have been omitted, since IFRS-based financial statements for those periods are not available.)

## Independent Auditors' Report

The Board of Directors and Shareholders  
Orion Corporation:

We have audited the accompanying consolidated statements of financial position of Orion Corporation and subsidiaries (the "Group") as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of eight subsidiaries whose financial statements represent 8.4% and 10.2% of consolidated total assets as of December 31, 2013 and 2012, and 3.6% of consolidated revenue for the years then ended. Other auditors audited those financial statements and our report, insofar as it relates to the subsidiaries, is based solely on the reports of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. In our opinion, based on our audits and the reports of other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended, in accordance with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those knowledgeable about Korean auditing standards and their application in practice.

As discussed in note 38 to the consolidated financial statements, the period of the contract related to sports promotion voting business that Sports Toto Co., Ltd. has signed with Korea Sports Promotion Foundation is from October 1, 2012 to July 2, 2014.

KPMG Samjong Accounting Corp.  
Seoul, Korea  
March 17, 2014

This report is effective as of March 17, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

## Consolidated Statements of Financial Position

As of December 31, 2013 and 2012

Orion Corporate and Subsidiaries

(In thousands of won)

	Note	December 31, 2013	December 31, 2012
<b>Assets</b>			
Property, plant and equipment	7,26,39	1,708,491,215	1,420,814,628
Intangible assets	10	39,242,752	43,445,978
Investments property	8	14,670,809	14,802,136
Goodwill	6,9	38,990,708	38,990,708
Investment in associates	11	17,150,203	17,230,877
Available-for-sale financial assets	12,34	13,325,147	10,885,216
Held-to-maturity financial assets	12,34,37	2,532,710	2,844,370
Long-term trade and other receivables	14,34,37,39	11,635,641	12,287,786
Long-term deposits	15,34,37	72,815	96,222
Deferred tax assets	36	784,350	3,367,270
Other non-current assets	16	58,326,378	50,554,797
<b>Non-current assets</b>		<b>1,905,222,728</b>	<b>1,615,319,988</b>
<b>Non-current assets classified as held for sale</b>	6	-	117
Inventories	13,26	231,136,917	233,652,366
Current portion of available-for-sale financial assets	12,34	6,160	1,300
Current portion of held-to-maturity financial assets	12,34,37	1,699,375	78,105
Trade and other receivables	14,34,37,39	241,446,863	238,883,937
Short-term deposits	15,34,37	284,160,998	244,529,923
Other current assets	16	76,764,553	103,668,515
Cash and cash equivalent	15,34,37	233,179,143	211,472,452
<b>Current assets</b>		<b>1,068,394,009</b>	<b>1,032,286,598</b>
<b>Total assets</b>		<b>2,973,616,737</b>	<b>2,647,606,703</b>

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Financial Position

As of December 31, 2013 and 2012

Orion Corporate and Subsidiaries

(In thousands of won)

	Note	December 31, 2013	December 31, 2012
<b>Equity</b>			
Share capital	17	29,855,675	29,834,450
Share premium	17	65,581,340	64,461,578
Treasury shares	18	(16,731,529)	(16,731,529)
Other capital	19,23	(11,892,366)	(11,844,629)
Reserves	20	641,873,095	645,672,045
Retained earnings	21	413,992,468	273,104,475
<b>Equity attributable to owners of the Company</b>		<b>1,122,678,683</b>	<b>984,496,390</b>
<b>Non-controlling interests</b>		<b>146,597,457</b>	<b>143,481,546</b>
<b>Total equity</b>		<b>1,269,276,140</b>	<b>1,127,977,936</b>
<b>Liabilities</b>			
Long-term debts	26,34,37,38	525,268,727	576,709,037
Long-term trade and other payables	25,34,37,39	2,715,564	1,723,910
Defined benefit liabilities	27	6,991,096	13,008,380
Deferred tax liabilities	36	67,374,308	71,448,749
Other non-current liabilities	28	698,740	656,775
<b>Non-current liabilities</b>		<b>603,048,435</b>	<b>663,546,851</b>
Current portion of long-term debts	26,34,37	170,806,756	95,756,669
Short-term borrowings	26,34,37,38	413,151,978	304,930,152
Trade and other payables	25,34,37,39	399,196,222	342,223,581
Derivative liabilities	24,34,37	3,658	9,126
Income taxes payable	36	24,284,397	28,396,703
Other current liabilities	28	93,849,151	84,765,685
<b>Current liabilities</b>		<b>1,101,292,162</b>	<b>856,081,916</b>
<b>Total liabilities</b>		<b>1,704,340,597</b>	<b>1,519,628,767</b>
<b>Total equity and liabilities</b>		<b>2,973,616,737</b>	<b>2,647,606,703</b>

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Comprehensive Income

For the years ended December 31, 2013 and 2012

Orion Corporate and Subsidiaries

(In thousands of won, except earnings per share)

		2013	2012
<b>Continuing operations</b>			
Revenue	5,29,35	2,485,195,930	2,368,032,597
Cost of sales	29,31,39	(1,407,923,899)	(1,348,410,619)
<b>Gross profit</b>		<b>1,077,272,031</b>	<b>1,019,621,978</b>
Selling expenses	30,31	(669,789,987)	(606,921,610)
General and administrative expenses	30,31	(148,702,538)	(148,968,566)
<b>Operating profit</b>		<b>258,779,506</b>	<b>263,731,802</b>
Net other expenses	32	(6,594,705)	(11,542,571)
Net finance cost	33,34	(26,313,775)	(25,099,670)
Finance income		18,059,073	27,886,439
Finance cost		(44,372,848)	(52,986,109)
Share of profit(loss) of associates	11	241,368	(2,943,876)
<b>Profit before income tax</b>		<b>226,112,394</b>	<b>224,145,685</b>
Income tax expense	36	(65,871,536)	(49,184,869)
<b>Profit from continuing operations</b>	5	<b>160,240,858</b>	<b>174,960,816</b>
<b>Discontinued operations</b>			
Loss from discontinued operations	6,9	-	(5,160,553)
<b>Profit for the year</b>		<b>160,240,858</b>	<b>169,800,263</b>
<b>Other comprehensive income(loss):</b>			
<b>Items that are or may be reclassified to loss</b>			
Change in fair value of available-for-sale financial assets	12,34	4,045	(75,441)
Exchange differences on translating foreign operations		(338,915)	(26,632,487)
Share of other comprehensive income(loss) of associates	11	(261,291)	339,542
		(596,161)	(26,368,386)
<b>Items that will never be reclassified to profit(loss)</b>			
Defined benefit plan actuarial gain(loss)	27	7,457,234	(3,608,222)
<b>Other comprehensive income(loss) for the year, net of tax</b>		<b>6,861,073</b>	<b>(29,976,608)</b>
<b>Total comprehensive income for the year</b>		<b>167,101,931</b>	<b>139,823,655</b>
<b>Profit (loss) attributable to:</b>			
Owners of the Company		145,694,946	151,607,961
Profit from continuing operations		145,694,946	153,388,352
Loss from discontinued operations		-	(1,780,391)
Non-controlling interests		14,545,912	18,192,302
Profit from continuing operations		14,545,912	21,572,464
Loss from discontinued operations		-	(3,380,162)
<b>Profit for the year</b>		<b>160,240,858</b>	<b>169,800,263</b>
<b>Total comprehensive income attributable to</b>			
Owners of the Company		152,241,710	123,725,820
Non-controlling interests		14,860,221	16,097,835
<b>Total comprehensive income for the year</b>		<b>167,101,931</b>	<b>139,823,655</b>
<b>Earnings per share: (In won)</b>			
	22		
Basic earnings per share from continuing operations		27,698	29,180
Basic loss per share from discontinued operations		-	(339)
Diluted earnings per share from continuing operations		27,665	29,132
Diluted loss per share from discontinued operations		-	(339)

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Changes in Equity

For the year ended December 31, 2012

Orion Corporation and Subsidiaries

(In thousands of won)

Note	Share capital	Share premium	Treasury shares	Other capital	Reserve	Retained earnings	Non-controlling interests	Total equity
<b>Balance at January 1, 2012</b>	29,824,325	63,951,231	(16,588,756)	11,030,647	461,076,771	327,429,080	132,902,433	1,009,625,731
<b>Total comprehensive income for the year:</b>								
Profit for the year	-	-	-	-	-	151,607,961	18,192,302	169,800,263
Other comprehensive income:								
Change in fair value of available-for-sale financial assets	-	-	-	(38,035)	-	-	(37,406)	(75,441)
Exchange differences on translating foreign operations	-	-	-	(24,420,061)	-	-	(2,212,426)	(26,632,487)
Share of other comprehensive income of associates	-	-	-	252,786	-	-	86,756	339,542
Defined benefit plan actuarial loss	-	-	-	-	-	(3,676,830)	68,608	(3,608,222)
<b>Total comprehensive income for the year</b>	-	-	-	(24,205,310)	-	147,931,131	16,097,834	139,823,655
<b>Transactions with owners of the Company, recorded directly in equity:</b>								
Dividends	-	-	-	-	-	(15,766,896)	(5,383,441)	(21,150,337)
Treasury shares	-	-	(142,773)	-	-	-	(135,280)	(278,053)
Exercise of stock options	10,125	510,347	-	(250,035)	-	-	-	270,437
Loss on disposal of treasury shares	-	-	-	1,175,057	-	(1,506,520)	-	(331,463)
Discount on stock issuance	-	-	-	387,046	-	(387,046)	-	-
Stock compensation expense	-	-	-	17,966	-	-	-	17,966
Transfer to statutory reserve	-	-	-	-	13,595,274	(13,595,274)	-	-
Transfer to voluntary reserve	-	-	-	-	171,000,000	(171,000,000)	-	-
<b>Balance at December 31, 2012</b>	29,834,450	64,461,578	(16,731,529)	(11,844,629)	645,672,045	273,104,475	143,481,546	1,127,977,936

Orion Corporation and Subsidiaries

(In thousands of won)

Note	Share capital	Share premium	Treasury shares	Other capital	Reserve	Retained earnings	Non-controlling interests	Total equity
<b>Balance at January 1, 2013</b>	29,834,450	64,461,578	(16,731,529)	(11,844,628)	645,672,045	273,104,475	143,481,545	1,127,977,936
<b>Total comprehensive income for the year:</b>								
Profit for the year	-	-	-	-	-	145,694,946	14,545,912	160,240,858
Other comprehensive income:								
Change in fair value of available-for-sale financial assets	-	-	-	(17,448)	-	-	21,493	4,045
Exchange differences on translating foreign operations	-	-	-	(249,784)	-	-	(89,131)	(338,915)
Share of other comprehensive income of associates	-	-	-	(548,705)	-	-	287,414	(261,291)
Defined benefit plan actuarial gain	-	-	-	-	-	7,362,700	94,534	7,457,234
<b>Total comprehensive income for the year</b>	-	-	-	(815,937)	-	153,057,646	14,860,222	167,101,931
Dividends	-	-	-	-	-	(15,772,971)	(5,422,216)	(21,195,187)
Exercise of stock options	21,225	1,119,762	-	(341,935)	-	-	-	799,052
Discount on stock issuance	-	-	-	290,155	-	(290,155)	-	-
Acquisition of non-controlling interests	-	-	-	1,407,817	-	-	(6,599,386)	(5,191,569)
Transfer from voluntary reserve	-	-	-	-	(18,000,000)	18,000,000	-	-
Transfer to statutory reserve	-	-	-	-	10,201,050	(10,201,050)	-	-
Transfer to voluntary reserve	-	-	-	-	4,000,000	(4,000,000)	-	-
Changes from equity transaction	-	-	-	(587,838)	-	94,523	277,292	(216,023)
<b>Balance at December 31, 2013</b>	29,855,675	65,581,340	(16,731,529)	(11,892,366)	641,873,095	413,992,468	146,597,457	1,269,276,140

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Cash Flow

For the years ended December 31, 2013 and 2012

Orion Corporation and Subsidiaries

(In thousands of won)

	2013	2012
<b>Cash flows from operating activities</b>		
Profit from continuing operations	160,240,858	174,960,816
Loss from discontinued operations	-	(5,160,553)
<b>Adjustments for:</b>		
Retirement benefits	11,753,786	9,845,423
Stock compensation expense	-	17,966
Depreciation	79,811,429	66,662,780
Depreciation of investment property	131,327	131,327
Amortization	58,848,251	58,136,389
Bad debt expenses	7,828,332	5,534,857
Impairment loss on goodwill	-	4,264,936
Impairment loss on assets classified as held for sale	-	4,329,862
Impairment loss on other assets	17,259	1,771,667
Loss on sale of property, plant and equipment	2,933,064	3,408,888
Loss on sale of intangible assets	396	182,640
Impairment loss on intangible assets	2,061,813	1,750,261
Valuation loss on derivatives	3,658	9,126
Foreign currency translation loss	7,690,891	10,042,139
Impairment loss on available-for-sale financial assets	-	393,714
Loss on sale of available-for-sale financial assets	-	1,951
Interest expense	37,678,885	38,537,368
Share of loss (gain) of associates, net	(241,368)	2,943,876
Other expenses	2,178,184	1,396,332
Income tax expense	65,871,536	49,184,869
Gain on sale of property, plant and equipment	(5,377,442)	(2,152,133)
Foreign currency translation gain	(12,205,341)	(12,481,972)
Gain on sale of available-for-sale financial assets	-	(620)
Interest income	(9,098,988)	(10,160,994)
Dividend income	(452)	(1,510)
Other income	(24,552)	(897,291)
<b>Changes in:</b>		
Trade receivables	3,981,452	(27,605,837)
Other receivables	9,386,438	2,624,307
Accrued income	264,952	(361,601)
Advance payments	(52,126,432)	(48,378,428)

See accompanying notes to the consolidated financial statements.

Orion Corporation and Subsidiaries

(In thousands of won)

	2013	2012
Prepaid expenses	(303,220)	1,407,070
Security deposits	(27,483,460)	(19,440,960)
Other current assets	(2,991,159)	(9,062,306)
Inventories	2,431,543	28,128,342
Long-term other receivables	-	675,825
Long-term prepaid expenses	-	(31,430)
Other non-current assets	(286,046)	(18,846,014)
Trade payables	2,500,578	39,278,607
Other payables	30,223,156	2,171,155
Accrued expenses	(3,419,311)	4,745,290
Advance receipts	16,709,975	(38,398,676)
Unearned revenue	(24,097)	(93,870)
Withholdings	16,155,211	21,803,270
Other current liabilities	336,175	2,241,522
Provision for loss on sales return	(489,283)	(114,260)
Non-current other payables	-	(120,413)
Derivative liabilities	-	(3,082)
Other non-current liabilities	(2,203,270)	1,263,543
Plan asset	349,261	(6,643,960)
Payment of defined benefit obligations	(8,417,982)	(7,490,971)
Interest received	11,404,198	12,576,255
Dividend received	452	1,510
Interest paid	(38,944,147)	(39,138,276)
Income tax paid	(74,774,013)	(54,033,948)
<b>Net cash provided by operating activities</b>	<b>292,382,497</b>	<b>249,804,778</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of held-to-maturity financial assets	80,545	111,385
Collection of short-term loans	8,017,448	933,874
Decrease in financial deposits	339,595,378	513,430,457
Decrease in other current financial assets	14,225	114,897
Decrease in rental deposits	1,284,307	397,610
Proceeds from sale of available-for-sale financial assets	171,940	852,215
Decrease in other non-current financial assets	1,492,750	767,772

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Cash Flow

For the years ended December 31, 2013 and 2012

Orion Corporation and Subsidiaries

(In thousands of won)

	2013	2012
Proceeds from sale of property, plant and equipment	37,123,852	36,944,251
Proceeds from sale of intangible assets	6,840,045	1,349,801
Increase in short-term loans	(2,724,976)	(33,883,298)
Increase in financial deposits	(346,048,481)	(594,105,154)
Increase in other current financial assets	-	(500)
Increase in rental deposits	(1,495,127)	(4,493,475)
Acquisition of available-for-sale financial assets	(2,850,000)	(2,474,760)
Acquisition of held-to-maturity financial assets	(1,390,155)	(539,920)
Increase in long-term financial deposits	-	(3,000)
Increase in other non-current financial assets	(458,981)	-
Acquisition of property, plant and equipment	(422,912,427)	(325,949,802)
Acquisition of intangible assets	(3,587,156)	(3,563,366)
Acquisition of investments in associates	-	(4,009,000)
Other, net	-	(631,152)
<b>Net cash used in investing activities</b>	<b>(386,846,813)</b>	<b>(414,751,165)</b>
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	563,859,768	353,931,818
Proceeds from issuance of debentures	-	199,128,500
Proceeds from long-term debts	97,967,852	114,817,860
Increase in other non-current financial liabilities	-	110,000
Proceeds from exercise of stock options	799,052	270,437
Repayment of short-term borrowings	(464,976,713)	(298,549,150)
Repayment of debentures	-	(120,000,000)
Repayment of current portion of long-term debts	(40,515,063)	(21,840,000)
Repayment of long-term borrowings	(13,940,571)	(36,715,368)
Acquisition of treasury shares	-	(318,308)
Dividends paid	(21,195,187)	(21,150,337)
Acquisition of non-controlling interests	(5,191,569)	-
Other, net	330,849	(2,065,431)
<b>Net cash provided by financing activities</b>	<b>117,138,418</b>	<b>167,620,021</b>
<b>Effect of exchange rate fluctuations on cash held</b>	<b>(967,411)</b>	<b>(6,698,565)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>21,706,691</b>	<b>(4,024,931)</b>
<b>Cash and cash equivalents at January 1</b>	<b>211,472,452</b>	<b>215,497,383</b>
<b>Cash and cash equivalents at December 31</b>	<b>233,179,143</b>	<b>211,472,452</b>

See accompanying notes to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### 1. Reporting Entity

#### (1) Description of the controlling company

Orion Corporation (“the Company”) is a company domiciled in Korea. The Company was incorporated as Tong Yang Confectionery Corporation in 1956, under the laws of the Republic of Korea to engage in the business of manufacturing and selling confectioneries. On June 27, 1975, the Company was listed on the Korea Exchange. As of December 31, 2013, the Company’s major stockholders consist of Lee, Hwa Kyoung (14.49%) and seven related individuals (14.33%).

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as “the Group”) and the Group’s interests in associates.

#### (2) Consolidated subsidiaries are summarized as follows:

Subsidiary	Location	Immediate controlling party	2013		
			Percentage of ownership		
			The Company	Subsidiary	Total
Orion Reports Corp.	Korea	Orion Corporation	86.00	-	86.00
RION Asset Development Co., Ltd.	Korea	Orion Corporation	90.00	-	90.00
Mediaplex Corp.	Korea	Orion Corporation	57.50	-	57.50
Orion Snack International Corp.	Korea	Orion Corporation	100.00	-	100.00
Sports Toto Co., Ltd.	Korea	Orion Corporation	69.35	-	69.35
Mega Mark Co., Ltd.	Korea	Orion Corporation	100.00	-	100.00
PAN Orion Corp. Limited.	Hong Kong	Orion Corporation	85.83	9.32	95.15
Orion Food (Rus) Co., Ltd.	Russia	Orion Corporation	72.29	27.71	100.00
Orion Food NOVO Co., Ltd.	Russia	Orion Corporation	64.60	35.40	100.00
Orion International Euro Co., Ltd.	Russia	Orion Corporation	100.00	-	100.00
Orion Food VINA Co., Ltd.	Vietnam	Orion Corporation	63.41	36.59	100.00
Supreme Star Investment Limited.	Hong Kong	Orion Corporation	62.66	11.23	73.89
Orion Food Indonesia, PT.	Indonesia	Orion Corporation	70.00	30.00	100.00
Gemini Contents Investment Partnership #8	Korea	Mediaplex Corp.	-	92.86	92.86
Supreme Star Holdings Limited.	Hong Kong	Mediaplex Corp.	-	100.00	100.00
HighLand D&C Co., Ltd.	Korea	Orion Snack International Corp.	-	90.00	90.00
MisoIn Co., Ltd.	Korea	Mega Mark Co., Ltd.	-	90.00	90.00
Sports Toto Online Co., Ltd.	Korea	Sports Toto Co., Ltd.	30.00	70.00	100.00
Crespo Co., Ltd.	Korea	Sports Toto Co., Ltd.	-	100.00	100.00
Orion Food Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00	100.00
Orion Food (Shanghai) Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00	100.00
Orion Food Guangzhou Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00	100.00
Orion Snack Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00	100.00
Orion Food (Shen Yang) Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00	100.00
Orion Consulting Co., Ltd.	China	Supreme Star Investment Limited.	-	100.00	100.00
Beijing Supreme Star Consulting Co., Ltd.	China	Supreme Star Holdings Limited.	-	100.00	100.00
Orion Agro Co., Ltd.	China	Orion Snack International Corp.	-	100.00	100.00



## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

Subsidiary	Location	Immediate controlling party	2012		
			Percentage of ownership		
			The Company	Subsidiary	Total
Orion Reports Corp.	Korea	Orion Corporation	86.00	-	86.00
RION Asset Development Co, Ltd.	Korea	Orion Corporation	90.00	-	90.00
Mediaplex Corp.	Korea	Orion Corporation	57.50	-	57.50
Orion Snack International Corp.	Korea	Orion Corporation	100.00	-	100.00
Sports Toto Co., Ltd.	Korea	Orion Corporation	66.64	-	66.64
Mega Mark Co., Ltd.	Korea	Orion Corporation	100.00	-	100.00
PAN Orion Corp. Limited.	Hong Kong	Orion Corporation	85.83	9.32	95.15
Orion Food (Rus) Co., Ltd.	Russia	Orion Corporation	72.29	27.71	100.00
Orion Food NOVO Co., Ltd.	Russia	Orion Corporation	64.60	35.40	100.00
Orion International Euro Co., Ltd.	Russia	Orion Corporation	100.00	-	100.00
Orion Food VINA Co., Ltd.	Vietnam	Orion Corporation	63.41	36.59	100.00
Supreme Star Investment Limited.	Hong Kong	Orion Corporation	62.66	11.23	73.89
Orion Food Indonesia, PT.	Indonesia	Orion Corporation	70.00	30.00	100.00
Chamsary L&F Co., Ltd. (*1)	Korea	Mediaplex Corp.	-	60.00	60.00
Gemini Contents Investment Partnership #8	Korea	Mediaplex Corp.	-	92.86	92.86
Supreme Star Holdings Limited.	Hong Kong	Mediaplex Corp.	-	100.00	100.00
HighLand D&C Co., Ltd.	Korea	Orion Snack International Corp.	-	90.00	90.00
Misoin Co., Ltd.	Korea	Mega Mark Co., Ltd.	-	90.00	90.00
Sports Toto Online Co., Ltd.	Korea	Sports Toto Co., Ltd.	30.00	70.00	100.00
G-finding Co. Ltd (*2)	Korea	Sports Toto Co., Ltd.	-	100.00	100.00
Crespo Co., Ltd.	Korea	G-finding Co. Ltd	-	100.00	100.00
Orion Food Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00	100.00
Orion Food (Shanghai) Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00	100.00
Orion Food Guangzhou Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00	100.00
Orion Snack Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00	100.00
Orion Food (Shen Yang) Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00	100.00
Orion Consulting Co., Ltd.	China	Supreme Star Investment Limited.	-	100.00	100.00
Beijing Supreme Star Consulting Co., Ltd.	China	Supreme Star Holdings Limited.	-	100.00	100.00
Orion Agro Co., Ltd.	China	Orion Snack International Corp.	-	100.00	100.00

(\*1) Chamsary L&F Co., Ltd. was disposed of in January 2013.

(\*2) G-finding Co. Ltd. was merged with Crespo Co., Ltd. in January 2013.

### (3) Financial information of the Company and consolidated subsidiaries is summarized as follows:

(In thousands of won)

Company	December 31, 2013				
	Total assets	Total liabilities	Sales	Net income (loss)	Comprehensive income(loss)
Orion Corporation	1,316,405	597,035	792,164	10,930	17,636
Orion Reports Corp.	1,892	1,468	5,388	(1,015)	(1,015)
RION Asset Development Co, Ltd.	18,549	36,713	-	(2,710)	(2,710)
Mediaplex Corp.	168,468	62,966	106,863	2,353	2,626
Orion Snack International Corp.	200,599	59,924	178,784	19,492	20,054
Sports Toto Co., Ltd.	409,104	150,252	251,672	15,455	15,455
Mega Mark Co., Ltd.	103,670	44,038	1,387	(15,803)	(15,802)
PAN ORION Corp. Limited	292,630	148,145	-	(6,139)	(6,139)
Orion Food (Rus) Co., Ltd.	26,025	3,140	32,387	1,763	1,763
Orion Food NOVO Co., Ltd.	36,113	20,760	21,633	(449)	(449)
Orion International Euro Co., Ltd.	16,957	18,452	83,389	1,189	1,189
Orion Food VINA Co., Ltd.	146,634	64,429	160,375	9,143	9,143
Supreme Star Investment Limited	19,387	2	-	763	370
Orion Food Indonesia Co., PT.	1,024	278	609	(1,001)	(1,001)
Gemini Contents Investment Partnership #8	4,794	35	1,286	1,115	1,115
Supreme Star Holdings Limited	4,257	12	-	(1,208)	(1,132)
HighLand D&C Co., Ltd.	13,796	27,798	-	(2,179)	(2,179)
Misoin Co., Ltd.	32,663	60,913	6,594	(3,712)	(3,712)
Sports Toto Online Co., Ltd.	55,202	9,421	13,299	5,701	5,701
Crespo Co., Ltd.	35,681	6,030	-	(932)	(932)
Orion Food Co., Ltd.	486,695	244,087	1,113,098	40,758	40,758
Orion Food(Shanghai) Co., Ltd.	214,208	90,001	172,726	19,839	19,839
Orion Food Guangzhou Co., Ltd.	237,614	166,353	108,635	12,342	12,342
Orion Snack Co., Ltd.	167,197	65,619	193,622	29,747	29,747
Orion Food (Shen Yang) Co., Ltd.	134,500	72,754	-	(3,364)	(3,364)
Orion Consulting Co., Ltd.	1,151	48	1,151	268	268
Beijing Supreme Star Consulting Co.,Ltd.	900	4	-	3	3
Orion Argo Co., Ltd.	11,321	806	11,703	2,320	2,320

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

(In thousands of won)

Company	December 31, 2012				
	Total assets	Total liabilities	Sales	Net income (loss)	Comprehensive income(loss)
Orion Corporation	1,317,018	600,310	820,657	5,837	2,319
Orion Reports Corp.	2,015	577	6,046	59	59
RION Asset Development Co, Ltd.	18,562	34,015	-	(3,563)	(3,563)
Mediaplex Corp.	188,902	85,922	87,973	3,921	3,994
Orion Snack International Corp.	189,735	69,114	173,994	21,753	21,522
Sports Toto Co., Ltd.	373,413	119,690	288,535	42,436	42,436
Mega Mark Co., Ltd.	125,551	50,117	17,098	(49,697)	(49,696)
PAN ORION Corp. Limited	295,476	150,753	-	(5,674)	(5,674)
Orion Food (Rus) Co., Ltd.	25,178	1,880	28,465	720	720
Orion Food NOVO Co., Ltd.	32,571	24,523	17,547	2,275	2,275
Orion International Euro Co., Ltd.	12,145	15,004	69,590	1,832	1,832
Orion Food VINA Co., Ltd.	137,227	61,733	151,359	14,863	14,863
Supreme Star Investment Limited	19,353	2	-	35	422
Orion Food Indonesia Co., PT.	2,022	11	-	1	1
Chamsary L&F Co., Ltd.	-	-	1,082	(798)	(798)
Gemini Contents Investment Partnership #8	3,679	36	248	(255)	(255)
Supreme Star Holdings Limited	5,435	-	-	(2,141)	(2,218)
HighLand D&C Co., Ltd.	13,515	25,339	-	(2,641)	(2,641)
Misoin Co., Ltd.	36,029	60,567	4,678	(3,369)	(3,369)
Sports Toto Online Co., Ltd.	47,570	7,492	19,195	8,146	8,146
G-finding Co. Ltd	43,611	-	-	(631)	(631)
Crespo Co., Ltd.	27,041	1,856	-	(1,319)	(1,319)
Orion Food Co., Ltd.	394,584	194,389	983,157	39,312	39,312
Orion Food(Shanghai) Co., Ltd.	206,190	102,706	164,588	14,336	14,336
Orion Food Guangzhou Co., Ltd.	163,776	105,329	85,483	9,075	9,075
Orion Snack Co., Ltd.	155,883	84,304	148,694	23,220	23,220
Orion Food (Shen Yang) Co., Ltd.	64,677	468	-	(815)	(815)
Orion Consulting Co., Ltd.	916	87	1,182	(142)	(142)
Beijing Supreme Star Consulting Co., Ltd.	885	44	-	(2)	(2)
Orion Argo Co., Ltd.	8,968	825	13,348	3,011	3,011

#### (4) Acquisition of additional interests in subsidiaries summarized as follows:

In 2013, the Group acquired an additional 2.71% interest in Sports Toto Co., Ltd. for ₩5,191,569 thousand incash, increasing its ownership from 66.64% to 69.35%.

The Group recognized:

- a decrease in non-controlling interests of ₩6,599,386 thousand
- an increase in the other capital of ₩1,407,817 thousand

The carrying amount of Sports Toto Co., Ltd.'s net assets in the Group's consolidated financial statements as of December 31, 2013 was ₩258,852,472 thousand.

The following summarises the changes in the Company's ownership interest in Sports Toto Co., Ltd.

(In thousands of won)

	2013
Company's ownership interest at January 1, 2013	169,087,888
Dividends	(4,903,590)
Decrease in Company's ownership interest caused by unequal dividends	(1,977,796)
Effect of increase in Company's ownership interest	6,599,386
Share of comprehensive income	10,718,555
Company's ownership interest at December 31, 2013	179,524,443

## 2. Basis of Preparation

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audits of Corporations in the Republic of Korea.

The consolidated financial statements were authorized for issue by the Board of Directors on February 13, 2014, which will be submitted for approval to the shareholders' meeting to be held on March 28, 2014.

### (1) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

### (2) Functional and presentation currency

These consolidated financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Group operates.

### (3) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

### ① Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 8 - Investment property

### ② Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 9 - Goodwill
- Note 27 - Measurement of defined benefit obligations for employees
- Note 28 - Estimation of provision loss on sales return
- Note 36 - Utilization of tax losses
- Note 37 - Trade and other receivables
- Note 38 - Financial commitments and contingencies

### ③ Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and report directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirement of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the audit committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following note:

Note 34 - Financial Income and Cost by categories

### (4) Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated financial statements. The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2013.

- K-IFRS No. 1110, 'Consolidated Financial Statements'
- K-IFRS No. 1112, 'Disclosure of Interests in Other Entities'
- K-IFRS No. 1113, 'Fair Value Measurement'
- K-IFRS No. 1019, 'Employee Benefits'
- Amendments to K-IFRS No. 1001, Presentation of items of other comprehensive income

The nature and effects of these changes are explained below.

#### ① Subsidiaries

The Group adopted K-IFRS No. 1110, 'Consolidated Financial Statements', since January 1, 2013. As a result, the Group has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. K-IFRS No. 1110 introduces a new control model that focuses on whether the Group has power over an investee, exposure or right to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of K-IFRS No. 1110, the Group reassessed its control conclusions of its investees at January 1, 2013. As a result of reassessment of the control, there is no change in consolidation scope.

#### ② Disclosure of Interests in other entities

As a result of K-IFRS No. 1112, the Group has expanded its disclosures about its interests in subsidiaries and equity-accounted investees (see Note 1 and 11).

#### ③ Fair value measurement

K-IFRS No. 1113 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required for permitted by other K-IFRSs. It unifies the definition of fair values as 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. It replaces and expands the disclosure requirements about fair value measurements in other K-IFRSs, including K-IFRS No. 1107.

In accordance with the transitional provisions of K-IFRS No. 1113, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

#### ④ Post-employment defined benefit plans

As a result of K-IFRS No. 1019, the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit plans. Under K-IFRS No. 1019, the Group determines the net interest expense (income) on the net defined benefit liability (assets) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (assets), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises: interest cost on the defined benefit obligation, interest income on

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

plan assets, and interest on the effect on the asset ceiling. Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

### ⑤ Presentation of Items of other comprehensive income

As a result of K-IFRS No. 1001, the Group has modified the presentation of items of other comprehensive income in its statement of comprehensive income, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

### 3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the change in accounting policy as explained in Note 2 (4).

#### (1) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Group has four reportable segments as described in note 5.

#### (2) Basis of consolidation

##### ① Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or business under common control. The consideration transferred in the acquisition is generally measured at fair value, as are identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchases is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the marketbased measure of the acquiree's awards and the extent to which the replacement awards relate to precombination service.

##### ② Non-controlling Interests("NCI")

NCI are measured at their proportionate share of the acquiree's identifiable net assets ant the acquisition date.

Changes in the Group's interest in subsidiary that do not result in loss of control are accounted for as equity transaction.

##### ③ Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

##### ④ Loss of control

When the Group losses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

##### ⑤ Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interest in associates and a joint venture. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

##### ⑥ Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way unrealized gains, but only to the extent that there is no evidence of impairment.

##### ⑦ Business combination under common control

For business combination under common control, the Group recognized assets and liabilities acquired using carrying amount in the consolidated financial statement of the ultimate parent.

##### (3) Discontinued operation

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

##### (4) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that

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are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and are used by the Group in management of its short-term commitments. Generally equity investments are excluded from cash and cash equivalents.

### (5) Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs. The cost of inventories is determined by the specific identification method for materials-in-transit and by the moving average method for all other inventories. Amounts of inventory written down to net realizable value due to losses occurring in the normal course of business are recognized as cost of goods sales and are deducted as an allowance from the carrying value of inventories.

### (6) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

#### ① Financial assets at fair value through profit or loss

A financial asset is classified as financial assets are classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

#### ② Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

#### ③ Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

#### ④ Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, with changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously

recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

#### ⑤ De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

#### ⑥ Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

#### (7) Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

#### (8) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

#### ① Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

#### ② Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and

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must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

### ③ Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

### (9) Property, plant and equipment

Property, plant and equipment are initially measured at cost. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

The estimated useful lives of the Group's assets are as follows:

	Useful lives (years)
Buildings	15 ~ 55
Structures	10 ~ 20
Machinery	8 ~ 17
Other	4 ~ 10, Indefinite

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

### (10) Borrowing costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale.

Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets. To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset.

The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

### (11) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses. Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which rights to use facility are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

	Useful lives (years)
Industrial property rights	10
Rights to use facility	indefinite
Other	5

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

### ① Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

### ② Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

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### (12) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses. Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property except for land, are depreciated on a straight-line basis over 55 years as estimated useful lives. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

### (13) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cashgenerating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### (14) Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases. Operating leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

### (15) Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for

contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. Construction work in progress is presented as part of trade and other receivables in the consolidated statement of financial position for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as deferred income in the consolidated statement of financial position.

### (16) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as noncurrent assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 Impairment of Assets.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

### (17) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

#### ① Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

#### ② Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

### (18) Employee benefits

#### ① Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

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### ② Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

### ③ Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of plan assets.

The calculation of defined benefit liability is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the assets ceiling (if any, excluding interest), are recognized immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (assets) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (assets), taking into account any change in the net defined benefit liability (assets) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of plans are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailments is recognized immediately in profit or loss. The Group recognized gains and losses on the settlement of a defined benefit plan when the settlement occurs.

### (19) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation 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. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision shall be used only for expenditures for which the provision was originally recognized.

### (20) Foreign currencies

#### ① Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### ② Foreign operations

If the presentation currency of the Group entities is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods: The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss. Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

### (21) Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects. When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

### (22) Share-based payment transactions

The Company has granted shares or share options to its employees and other parties. For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Company cannot reliably estimate the fair value of the goods or services received, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Company measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest. For cash-settled share-based payment transactions, the Company measures the goods or services acquired and the liability incurred at the fair value of the



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liability. Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period.

### (23) Revenue

Revenue from the sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, and are recognized as a reduction of revenue.

#### ① Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

#### ② Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. 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. An expected loss on a contract is recognized immediately in profit or loss.

#### ③ Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

#### ④ Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

### (24) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

### (25) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

#### ① Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting Profit for the year since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

#### ② Deferred tax

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and joint ventures except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. And the group reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

### (26) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

### (27) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2013, and the Group has not early adopted them. The Group believes the impact of the amendments on the Group's consolidated financial statements is not significant. Amendments to K-IFRS No. 1032, 'Financial Instruments: Presentation' The amendments clarified the application guidance related to 'offsetting a financial asset and a financial liability'. The amendment is mandatorily effective for periods beginning on or after January 1, 2014 with earlier application permitted.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### 4. Non-Controlling Interests, Continued

The following table summarizes the information relating to each of the Group's subsidiaries that has material non-controlling interests, before any intra-group eliminations.

#### (1) Major consolidated subsidiaries are summarized as follows:

Subsidiary	Non-controlling interests percentage		Location
	2013	2012	
Mediaplex Corp.	42.50%	42.50%	Korea
Sports Toto Co., Ltd.	30.65%	33.36%	Korea

#### (2) Cumulative non-controlling interests and dividends paid to non-controlling interests (In thousands of won)

Subsidiary	Profit allocated to non-controlling interests	Cumulative non-controlling interests	Dividends paid to non-controlling interests
Mediaplex Corp.	2,721,490	45,219,815	-
Sports Toto Co., Ltd.	4,736,301	76,988,708	5,422,216

#### (3) Financial position and financial performance (In thousands of won)

Subsidiary	Mediaplex Corp.	Sports Toto Co., Ltd.
Current assets	117,272,817	236,022,278
Non-current assets	50,086,453	173,081,772
Current liabilities	61,810,507	138,856,716
Non-current liabilities	-	11,394,862
Revenue	108,149,100	251,672,249
Profit	5,726,973	15,454,856
Comprehensive income	6,059,221	15,454,856

#### (4) Cash flow (In thousands of won)

Subsidiary	Mediaplex Corp.	Sports Toto Co., Ltd.
Cash flows from operating activities	11,422,536	18,637,676
Cash flows from investing activities	8,358,560	(14,917,414)
Cash flows from financing activities	(3,000,000)	(9,760,806)
Effect of exchange rate fluctuations on cash held	(5,251)	-
Net increase (decrease) in cash and cash equivalents	16,775,845	(6,040,544)

### 5. Operating Segments

The Group has four reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Operating segments	Principal operation
Confectionary	Manufacturing and selling of snacks and candies
Sports/Leisure	Sports betting and related business
Entertainment	Film investments and distribution
Construction	Construction and sale of real estate

#### (1) Segment results for the years ended December 31, 2013 and 2012 were as follows: (In thousands of won)

	2013					Consolidated Total
	Confectionary	Sports/Leisure	Entertainment	Construction	Elimination	
Total segment sales	2,869,123,770	270,359,490	109,299,694	7,981,589	(771,568,613)	2,485,195,930
Less: Inter-segment sales	(753,301,392)	(18,198,512)	(68,709)	-	771,568,613	-
External sales	2,115,822,378	252,160,978	109,230,985	7,981,589	-	2,485,195,930
Profit for the year	136,570,516	19,209,626	3,293,490	(24,404,206)	25,571,432	160,240,858

(In thousands of won)

	2012					Consolidated Total	
	Confectionary	Sports/Leisure	Entertainment	Construction	Other(*)		
Total segment sales	2,656,882,682	313,776,278	89,402,469	21,775,802	1,082,152	(714,886,786)	2,368,032,597
Less: Inter-segment sales	(674,517,397)	(23,411,814)	(24,423)	(15,851,000)	(32,588)	713,837,222	-
External sales	1,982,365,285	290,364,464	89,378,046	5,924,802	1,049,564	(1,049,564)	2,368,032,597
Profit for the year	129,746,139	48,691,290	1,415,603	(59,269,274)	(798,102)	55,175,160	174,960,816

(\*)Other was disposed in January 2013 as discussed in note 6.

#### (2) Segment assets and liabilities as of December 31, 2013 and 2012 as follows: (In thousands of won)

	2013					Consolidated Total
	Confectionary	Sports/Leisure	Entertainment	Construction	Elimination	
Total assets	3,287,923,836	501,878,237	198,956,819	168,677,393	(1,183,819,548)	2,973,616,737
Total liabilities	1,551,781,221	167,171,089	63,068,403	169,462,349	(247,142,465)	1,704,340,597

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

(In thousands of won)

	2012						Consolidated Total
	Confectionary	Sports /Leisure	Entertainment	Construction	Other(*)	Elimination	
Total assets	3,005,448,975	493,649,712	219,170,648	193,657,098	117	(1,264,319,847)	2,647,606,703
Total liabilities	1,411,349,980	129,614,129	86,090,075	170,038,532	-	(277,463,949)	1,519,628,767

### (3) Information on regional sales for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013			Consolidated
	Domestic	China	Other	
Regional sales	1,150,775,941	1,113,648,005	220,771,984	2,485,195,930

(In thousands of won)

	2012			Consolidated
	Domestic	China	Other	
Regional sales	1,197,635,620	983,881,217	186,515,760	2,368,032,597

The Group presents sales by regions based on where the customers are located.

### (4) Information on regional non-current assets is as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
Domestic	842,230,597	791,393,883
China	884,369,756	650,657,944
Other	150,271,712	143,787,297
Total	1,876,872,065	1,585,839,124

Financial assets and deferred tax assets have been excluded from non-current assets above.

## 6. Discontinued Operation and Non-current Assets Classified as Held for sale

In December, 2012, the Group decided to dispose of Chamsary L&F Co., Ltd., whose assets and liabilities were classified as held for sale as at December 31, 2012 and the result of the subsidiary was presented the discontinued operation separately from continuing operations.

### (1) Results of discontinued operation

(In thousands of won)

	2012
<b>Results of discontinued operation</b>	
Revenue	1,051,662
Expenses	(1,882,352)
<b>Operating loss</b>	(830,690)
Income tax	-
<b>Loss for the year</b>	(830,690)
Impairment loss on assets classified as held for sale	(662,266)
Goodwill impairment	(3,667,597)
<b>Loss for the year</b>	(5,160,553)

### (2) Cash flow used in discontinued operation

(In thousands of won)

	2012
<b>Cash flow used in discontinued operation</b>	
Net cash used in operating activities	(949,950)
Net cash used in investing activities	(6,690)
Net cash from financing activities	559,500
<b>Net cash used in discontinued operation</b>	(397,140)

### (3) Non-current assets held for sale as of December 31, 2012 were as follows:

(In thousands of won)

	December 31, 2012
Current assets	166,543
Non-current assets	660,612
Current liabilities	(129,135)
Non-current liabilities	(35,637)
<b>Net assets and liabilities</b>	662,383
Fair value less cost to sell	117
<b>Impairment loss on assets classified as held for sale</b>	662,266

(4) The assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The impairment loss (difference between their carrying amount and fair value less cost to sell) is recognized as other expenses.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### 7. Property, Plant and Equipment

#### (1) Changes in property, plant and equipment for the year ended December 31, 2013 are as follows:

(In thousands of won)

	Land	Buildings	Structures	Machinery	Others	Construction in-progress	Total
<b>Cost:</b>							
Balance at January 1, 2013	301,114,457	427,287,052	16,490,913	825,381,431	127,754,065	130,191,423	1,828,219,341
Additions	236,511	1,387,153	341,421	15,574,955	13,441,818	394,367,484	425,349,342
Disposals	(12,703,307)	(2,883,798)	(15,817)	(13,715,061)	(9,314,847)	(14,775,384)	(53,408,214)
Others(*)	37,932,265	94,096,496	403,329	150,359,551	5,617,390	(310,922,704)	(22,513,673)
Balance at December 31, 2013	326,579,926	519,886,903	17,219,846	977,600,876	137,498,426	198,860,819	2,177,646,796
<b>Accumulated depreciation and impairment:</b>							
Balance at January 1, 2013	-	(61,528,522)	(8,320,052)	(281,150,942)	(56,405,197)	-	(407,404,713)
Disposals	-	436,933	15,816	10,693,272	5,530,968	-	16,676,989
Depreciation	-	(11,133,368)	(1,084,251)	(53,364,786)	(14,229,024)	-	(79,811,429)
Others(*)	-	35,789	62,734	1,088,278	196,771	-	1,383,572
Balance at December 31, 2013	-	(72,189,168)	(9,325,753)	(322,734,178)	(64,906,482)	-	(469,155,581)
<b>Carrying amount:</b>							
Balance at January 1, 2013	301,114,457	365,758,530	8,170,861	544,230,489	71,348,868	130,191,423	1,420,814,628
Balance at December 31, 2013	326,579,926	447,697,735	7,894,093	654,866,698	72,591,944	198,860,819	1,708,491,215

(\*)Fluctuations due to foreign currency translation of foreign operations are included in others.

#### (2) Changes in property, plant and equipment for the year ended December 31, 2012 were as follows:

(In thousands of won)

	Land	Buildings	Structures	Machinery	Others	Construction in-progress	Total
<b>Cost:</b>							
Balance at January 1, 2012	286,577,710	379,037,722	16,882,856	701,438,901	113,319,459	101,926,492	1,599,183,140
Additions	1,877,785	275,590	177,335	11,152,571	15,809,339	296,674,898	325,967,518
Disposals	(4,731,012)	(17,033,602)	(5,609,218)	(6,508,959)	(7,103,682)	(12,146,068)	(53,132,541)
Others(*)	17,389,974	65,007,342	5,039,940	119,852,290	6,065,425	(256,263,899)	(42,908,928)
Reclassification as held for sale	-	-	-	(553,372)	(336,476)	-	(889,848)
Balance at December 31, 2012	301,114,457	427,287,052	16,490,913	825,381,431	127,754,065	130,191,423	1,828,219,341
<b>Accumulated depreciation and impairment:</b>							
Balance at January 1, 2012	-	(57,013,048)	(9,304,340)	(249,994,464)	(48,565,182)	-	(364,877,034)
Disposals	-	1,920,747	1,813,157	5,643,133	5,554,499	-	14,931,536
Depreciation	-	(8,800,379)	(814,633)	(43,683,525)	(13,364,243)	-	(66,662,780)
Others(*)	-	2,364,158	(14,236)	6,738,513	(195,071)	-	8,893,364
Reclassification as held for sale	-	-	-	145,401	164,800	-	310,201
Balance at December 31, 2012	-	(61,528,522)	(8,320,052)	(281,150,942)	(56,405,197)	-	(407,404,713)
<b>Carrying amount:</b>							
Balance at January 1, 2012	286,577,710	322,024,674	7,578,516	451,444,437	64,754,277	101,926,492	1,234,306,106
Balance at December 31, 2012	301,114,457	365,758,530	8,170,861	544,230,489	71,348,868	130,191,423	1,420,814,628

(\*)Fluctuations due to foreign currency translation of foreign operations are included in others.

#### (3) Borrowing costs

Borrowing costs of ₩4,773 thousand and ₩17,715 thousand, in relation to the completion of construction, were capitalized as part of the cost of qualifying assets for the years ended December 31, 2013 and 2012, respectively. The capitalization rates were 3.89% and 4.55% for the years ended December 31, 2013 and 2012, respectively.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### 8. Investment Property

(1) Changes in investment property for the year ended December 31, 2013 and December 31, 2012 are as follows:  
(In thousands of won)

	2013			2012		
	Land	Buildings	Total	Land	Buildings	Total
<b>Cost:</b>						
Balance at January 1, 2013	8,651,677	7,222,959	15,874,636	8,651,677	7,222,959	15,874,636
Additions	-	-	-	-	-	-
Balance at December 31, 2013	8,651,677	7,222,959	15,874,636	8,651,677	7,222,959	15,874,636
<b>Accumulated depreciation:</b>						
Balance at January 1, 2013	-	(1,072,500)	(1,072,500)	-	(941,173)	(941,173)
Depreciation	-	(131,327)	(131,327)	-	(131,327)	(131,327)
Balance at December 31, 2013	-	(1,203,827)	(1,203,827)	-	(1,072,500)	(1,072,500)
<b>Carrying amount:</b>						
Balance at January 1, 2013	8,651,677	6,150,459	14,802,136	8,651,677	6,281,786	14,933,463
Balance at December 31, 2013	8,651,677	6,019,132	14,670,809	8,651,677	6,150,459	14,802,136

(2) The amounts recognized in profit or loss from investment property for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013	2012
Rental income	875,024	886,401
Direct operating expense	(131,327)	(131,327)
	743,697	755,074

(3) The carrying amount and the fair value of investment property as of December 31, 2013 were as follows:

(In thousands of won)

	Fair value	Carrying amount
Land	11,319,000	8,651,677
Buildings	7,546,000	6,019,132
	18,865,000	14,670,809

(\*)Fluctuations due to foreign currency translation of foreign operations are included in others.

### 9. Goodwill

(1) Changes in goodwill for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013	2012
<b>Cost:</b>		
Balance at beginning of year	58,110,077	61,777,674
Reclassification as held for sale	-	(3,667,597)
Balance at end of year	58,110,077	58,110,077
<b>Accumulated impairment:</b>		
Balance at beginning of year	(19,119,369)	(14,854,433)
Impairment	-	(4,264,936)
Balance at end of year	(19,119,369)	(19,119,369)
<b>Carrying amount:</b>		
Balance at beginning of year	38,990,708	46,923,241
Balance at end of year	38,990,708	38,990,708

#### (2) Impairment of goodwill

The Group's goodwill is allocated to two CGUs (Domestic Snack Manufacturing, and Sports Complex). The Group tested recoverable amount of each CGU as of December 31, 2013 and key assumptions used in the test were as follows.

##### ① Domestic snack manufacturing

The recoverable amount of the CGU was based on its value in use and was determined by discounting the estimated future cash flows to be generated from the continuing use of the CGU. Key assumptions to calculate the value in use reflected the management expectation of future trend of the industry considered with external and internal (historical) information. Expected growth rate of cash flow estimation is 1% after 2014. These expectations are based on statistical analysis for long-term market price trend. The recoverable amounts of the units were discounted at a pre-tax discount rate of 7.68%.

##### ② Sports complex development

The recoverable amount of the CGU was determined by its fair value less cost to sell. The fair value is estimated by discounted amount of disposal, which is gross proceeds from disposal less additional development expense. The recoverable amounts of the units were discounted at a pre-tax discount rate of 8.00%.

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For the years ended December 31, 2013 and 2012

### 10. Intangible Assets

#### (1) Changes in intangible assets for the year ended December 31, 2013 are as follows:

(In thousands of won)

	Rights to use facility	Industrial property rights	Publication rights	Other intangible assets	Total
<b>Cost:</b>					
Balance at January 1	24,742,006	13,647,891	216,897,786	13,367,046	268,654,729
Additions	24,208	1,006,685	2,199,000	357,263	3,587,156
Disposals	(3,906,188)	-	(4,311,545)	-	(8,217,733)
Others	16,944	(22,192)	61,114,937	194,507	61,304,196
Balance at December 31	20,876,970	14,632,384	275,900,178	13,918,816	325,328,348
<b>Accumulated amortization and impairment:</b>					
Balance at January 1	-	(6,421,537)	(215,743,004)	(3,044,210)	(225,208,751)
Amortization	-	(1,429,769)	(56,003,711)	(1,414,771)	(58,848,251)
Impairment	(1,340,200)	-	(721,613)	-	(2,061,813)
Disposals	-	-	-	-	-
Others	-	13,362	-	19,857	33,219
Balance at December 31	(1,340,200)	(7,837,944)	(272,468,328)	(4,439,124)	(286,085,596)
<b>Carrying amount:</b>					
Balance at January 1	24,742,006	7,226,354	1,154,782	10,322,836	43,445,978
Balance at December 31	19,536,770	6,794,440	3,431,850	9,479,692	39,242,752

Others mainly include transfers from construction-in progress and other assets and fluctuation due to foreign currency translation of foreign operations.

#### (2) Changes in intangible assets for the year ended December 31, 2012 are as follows:

(In thousands of won)

	Rights to use facility	Industrial property rights	Business rights	Publication rights	Other intangible assets	Total
<b>Cost:</b>						
Balance at January 1	24,149,358	12,038,591	119,789,040	173,751,645	4,708,031	334,436,665
Additions	939,588	1,695,059	-	500,000	428,719	3,563,366
Disposals	(940,372)	-	-	(339,801)	(338,060)	(1,618,233)
Others	593,432	(68,920)	-	42,985,942	8,600,064	52,110,518
Reclassification as held for sale	-	(16,839)	-	-	(31,708)	(48,547)
Balance at December 31	24,742,006	13,647,891	119,789,040	216,897,786	13,367,046	388,443,769
<b>Accumulated amortization and impairment:</b>						
Balance at January 1	-	(5,136,615)	(109,469,953)	(171,166,898)	(2,544,835)	(288,318,301)
Amortization	-	(1,325,786)	(10,319,087)	(45,914,853)	(576,663)	(58,136,389)
Impairment	-	-	-	(1,750,261)	-	(1,750,261)
Disposals	-	-	-	-	85,792	85,792
Others	-	36,217	-	3,089,008	(18,933)	3,106,292
Reclassification as held for sale	-	4,647	-	-	10,429	15,076
Balance at December 31	-	(6,421,537)	(119,789,040)	(215,743,004)	(3,044,210)	(344,997,791)
<b>Carrying amount:</b>						
Balance at January 1	24,149,358	6,901,976	10,319,087	2,584,747	2,163,196	46,118,364
Balance at December 31	24,742,006	7,226,354	-	1,154,782	10,322,836	43,445,978

Others mainly include transfers from construction-in progress and other assets and fluctuation due to foreign currency translation of foreign operations.

### 11. Investments in Associates

#### (1) Changes in intangible assets for the year ended December 31, 2013 are as follows:

(In thousands of won)

Associate	December 31, 2013		December 31, 2012	
	Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	49.0%	2,615,444	49.0%	2,258,228
Chigan Global Contents Investment Fund	20.0%	1,082,232	20.0%	1,181,989
Michigan Global Contents Investment Fund #3	43.3%	5,836,670	43.3%	6,065,765
Michigan Global Contents Investment Fund #4	23.0%	2,909,430	23.0%	2,368,469
Gemini Contents Investment Partnership #1	33.3%	1,151,018	33.3%	971,054
CJ Global Contents Venture Capital #11	25.0%	1,496,573	25.0%	1,404,032
Hubei Radio&TV Mega Trading Co., Ltd.	49.0%	2,058,579	49.0%	2,972,340
Baksugundal Culture Co., Ltd.	90.0%	257	90.0%	9,000
		<b>17,150,203</b>		<b>17,230,877</b>

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### (2) Changes in investments in associates for the year ended December 31, 2013 are as follows:

(In thousands of won)

Associate	2013			
	Balance at beginning of year	Share of profit (loss) of associates	Other	Balance at end of year
Beijing Zhongguan MEGABOX Cinema Co., Ltd.	2,258,228	744,187	(386,971)	2,615,444
Michigan Global Contents Investment Fund	1,181,989	(99,757)	-	1,082,232
Michigan Global Contents Investment Fund #3	6,065,765	(229,095)	-	5,836,670
Michigan Global Contents Investment Fund #4	2,368,469	540,961	-	2,909,430
Gemini Contents Investment Partnership #1	971,054	179,964	-	1,151,018
CJ Global contents Venturen Capital #11	1,404,032	92,541	-	1,496,573
Hubei Radio&TV Mega Trading Co., Ltd.	2,972,340	(978,690)	64,929	2,058,579
Baksugundal Culture Co., Ltd.	9,000	(8,743)	-	257
	17,230,877	241,368	(322,042)	17,150,203

### (3) Changes in investments in associates for the year ended December 31, 2012 are as follows:

(In thousands of won)

Associate	2012				
	Balance at beginning of year	Acquisition	Share of profit (loss) of associates	Other	Balance at end of year
Beijing Zhongguan MEGA-BOX Cinema Co., Ltd.	1,954,399	-	24,392	279,437	2,258,228
Michigan Global Contents Investment Fund	1,535,948	-	(353,959)	-	1,181,989
Michigan Global Contents Investment Fund #3	2,174,336	4,000,000	(108,571)	-	6,065,765
Michigan Global Contents Investment Fund #4	2,297,586	-	70,883	-	2,368,469
Gemini Contents Investment Partnership #1	1,127,398	-	(172,452)	16,108	971,054
CJ Global contents Venture Capital #11	1,768,660	-	(364,628)	-	1,404,032
Hubei Radio&TV Mega Trading Co., Ltd.	5,309,847	-	(2,039,541)	(297,966)	2,972,340
	-	9,000	-	-	9,000
Baksugundal Culture Co., Ltd.	16,168,174	4,009,000	(2,943,876)	(2,421)	17,230,877

### (4) Financial information of associates is summarized as follows:

(In thousands of won)

Associate	2013				
	Assets	Liabilities	Equity	Revenue	Profit(loss) for the year
Beijing Zhongguan MEGA-BOX Cinema Co., Ltd.	10,461,480	5,123,840	5,337,640	19,822,858	1,518,748
Michigan Global Contents Investment Fund	5,546,725	135,563	5,411,162	807,998	(498,785)
Michigan Global Contents Investment Fund #3	13,398,882	5,981	13,392,901	2,158,771	(528,681)
Michigan Global Contents Investment Fund #4	12,652,218	2,521	12,649,697	3,118,444	2,352,007
Gemini Contents Investment Partnership #1	3,498,733	45,681	3,453,052	1,114,716	539,890
CJ Global contents Venture Capital #11	6,021,312	35,021	5,986,291	1,693,860	370,163
Hubei Radio&TV Mega Trading Co., Ltd.	18,620,565	14,419,494	4,201,071	26,360,087	(1,997,273)
Baksugundal Culture Co., Ltd.	486	200	286	2,186	(9,714)

(In thousands of won)

Associate	2012				
	Assets	Liabilities	Equity	Revenue	Profit(loss) for the year
Beijing Zhongguan MEGA-BOX Cinema Co., Ltd.	10,281,241	5,672,614	4,608,627	16,986,931	49,780
Michigan Global Contents Investment Fund	6,056,742	146,795	5,909,947	145,265	(1,085,402)
Michigan Global Contents Investment Fund #3	13,929,328	7,746	13,921,582	519,066	(360,866)
Michigan Global Contents Investment Fund #4	10,301,744	4,054	10,297,690	485,102	308,184
Gemini Contents Invesment Partnership #1	3,291,392	378,229	2,913,163	825,515	(517,356)
CJ Global contents Venture Capital #11	5,666,653	50,524	5,616,129	480,357	(914,435)
Hubei Radio&TV MegaTrading Co., Ltd.	18,632,662	12,566,821	6,065,841	31,750,671	(4,162,220)
Baksugundal Culture Co., Ltd.	705,045	699,000	6,045	-	(3,955)

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### 12. Available-for-sale Financial Assets and Held-to-maturity Financial Assets

(1) Changes in available-for-sale financial assets and held-to-maturity financial assets for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013		2012	
	Available-for-sale Financial Assets	Held-to-maturity Financial Assets	Available-for-sale Financial Assets	Held-to-maturity Financial Assets
<b>Balance at beginning of year</b>	10,886,516	2,922,475	9,745,180	2,493,940
Acquisitions	2,850,000	1,390,155	2,474,760	539,920
Disposals	(171,940)	(80,545)	(853,546)	(111,385)
Net changes in fair value before tax	12,011	-	(86,164)	-
Impairment	-	-	(393,714)	-
Others	(245,280)	-	-	-
<b>Balance at end of year</b>	<b>13,331,307</b>	<b>4,232,085</b>	<b>10,886,516</b>	<b>2,922,475</b>
- Current	6,160	1,699,375	1,300	78,105
- Non-current	13,325,147	2,532,710	10,885,216	2,844,370
	13,331,307	4,232,085	10,886,516	2,922,475

(2) Available-for-sale financial assets as of December 31, 2013 and 2012 are summarized as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
<b>Available-for-sale financial assets:</b>		
<b>Listed</b>		
- SBI Global Investment Co., Ltd.	866	2,557
- Crown Confectionery Co., Ltd.	6,576	4,860
- Lotte Confectionery Co., Ltd.	34,416	29,340
- Savezone I&C Corp.	1,296	729
- Hanshin Construction Co., Ltd.	472	285
	<b>43,626</b>	<b>37,771</b>
<b>Unlisted</b>		
- Orion Beverage Corp. (*)	100,000	100,000
- KM Culture	500,000	500,000
- Boston Film Contents Investment Limited Partnership	444,776	444,776
- Michigan Global Film Contents Investment Limited Partnership	593,418	593,418
- Geon Contents Investment Limited#3	1,500,000	750,000
- Leading Asia Culture Investment Limited	1,700,000	1,700,000
- ACTI Culture & Contents Fund Limited Partnership	2,720,246	2,720,246
- TV Chosun & Daesung Win-Win Fund Limited Partnership	2,000,000	2,000,000
- CJ Global Contents Venture Capital #12	1,000,000	1,000,000
- Vision Hills co.	421,667	421,667
- KT-CKP New Media Venture Capital	600,000	-
- SMCI Culture Venture Capital #4	1,500,000	-
- Others	207,574	618,638
	<b>13,287,681</b>	<b>10,848,745</b>
<b>Total available-for-sale financial assets</b>	<b>13,331,307</b>	<b>10,886,516</b>

(\*) Although the Group owns 100% shares of Orion Beverage Corp., it is accounted for as available-for-sale financial asset because the impact to consolidation is insignificant.



## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### (3) Held-to-maturity financial assets as of December 31, 2013 and 2012 are summarized as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
Treasury bonds		
- Current	1,699,375	78,105
- Non-current	2,532,710	2,844,370
	<b>4,232,085</b>	<b>2,922,475</b>

### 13. Inventories

Inventories as of December 31, 2013 and 2012 are summarized as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
Merchandise and finished goods	93,129,877	84,337,342
Work-in-progress	10,986,962	11,661,443
Raw materials	61,650,323	65,021,247
Supplies	2,477,252	3,215,135
Raw materials-in-transit	12,290,217	12,221,455
Completed buildings	4,313,000	10,912,000
Sites for construction	45,793,310	45,793,310
Others	495,976	490,434
	<b>231,136,917</b>	<b>233,652,366</b>

The Group recognized loss of inventory valuation write-down of W23,091,914 thousand for the year ended December 31, 2012(2013: nil).

### 14. Trade and Other Receivables

#### (1) Trade and other receivables as of December 31, 2013 and 2012 are summarized as follows:

(In thousands of won)

	December 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Trade receivables	166,313,781	-	172,610,038	-
Other receivables	47,099,067	-	20,442,442	-
Accrued income	1,958,325	6,934	1,727,087	7,646
Guarantee deposits	911,264	11,628,707	836,121	12,280,140
Loans	25,002,340	-	42,961,492	-
Others	162,086	-	306,757	-
	<b>241,446,863</b>	<b>11,635,641</b>	<b>238,883,937</b>	<b>12,287,786</b>

#### (2) Trade and other receivables have been reported in the consolidated statements of financial position as follows:

(In thousands of won)

	December 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Gross trade and other receivables	267,097,636	11,635,641	260,813,709	12,287,786
Allowance account:				
- Trade receivables	(20,047,497)	-	(15,449,936)	-
- Other receivables	(5,603,276)	-	(6,479,836)	-
	(25,650,773)	-	(21,929,772)	-
Net trade and other receivables	<b>241,446,863</b>	<b>11,635,641</b>	<b>238,883,937</b>	<b>12,287,786</b>

#### (3) Changes in the allowance accounts for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013	2012
Balance at beginning of year	21,929,772	17,886,268
Write - off	(4,107,331)	(1,433,010)
Impairment	7,828,332	5,534,857
Reversal of impairment	-	(60,267)
Reclassification as held for sale	-	1,924
Balance at end of year	<b>25,650,773</b>	<b>21,929,772</b>

Impairment losses and reversal of impairment losses on trade and other receivables are included as part of selling expense and other expenses in the consolidated statements of comprehensive income.

#### (4) Details of trade and other receivables that are measured at amortized cost are as follows:

(In thousands of won)

	December 31, 2013		December 31, 2012	
	Effective interest rate	Non-current	Effective interest rate	Non-current
Guarantee deposits	2.51%~4.98%	11,927,000	2.75%~4.19%	12,849,242
Less discount		(298,293)		(569,102)
		<b>11,628,707</b>		<b>12,280,140</b>

There is no material difference between the carrying amount and their amortized cost except the above trade and other receivables, due to the short-term maturity of the majority of trade and other receivables.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### 15. Cash and Cash Equivalents and Restricted Deposits

(1) Cash and cash equivalents as of December 31, 2013 and 2012 are summarized as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
Cash on hand	287,194	314,070
Demand deposits	232,891,949	211,158,382
	<b>233,179,143</b>	<b>211,472,452</b>

(2) Deposits which are restricted in use for expenditures for certain business purposes as of December 31, 2013 and 2012 are summarized as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
Deposits	89,602,075	62,184,615

### 16. Other Assets

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

(In thousands of won)

	December 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Prepayments	54,014,151	-	91,425,251	-
Prepaid expenses	6,577,352	42,231,760	5,947,648	42,452,472
Others	16,173,050	16,094,618	6,295,617	8,102,325
	<b>76,764,553</b>	<b>58,326,378</b>	<b>103,668,516</b>	<b>50,554,797</b>

### 17. Share Capital and Share Premium

(1) Details of share capital as of December 31, 2013 and 2012 are as follows:

(In won, except number of shares)

	December 31, 2013	December 31, 2012
Number of ordinary shares:		
- Authorized	48,000,000	48,000,000
- Issued	5,971,135	5,966,890
- Share capital	29,855,675,000	29,834,450,000
Par value	5,000	5,000

(2) Changes in the share capital and share premium for the years ended December 31, 2013 and 2012 are as follows:

(In won, except number of shares)

Number of shares	December 31, 2013			December 31, 2012		
	Ordinary shares	Share capital	Share premium	Ordinary shares	Share capital	Share premium
Beginning of year	5,966,890	29,834,450	64,461,578	5,964,865	29,824,325	63,951,231
Issuance of ordinary shares upon exercise of stock options	4,245	21,225	1,119,762	2,025	10,125	510,347
End of year	5,971,135	29,855,675	65,581,340	5,966,890	29,834,450	64,461,578

### 18. Treasury Shares

Details of treasury shares as of December 31, 2013 and 2012 are as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
Treasury shares held by Controlling Company	16,588,756	16,588,756
Treasury shares held by subsidiary	142,773	142,773
	<b>16,731,529</b>	<b>16,731,529</b>

### 19. Other Capital

Details of other capital as of December 31, 2013 and 2012 are as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
Changes from equity transaction	(58,240)	(1,354,915)
Changes in fair value of available-for sale financial assets	(477,175)	(459,728)
Stock options	497,435	1,316,066
Exchange differences on translating foreign operations	(12,607,241)	(12,058,537)
Share of other comprehensive income of associates	513,051	762,834
Others	239,804	(50,349)
	<b>(11,892,366)</b>	<b>(11,844,629)</b>

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### 20. Reserves

(1) Details of reserves as of December 31, 2013 and 2012 are as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
Legal reserve	46,173,095	35,972,045
Voluntary reserve	595,700,000	609,700,000
	<b>641,873,095</b>	<b>645,672,045</b>

#### (2) Legal Reserve

The Korean Commercial Code requires the Group to appropriate a legal reserve at the minimum 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to ordinary shares in connection with a free issue of shares.

### 21. Retained Earnings

(1) Changes in retained earnings for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013	2012
Balance at beginning of year	273,104,475	327,429,080
Profit for the year	145,694,946	151,607,961
Actuarial losses, net of tax	7,362,700	(3,676,830)
Dividends	(15,772,971)	(15,766,896)
Transfer from voluntary reserve	18,000,000	-
Transfer to legal reserve	(10,201,050)	(13,595,274)
Transfer to voluntary reserve	(4,000,000)	(171,000,000)
Others	(195,632)	(1,893,566)
Balance at end of year	413,992,468	273,104,475

(2) Statements of appropriation of retained earnings for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013	2012
<b>I. Unappropriated retained earnings</b>	28,660,157	12,801,128
Unappropriated retained earnings	11,028,157	10,482,266
Net income	10,930,388	5,837,203
Actuarial losses	6,701,612	(3,518,341)
<b>II. Transfer from voluntary reserves</b>	3,333,333	18,000,000
Reserve for voluntary reserve	2,000,000	18,000,000
Reserve for research and human development reserves	1,333,333	-
<b>III. Total (I + II)</b>	31,993,490	30,801,128
Appropriation of retained earnings	19,785,706	19,772,971
Voluntary reserves	4,000,000	4,000,000
Dividends	15,785,706	15,772,971
<b>IV. Unappropriated retained earnings to be carried over to subsequent year</b>	12,207,784	11,028,157

Statements of appropriation of retained earnings above are prepared based on separate financial statements of the Controlling Company.

### 22. Earnings per Share

(1) Basic earnings per share

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

(In won, except share information)

	2013	2012
Profit for the year from continuing operations attributable to owners of the Group	145,694,946,059	153,388,351,648
Weighted-average number of ordinary shares outstanding	5,260,204	5,256,580
<b>Basic earnings per share from continuing operations</b>	<b>27,698</b>	<b>29,180</b>

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### (2) Diluted earnings per share

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

(In won, except share information)

	2013	2012
Profit for the year from continuing operations attributable to owners of the Group	145,694,946,059	153,388,351,648
Adjusted Profit for the year attributable to owners of the Group	145,694,946,059	153,388,351,648
Weighted-average number of ordinary shares outstanding and common equivalent shares	5,266,402	5,265,370
<b>Diluted earnings per share from continuing operations</b>	<b>27,665</b>	<b>29,132</b>

### (3) Diluted weighted average number of ordinary shares

	2013	2012
Basic weighted average number of ordinary shares	5,260,204	5,256,580
Effect of share options on issue	6,198	8,790
<b>Diluted weighted average number of ordinary shares</b>	<b>5,266,402</b>	<b>5,265,370</b>

### (4) Earnings per share of discontinued operation

(In won)

	2013	2012
Basic and diluted earnings per share	-	[339]

## 23. Share-based Payments

(1) The terms and conditions of grants as of December 31, 2013 are as follows:

(In won, except number of shares)

Arrangement	Equity or cash settled					
	2005.1.28	2006.1.31	2007.3.23	2008.3.12	2009.2.27	
Date of grant	2005.1.28	2006.1.31	2007.3.23	2008.3.12	2009.2.27	
Number of options granted	1,348	1,073	1,594	448	1,429	
Exercise price	113,100	255,120	235,500	187,500	149,800	
Contractual life	10 years	10 years	10 years	10 years	10 years	
Vesting conditions	3 years' service	3 years' service	3 years' service	3 years' service	3 years' service	

### (2) Inputs for measurement of grant-date fair values

The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

(In won)

Arrangement	Inputs				
Date of grant	2005.1.28	2006.1.31	2007.3.23	2008.3.12	2009.2.27
Exercise price	113,100	255,120	235,500	187,500	149,800
Expected volatility	44.2%	42.2%	40.0%	39.5%	47.8%
Option life (expected weighted average life)	6 years	6 years	6 years	6 years	6 years
Expected dividend	0.7%	0.4%	0.4%	0.8%	1.1%
Risk-free interest rate	4.80%	5.40%	4.90%	5.40%	5.20%

## 24. Derivative Instruments and Hedge Accounting

(1) Details of interest rate swaps and future contract outstanding as of December 31, 2013 and 2012 are summarized as follows:

(In thousands of won)

Bank	Item	December 31, 2013			Expiration
		Principal	Buying Rate	Selling Rate	
Korean Exchange Bank	Short-term borrowings	USD 3,500,000	LIBOR(1M) + 1.65%	2.08%	2014.06.19

Counter party	Commodity	Contract unit	Selling Currency	Exchange Rate	Expiration
Samsung futures	Australian Dollar	AUD 1,000,000	USD 887,800	0.8878	2014.03.17

(In thousands of won)

Bank	Item	December 31, 2012			Expiration
		Principal	Buying Rate	Selling Rate	
Korean Exchange Bank	Short-term borrowings	USD 3,500,000	LIBOR(1M) + 2.64%	3.34%	2013.07.05

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### (2) Details of losses on valuation of derivatives for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

2013			
Type	Item	Valuation	Recognition
Trading purpose	Interest rate swaps	(3,658)	Net income

(In thousands of won)

2012			
Type	Item	Valuation	Recognition
Trading purpose	Interest rate swaps	(9,126)	Net income

(3) Losses on disposals of derivatives in 2013 and 2012 are ₩39,399 thousand and ₩357 thousand, respectively, and gains on disposals in 2013 and 2012 are ₩9,126 thousand and ₩11,715 thousand, respectively, which are recognized in profit or loss.

## 25. Trade and Other Payables

### (1) Trade and other payables as of December 31, 2013 and 2012 are summarized as follows:

(In thousands of won)

	December 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Trade payables	111,029,849	-	110,343,841	-
Other payables	212,492,393	-	151,100,367	-
Withholdings	60,912,282	-	61,858,439	-
Accrued expenses	14,738,914	-	17,268,282	-
Deposits received	-	2,715,564	1,600,000	1,723,910
Others	22,784	-	52,652	-
	<b>399,196,222</b>	<b>2,715,564</b>	<b>342,223,581</b>	<b>1,723,910</b>

### (2) Details of trade and other payables that are measured at amortized cost as of December 31, 2013 and 2012 are as follows:

(In thousands of won)

	December 31, 2013		December 31, 2012	
	Effective interest rate	Non-current	Effective interest rate	Non-current
Deposits received	2.77%~3.52%	2,762,507	2.82%~4.19%	1,765,619
Less discount		(46,943)		(41,709)
		<b>2,715,564</b>		<b>1,723,910</b>

There is no material difference between the carrying amount and their amortized cost except the above trade and other payables, due to the short-term maturity of the majority of trade and other payables.

## 26. Borrowings and Debentures

### (1) Loans, borrowings and debentures as of December 31, 2013 and 2012 are summarized as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
<b>Non-current</b>		
Debentures	280,000,000	320,000,000
Less discount	(769,713)	(1,092,914)
Long-term debts	246,038,440	257,801,951
	<b>525,268,727</b>	<b>576,709,037</b>
<b>Current</b>		
Current portion of debentures	40,000,000	-
Less discount	(6,085)	-
Current portion of long-term debts	130,812,841	95,756,669
Short-term borrowings	413,151,978	304,930,152
	<b>583,958,734</b>	<b>400,686,821</b>
	<b>1,109,227,461</b>	<b>977,395,858</b>

### (2) Terms and conditions of debentures as of December 31, 2013 and 2012 are as follows:

(In thousands of won)

	Maturity	Interest rate	December 31, 2013	December 31, 2012
Controlling Company	94th	2014-02-07	4.52%	40,000,000
	95th	2016-06-09	4.30%	80,000,000
	96th-1	2015-03-05	3.93%	40,000,000
	96th-2	2017-03-05	4.13%	60,000,000
	97th	2017-11-26	3.27%	100,000,000
			<b>320,000,000</b>	<b>320,000,000</b>
Less current portion of debentures			(40,000,000)	-
			<b>280,000,000</b>	<b>320,000,000</b>

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### (3) Terms and conditions of long-term debts as of December 31, 2013 and 2012 are as follows:

(In thousands of won)

	Maturity	Interest rate	Currency	December31, 2013	December31, 2012
The export- Import Bank of Korea	2014	LIBOR(3M)+3.70%	USD	20,433,338	31,006,817
	2013	5.83%	KRW	-	6,000,000
Kookmin Bank	2018	LIBOR(3M)+3.50%	USD	10,614,093	-
	2022	2.70%	KRW	631,455	638,886
Shinhan Bank	2013	5.70~5.75%	KRW	-	23,500,000
	2014	4.46%	KRW	-	3,187,000
	2015	3.50%	KRW	7,187,000	-
	2016	3.55%	KRW	15,500,000	-
Korea Exchange Bank	2014	LIBOR(3M)+3.20%	USD	4,234,452	-
	2015	LIBOR(3M)+3.20%	USD	4,234,452	8,594,320
Hana Bank	2013	4.82%	USD	-	7,562,462
	2015	LIBOR(3M)+2.65%	USD	36,983,385	37,634,543
	2016	6.09%	CNY	15,668,100	-
	2016	LIBOR(3M)+2.15%	USD	31,842,280	-
Industrial & Commercial Bank of China	2013	5.76%	CNY	-	2,578,200
	2014	5.76%	CNY	-	3,437,600
	2015	6.40%	CNY	6,559,711	12,911,626
Korea Development Bank	2015	3.46~3.47%	USD	4,033,496	-
	2013	5.84%	CNY	-	5,156,400
	2013	LIBOR(3M)+2.10%	USD	-	10,803,517
	2013	4.95%	KRW	-	30,000,000
	2014	5.89%	CNY	5,118,246	-
	2014	LIBOR(3M)+2.10~3.47%	USD	58,820,963	64,159,031
	2015	LIBOR(3M)+3.6~4.06%	USD	82,066,912	83,592,438
2016	5.97%	CNY	12,780,311	-	
2016	LIBOR(3M)+2.7~2.85%	USD	10,600,112	-	
DBS Bank	2014	LIBOR(3M)+2.00%	USD	22,401,365	22,795,780
Industrial Bank of Korea	2016	LIBOR(3M)+2.70%	USD	10,614,093	-
Woori Bank	2016	3.46%	KRW	7,000,000	-
European Investment Bank	2014	LIBOR(3M)+2.6%	USD	9,527,517	-
				<b>376,851,281</b>	<b>353,558,620</b>
<b>Less current portion</b>				<b>(130,812,841)</b>	<b>(95,756,669)</b>
				<b>246,038,440</b>	<b>257,801,951</b>

### (4) Short-term borrowings as of December 31, 2013 and 2012 are as follows:

(In thousands of won)

	Interest rate	Currency	December 31, 2013	December 31, 2012
Kookmin Bank	1.24~1.74%	USD	1,952,429	1,381,644
	1.63%	EUR	-	51,099
	3.38%	KRW	25,000,000	40,000,000
NH Bank	1.11%	USD	-	207,933
	3.42%~4.12%	KRW	32,070,773	30,317,117
Shinhan Bank	5.10%~5.60%	CNY	15,668,100	8,572,701
	LIBOR(3M)+2.90~3.24%	USD	12,902,824	9,347,280
	1.24%~1.25%	USD	1,253,240	3,717,777
	1.16%~1.27%	EUR	2,544,430	909,664
The export- Import Bank of Korea	LIBOR(3M)+2.90%	AUD	-	292,484
	LIBOR(3M)+1.45%	USD	5,307,047	5,401,759
	LIBOR(3M)+1.2~2.4%	USD	27,551,291	28,040,587
Korea Development Bank	3.86%	KRW	30,000,000	-
	5.40%	CNY	2,747,320	-
Hana Bank	LIBOR(3M)+1.60~2.50%	USD	28,677,489	14,845,221
	6.91%	KRW	-	1,000,000
Industrial Bank of Korea	LIBOR(3M)+1.9~2.7%	USD	32,379,082	3,435,303
	LIBOR(3M)+1.90%	USD	-	6,989,217
Bank of Communications	5.35%	CNY	8,704,500	-
Korea Exchange Bank	6.00%	CNY	-	11,438,116
Agriculture bank of China	LIBOR(3M)+1.25~3.2%	USD	33,913,298	25,791,883
	5.04%	CNY	3,481,800	3,437,600
Woori Bank	2.33%~2.85%	USD	3,048,113	4,992,838
	2.57%~2.76%	EUR	1,187,205	917,290
HSBC	LIBOR(3M)+2.5%	USD	12,268,626	24,008,552
	3.38%~4.98%	KRW	9,000,000	-
Industrial & Commercial Bank of China	BLR+1.5%	USD	22,780,917	1,556,807
	5.1%~5.7%	CNY	12,186,300	-
Standard Chartered Bank	5.04%	CNY	5,222,700	20,969,360
	2.63~2.67%	EUR	714,061	251,937
Sumitomo Bank	2.74~2.89%	USD	7,026,374	1,748,986
	COF(1M)+2.5%	USD	-	4,278,997
Korean Agro-Fisheries&Food Trade Corporation	3.50~4.00%	KRW	-	1,028,000
Industrial Bank of Korea Capital	1.00~6.00%	KRW	-	3,000,000
Dreambuild Ltd. #4	4.11%	KRW	41,000,000	47,000,000
DBS Bank	3.04%	USD	2,122,818	-
China CITIC Bank	2.75%	USD	2,441,241	-
Meritz Securities Co., Ltd.	2.73%~2.78%	KRW	30,000,000	-
			<b>413,151,978</b>	<b>304,930,152</b>

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

(5) The following assets were pledged as collateral for the Group's accounts and notes payable – trade, short-term borrowings, long-term debts and debentures as of December 31, 2013:

(In thousands of won)

Asset	Lender	Type of borrowings	Borrowing amount		Book value		Collateralized amount	
Land and buildings	Kookmin Bank	Short & Long-term borrowing	KRW	631,455	KRW	1,777,468	KRW	1,209,600
Construction-in-progress	Woori Bank	Long-term borrowing	KRW	6,000,000	KRW	16,439,214	KRW	7,200,000
Buildings and Machinery	Shinhan Bank	Short-term borrowing	KRW	2,930,881	KRW	9,370,980	KRW	9,370,980
			USD	2,777,296	USD	8,879,920	USD	8,879,920
Inventories	HSBC	Short-term borrowing	KRW	1,547,801	KRW	15,211,295	KRW	15,211,295
			USD	1,466,693	USD	14,414,191	USD	14,414,191
			KRW	11,110,137			KRW	32,991,875
			USD	4,243,989			USD	23,294,111

### 27. Employee Benefits

The Group operates defined benefit plan. According to this plan, the Group pays retirement benefits calculated under the plan's benefit formula at the time employees leave the Group. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method.

(1) The retirement benefits expense for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013	2012
Contributions to defined contribution plans	2,413,042	5,497,643
Expenses related to post-employment defined benefit plans	11,753,786	9,845,423
	<b>14,166,828</b>	<b>15,343,066</b>

(2) The components of retirement benefits for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013	2012
Defined benefit costs:	11,340,280	9,718,895
- Current service costs	413,506	126,528
- Interest costs, net	<b>11,753,786</b>	<b>9,845,423</b>

(3) Changes in net defined benefit liability for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2013	2012	2013	2012	2013	2012
Balance at January 1	62,547,845	53,761,092	(49,539,465)	(41,196,772)	13,008,380	12,564,320
Included in profit or loss:						
Current service costs	11,340,280	9,718,895	-	-	11,340,280	9,718,895
Interest costs (incomes)	1,980,133	1,971,712	(1,566,627)	(1,845,184)	413,506	126,528
	<b>13,320,413</b>	<b>11,690,607</b>	<b>(1,566,627)</b>	<b>(1,845,184)</b>	<b>11,753,786</b>	<b>9,845,423</b>
Included in other comprehensive income:						
Remeasurements loss (gain)						
- Actuarial loss (gain) arising from:						
Experience adjustment	(251,306)	1,008,111	-	-	(251,306)	1,008,111
Demographic assumptions	736,165	2,202,991	-	-	736,165	2,202,991
Financial assumptions	(10,108,824)	1,376,016	-	-	(10,108,824)	1,376,016
- Return on plan assets excluding interest income	-	-	(78,384)	146,450	(78,384)	146,450
	<b>(9,623,965)</b>	<b>4,587,118</b>	<b>(78,384)</b>	<b>146,450</b>	<b>(9,702,349)</b>	<b>4,733,568</b>
Other:						
Contributions paid by the employer	-	-	(7,592,051)	(11,526,468)	(7,592,051)	(11,526,468)
Benefits paid	(8,417,982)	(7,490,972)	7,941,312	4,882,509	(476,670)	(2,608,463)
	<b>(8,417,982)</b>	<b>(7,490,972)</b>	<b>349,261</b>	<b>(6,643,959)</b>	<b>(8,068,721)</b>	<b>(14,134,931)</b>
Balance at December 31	57,826,311	62,547,845	(50,835,215)	(49,539,465)	6,991,096	13,008,380

(4) The components of plan assets as of December 31, 2013 and 2012 are as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
Equity securities	7,852,671	5,413,119
Debt securities	31,816,912	29,886,420
Others	11,165,632	14,239,926
	<b>50,835,215</b>	<b>49,539,465</b>

(5) The principal actuarial assumptions as of December 31, 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Discount rate	3.70%~3.95%	3.33%~3.58%
Future salary growth	4.00%~7.00%	4.00%~7.91%

For the purpose of calculating present value of defined benefit obligation, the Group used the discount rate determined based on the yield rate of bonds with good ratings which are in line with defined benefit obligations in terms of currency and maturity.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

(6) Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

(In thousands of won)

	2013	
	1% increase	1% decrease
Discount rate	(3,554,204)	4,012,770
Future salary growth	4,023,266	(3,628,603)

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

(7) At December 31, 2013, the weighted-average duration of the defined benefit obligation was 7.47 years.

## 28. Other Liabilities

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

(In thousands of won)

	December 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Advances received	87,382,012	-	77,942,068	-
Unearned revenue	543,607	46,359	767,117	17,983
Provision for loss on sales return	4,469,430	-	4,958,713	-
Others	1,454,102	652,381	1,097,787	638,792
	<b>93,849,151</b>	<b>698,740</b>	<b>84,765,685</b>	<b>656,775</b>

## 29. Sales and Cost of Sales

Sales and cost of sales for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013	2012
<b>Sales:</b>		
Confectionary	2,115,822,378	1,982,365,284
Sports/Leisure	252,160,978	290,364,464
Entertainment	109,230,985	89,378,046
Construction	7,981,589	5,924,803
	<b>2,485,195,930</b>	<b>2,368,032,597</b>
<b>Cost of sales:</b>		
Confectionary	1,114,559,431	1,065,603,372
Sports/Leisure	193,421,003	183,906,132
Entertainment	92,708,724	70,898,912
Construction	7,234,741	28,002,203
	<b>1,407,923,899</b>	<b>1,348,410,619</b>

## 30. Selling Expenses and General and Administrative Expenses

(1) Details of selling expenses for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013	2012
Salaries	163,281,492	141,856,779
Retirement and termination benefits	6,915,665	6,133,381
Employee welfare	19,076,058	18,508,680
Travel expenses	10,813,575	9,164,446
Taxes and dues	11,969,279	11,460,381
Rental expenses	20,903,382	17,446,559
Depreciation	6,142,300	5,639,055
Amortization	1,239,624	1,204,635
Advertising expenses	114,593,829	113,420,373
Ordinary development expense	2,014,879	2,755,985
Freight and custody	88,841,318	78,423,001
Commissions	47,178,505	44,902,818
Promotion	132,381,300	108,428,967
Bad debt expenses	7,828,332	5,534,526
Others	36,610,449	42,042,024
	<b>669,789,987</b>	<b>606,921,610</b>



## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

(2) Details of general and administrative expenses for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013	2012
Salaries	74,989,044	68,126,112
Retirement and termination benefits	4,271,228	6,232,239
Employee welfare	11,044,320	9,374,316
Travel expenses	2,915,344	2,961,173
Taxes and dues	13,228,872	6,651,788
Rental expenses	4,806,311	3,987,382
Depreciation	6,900,687	6,010,599
Amortization	1,443,648	10,868,443
Vehicle maintenance expenses	1,624,130	1,760,985
Commissions	16,009,446	19,873,783
Others	11,469,508	13,121,746
	<b>148,702,538</b>	<b>148,968,566</b>

### 31. Nature of Expenses

Details of nature of expenses for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013		Total
	Cost of sales	Selling, general and administrative expense	
Raw materials and consumables used	826,775,280	-	826,775,280
Changes in inventories of finished goods and merchandise	2,584,211	-	2,584,211
Employee benefits expense	117,016,057	249,457,429	366,473,486
Depreciation and amortization	122,933,421	15,726,259	138,659,680
Service fees	16,510,458	63,187,951	79,698,409
Advertising expenses	-	114,593,829	114,593,829
Freight and custody	1,094,414	88,841,318	89,935,732
Others	321,010,058	286,685,739	607,695,797
	<b>1,407,923,899</b>	<b>818,492,525</b>	<b>2,226,416,424</b>

### 31. Nature of Expenses, Continued

Details of nature of expenses for the years ended December 31, 2013 and 2012 are as follows, continued:

(In thousands of won)

	2012		Total
	Cost of sales	Selling, general and administrative expense	
Raw materials and consumables used	772,956,193	-	772,956,193
Changes in inventories of finished goods and merchandise	37,580,665	-	37,580,665
Employee benefits expense	111,382,111	250,231,508	361,613,619
Depreciation and amortization	101,076,437	23,722,732	124,799,169
Service fees	174,432,298	64,776,601	239,208,899
Advertising expenses	3,101	113,420,373	113,423,474
Freight and custody	1,632,618	78,423,001	80,055,619
Others	149,347,196	225,315,961	374,663,157
	<b>1,348,410,619</b>	<b>755,890,176</b>	<b>2,104,300,795</b>

### 32. Other Income and Other Expenses

Details of other income and other expenses for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013	2012
<b>Other income:</b>		
Foreign currency transaction gain	1,142,138	504,342
Foreign currency translation gain	4,733,794	2,318,212
Gain on sale of property, plant and equipment	5,377,442	2,152,133
Others	7,362,973	6,539,991
	<b>18,616,347</b>	<b>11,514,678</b>
<b>Other expenses:</b>		
Foreign currency transaction loss	2,340,040	1,017,186
Foreign currency translation loss	2,860,105	4,546,027
Impairment of goodwill	-	4,264,936
Impairment of other assets	17,259	1,771,667
Loss on sale of property, plant and equipment	2,933,064	3,390,333
Loss on sale of intangible assets	396	182,640
Impairment loss on intangible assets	2,061,813	1,750,261
Donation	5,978,609	2,024,597
Others	9,019,766	4,109,602
	<b>25,211,052</b>	<b>23,057,249</b>
<b>Net other expenses</b>	<b>(6,594,705)</b>	<b>(11,542,571)</b>

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### 33. Net Finance Cost

Details of net finance costs for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013	2012
<b>Finance income:</b>		
Interest income	9,098,988	10,159,180
Dividend income	452	1,510
Foreign currency transaction gain	1,478,960	7,549,657
Foreign currency translation gain	7,471,547	10,163,757
Gain on disposal of available-for-sale financial assets	-	620
Gain on derivatives transactions	9,126	11,715
	18,059,073	27,886,439
<b>Finance cost:</b>		
Interest expense	37,678,885	38,421,869
Foreign currency transaction loss	1,820,120	8,663,002
Foreign currency translation loss	4,830,786	5,496,090
Impairment loss on available-for-sale financial assets	-	393,714
Loss on disposal of available-for-sale financial assets	-	1,951
Loss on derivatives valuation	3,658	9,126
Loss on derivatives transactions	39,399	356
	44,372,848	52,986,108
<b>Net finance cost</b>	<b>(26,313,775)</b>	<b>(25,099,670)</b>

### 34. Financial Income and Cost by Categories

(1) The carrying amount and the fair value of financial instruments as of December 31, 2013 and 2012 are summarized as follows:

(In thousands of won)

	December 31, 2013		December 31, 2012	
	Carrying amount	Fair Value	Carrying amount	Fair Value
<b>Asset:</b>				
Loans and receivables	770,208,266	-	706,632,284	-
Available-for-sale financial assets	43,626	43,626	37,771	37,771
Available-for-sale financial assets (Unlisted)	13,287,681	-	10,848,745	-
Held-to-maturity investments	4,232,085	-	2,922,475	-
<b>Total asset</b>	<b>787,771,658</b>	<b>43,626</b>	<b>720,441,275</b>	<b>37,771</b>
<b>Liabilities:</b>				
Derivative liabilities	3,658	3,658	9,126	9,126
Financial liabilities measured at amortized cost	1,511,139,248	-	1,321,343,349	-
<b>Total liabilities</b>	<b>1,511,142,906</b>	<b>3,658</b>	<b>1,321,352,475</b>	<b>9,126</b>

(2) Finance income and cost by categories for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013			
	Net income		Other comprehensive income	Total comprehensive income
	Finance income	Finance cost		
<b>Assets</b>				
Loans and receivables	9,086,646	-	-	9,086,646
Available-for-sale financial assets	452	-	12,011	12,463
Held-to-maturity financial assets	12,342	-	-	12,342
	9,099,440	-	12,011	9,111,451
<b>Liabilities</b>				
Derivative liabilities	9,126	(43,057)	-	(33,931)
Financial liabilities measured at amortized cost	-	(37,678,885)	-	(37,678,885)
	9,126	(37,721,942)	-	(37,712,816)
	9,108,566	(37,721,942)	12,011	(28,601,365)

(In thousands of won)

	2012			
	Net income		Other comprehensive income	Total comprehensive income
	Finance income	Finance cost		
<b>Assets</b>				
Loans and receivables	10,013,220	(35,368)	-	9,977,852
Available-for-sale financial assets	2,139	(395,665)	(86,164)	(479,690)
Held-to-maturity financial assets	19,694	-	-	19,694
	10,035,053	(431,033)	(86,164)	9,517,856
<b>Liabilities</b>				
Derivative liabilities	11,715	(9,483)	-	2,232
Financial liabilities measured at amortized cost	126,257	(38,386,501)	-	(38,260,244)
	137,972	(38,395,984)	-	(38,258,012)
	10,173,025	(38,827,017)	(86,164)	(28,740,156)

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

(3) The fair value measurements classified by fair value hierarchy as of December 31, 2013 and 2012 were as follows:

(In thousands of won)

	Level 1	Level 2	Level 3	Total
<b>As of December 31, 2013:</b>				
Available-for-sale financial assets	43,626	-	-	43,626
Derivative liabilities	-	3,658	-	3,658
<b>As of December 31, 2012:</b>				
Available-for-sale financial assets	37,771	-	-	37,771
Derivative liabilities	-	9,126	-	9,126

### 35. Construction Contracts

(1) Changes in construction contracts for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013	2012
Balance at beginning of year	1,276,849	2,523,983
Contracts	2,600,000	-
	3,876,849	2,523,983
Profit recognized	(1,874,853)	(1,247,134)
Balance at end of year	2,001,996	1,276,849

(2) Details of construction contracts for the year ended December 31, 2013 are as follows:

(In thousands of won)

Construction site	Ordering organization	Gross contract amount
Markhills	EV&A Corporation, Yuyeon D&C	2,600,000

### 36. Income Taxes

(1) The components of income tax expense (benefit) for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013	2012
Current income tax expense	65,424,734	67,091,184
Adjustment for prior periods	4,763,802	(2,067,628)
Origination and reversal of temporary differences	(1,491,520)	(16,795,959)
Income tax recognized in other comprehensive income	(2,825,480)	957,272
<b>Total income tax expense</b>	<b>65,871,536</b>	<b>49,184,869</b>

(2) Income taxes recognized directly in other comprehensive income for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013	2012
<b>Current:</b>		
Defined benefit plan actuarial gains/losses	(2,245,115)	1,125,346
<b>Deferred:</b>		
Gains/losses on valuation of available-for-sale securities	(7,967)	10,726
Shares of other comprehensive income of associate companies	(9,556)	9,705
Cumulative effect of foreign currency translation	7,740	102,570
Gains from changes in ownership interest in subsidiaries	(570,582)	(291,075)
<b>Income tax recognized directly in other comprehensive income</b>	<b>(2,825,480)</b>	<b>957,272</b>

(3) Reconciliation of effective tax rate:

(In thousands of won)

	2013	2012
Profit before income tax	226,112,394	224,145,685
Income tax using the Company's statutory tax rate	56,665,613	50,510,256
Non-deductible expense	4,671,820	1,564,832
Tax credits	(3,646,151)	(1,088,082)
Adjustments for prior periods	4,763,802	(2,067,628)
Tax effects of temporary differences for which no deferred tax assets (liabilities) are recognized	2,642,902	(2,393,694)
Other	773,550	2,659,185
Income tax expenses	65,871,536	49,184,869
Average effective tax rate	29.13%	21.87%

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### (4) Changes in deferred tax assets and liabilities for the years ended December 31, 2013 and 2012 are as follows:

(In thousands of won)

	2013				
	Beginning balance	Profit or loss	Other comprehensive income	Others	Ending balance
Bad debt expense	787,491	2,485,432	-	-	3,272,923
Allowance for sales returns	1,165,298	(114,982)	-	-	1,050,316
Voluntary reserve	(2,820,000)	(626,667)	-	-	(3,446,667)
Depreciation	(25,721,152)	(4,586,738)	-	-	(30,307,890)
Defined benefit liability	325,283	(123,481)	-	-	201,802
Land	(16,528,814)	8,324	-	-	(16,520,490)
Investments in subsidiaries	(28,821,984)	4,725,430	-	-	(24,096,554)
Reserve for gain on investment in kind	(11,004,705)	5,502,352	-	-	(5,502,353)
Other adjustment for consolidation	14,537,105	(5,203,266)	(580,365)	5,481	8,758,955
	<b>(68,081,478)</b>	<b>2,066,404</b>	<b>(580,365)</b>	<b>5,481</b>	<b>(66,589,958)</b>

(In thousands of won)

	2012				
	Beginning balance	Profit or loss	Other comprehensive income	Others	Ending balance
Bad debt expense	2,765,055	(1,977,564)	-	-	787,491
Allowance for sales returns	1,192,149	(26,851)	-	-	1,165,298
Voluntary reserve	(1,880,000)	(940,000)	-	-	(2,820,000)
Depreciation	(11,831,814)	(13,889,338)	-	-	(25,721,152)
Defined benefit liability	408,035	(82,752)	-	-	325,283
Land	(17,028,583)	499,769	-	-	(16,528,814)
Investments in subsidiaries	(30,311,721)	1,489,737	-	-	(28,821,984)
Reserve for gain on investment in kind	(16,507,058)	5,502,353	-	-	(11,004,705)
Other adjustment for consolidation	(12,251,805)	26,388,797	(168,074)	568,186	14,537,104
	<b>(85,445,742)</b>	<b>16,964,151</b>	<b>(168,074)</b>	<b>568,186</b>	<b>(68,081,479)</b>

(5) The net deferred tax liabilities are reflected in the statements of financial position after offsetting assets and liabilities only if there is the legal right to offset current tax assets and liabilities and they are levied by the same taxing authority.

### (6) The amount of deductible temporary differences for which no recognized as deferred tax assets is recognized as of December 31, 2013 is as follows:

(In thousands of won)

	December 31, 2013
Investment in subsidiaries	139,824,069
Bad debt expense	9,634,648
Tax loss carry forward	25,543,773
Other	68,475,150
	<b>243,477,640</b>

(7) As of December 31, 2013 the amount of total temporary differences related to investments of subsidiaries for which deferred tax liabilities were not recognized is W115,560,511 thousand because the Group is able to control the timing of the reversal of temporary differences.

### (8) The aggregate amounts of tax assets and liabilities as of December 31, 2013 and 2012 before offsetting are as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
Income taxes payable	70,188,536	65,023,556
Prepaid income taxes	(45,904,139)	(36,626,853)
Net income taxes payable	24,284,397	28,396,703

## 37. Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

### (1) Risk management activities

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Finance Department is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### (2) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances.

The Finance Department has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Finance Department; these limits are reviewed quarterly. The carrying amount of financial assets is maximum exposure to credit risk.

The maximum exposure to credit risk as of December 31, 2013 and 2012 is as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
Held-to-maturity financial assets	4,232,085	2,922,475
Short-term and long-term deposits	284,233,812	244,626,145
Trade and other receivables	253,082,504	251,171,723
Cash and cash equivalents	232,891,949	211,158,382
	<b>774,440,350</b>	<b>709,878,725</b>

The aging schedule of trade and other receivables which were past due but not impaired as of December 31, 2013 and 2012 is as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
Within 6 months	9,176,118	7,386,789
Between 6 and 12 months	2,079,956	549,264
Beyond 12 months	109,774	147,183
	<b>11,365,848</b>	<b>8,083,236</b>

### (3) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The maturity analysis of financial liabilities as of December 31, 2013 is as follows:

(In thousands of won)

	Carrying amount	Contractual cash flow	Within 6 months	6-12 months	1-2 years	2-5 years	Beyond 5 years
Debentures and borrowings	1,109,227,461	1,177,021,997	501,186,435	118,174,278	296,054,562	260,955,847	650,875
Trades and other payables	401,911,786	401,916,068	364,736,924	23,157	8,028,420	29,106,567	21,000
	<b>1,511,139,247</b>	<b>1,578,938,065</b>	<b>865,923,359</b>	<b>118,197,435</b>	<b>304,082,982</b>	<b>290,062,414</b>	<b>671,875</b>

The maturity analysis of financial liabilities as of December 31, 2012 is as follows:

(In thousands of won)

	Carrying amount	Contractual cash flow	Within 6 months	6-12 months	1-2 years	2-5 years	Beyond 5 years
Debentures and borrowings	977,395,859	1,066,945,765	278,941,711	160,347,020	156,646,052	470,335,232	675,750
Trades and other payables	343,947,490	343,989,199	336,377,206	54,105	7,323,434	200,388	34,066
	<b>1,321,343,349</b>	<b>1,410,934,964</b>	<b>615,318,917</b>	<b>160,401,125</b>	<b>163,969,486</b>	<b>470,535,620</b>	<b>709,816</b>

The estimated cash flows related to cash flow hedge derivatives as of December 31, 2013 and 2012 are as follows:

(In thousands of won)

	Carrying amount	Contractual cash flow	Within 6 months	Between 6 months and 1 year	Beyond 1 year
<b>As of December 31, 2013:</b>					
Derivative liabilities	3,658	3,658	3,658	-	-
<b>As of December 31, 2012:</b>					
Derivative liabilities	9,126	9,126	9,126	-	-

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### (4) Currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

(In thousands of won)

	USD	JPY	EUR	AUD	CNY	HKD
<b>As of December 31, 2013:</b>						
Cash and cash equivalents	29,883,552	1,260,945	18,491	-	-	2,193,945
Short-term deposits	31,585	-	-	-	-	-
Trade receivables and other receivables	20,838,916	1,805,959	111,841	-	3,091,732	-
Trade payables and other payables	(7,043,242)	(90,525)	(362,433)	-	-	(15,835)
Borrowings	(238,853,639)	-	(2,770,263)	-	-	-
	(195,142,828)	2,976,379	(3,002,364)	-	3,091,732	2,178,110
<b>As of December 31, 2012:</b>						
Cash and cash equivalents	39,902,710	2,274,672	110,705	-	-	-
Short-term deposits	323,966	-	-	-	-	-
Trade receivables and other receivables	16,913,274	5,514,515	265,931	-	-	-
Trade payables and other payables	(8,264,293)	-	(328,832)	-	-	-
Borrowings	(226,706,916)	-	(1,101,335)	(292,484)	-	-
	(177,831,259)	7,789,187	(1,053,531)	(292,484)	-	-

The exchange rates as of December 31, 2013 and 2012 are as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
USD	1,055.30	1,071.10
JPY	10.05	12.48
EUR	1,456.26	1,416.26
AUD	939.96	1,111.43
CNY	174.09	171.88
HKD	136.09	138.18

As of December 31, 2013 and 2012, the effects of a 10% appreciating or depreciating of foreign currencies against functional currency on profit before tax are as follows:

(In thousands of won)

	December 31, 2013		December 31, 2012	
	10% appreciating	10% depreciating	10% appreciating	10% depreciating
USD	(19,514,283)	19,514,283	(17,783,126)	17,783,126
JPY	297,638	(297,638)	778,919	(778,919)
EUR	(300,236)	300,236	(105,353)	105,353
AUD	-	-	(29,248)	29,248
CNY	309,173	(309,173)	-	-
HKD	217,811	(217,811)	-	-
	(18,989,897)	18,989,897	(17,138,808)	17,138,808

### (5) Interest rate risk

At the reporting date the variable rate financial instruments are as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
Short-term borrowings	131,201,276	142,311,424
Long-term debts	172,126,645	271,305,310
	303,327,921	413,616,734

As of December 31, 2013 and 2012 the effects of a 100bp fluctuation of the interest rates on profit (loss) except long-term debts hedged at floating risk were as follows:

(In thousands of won)

	December 31, 2013		December 31, 2012	
	10% increase	10% decrease	10% increase	10% decrease
Profit (loss)	(3,033,279)	3,033,279	(4,136,167)	4,136,167

### (6) Capital management

The Board's policy is to maintain a sound capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity, excluding non-redeemable preference shares and non-controlling interests, for maximizing shareholders' wealth. The Board of Directors also monitors the level of dividends to ordinary shareholders.

As of December 31, 2013 and 2012, the Group defines net debt to equity ratio as follows:

(In thousands of won)

	December 31, 2013	December 31, 2012
Net debt:		
Debts and borrowings	1,109,227,461	977,395,859
Less: Cash and cash equivalents	(233,179,143)	(211,472,452)
	876,048,318	765,923,407
Equity	1,269,276,140	1,127,977,936
Net debt to equity percentage	69.02%	67.90%

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For the years ended December 31, 2013 and 2012

### 38. Financial Commitments and Contingencies

(1) Financial commitments to financial institutions as of December 31, 2013 are as follows:

(In thousands of won)

Lender	Type of commitment		Amount
Kookmin Bank	Usance	USD	10,000,000
	General loan	KRW	5,000,000
	Other	KRW	122,783
Hana Bank	Group purchase card	KRW	40,000,000
	Usance	USD	3,000,000
	General loan	KRW	16,000,000
	Bank overdraft	KRW	3,000,000
	Commercial paper discount	KRW	10,000,000
	Other	KRW	280,000
Nonghyup Bank	Usance	USD	1,000,000
	Bank overdraft	KRW	1,000,000
	Group purchase card	KRW	58,000,000
Shinhan Bank	Usance	USD	18,420,000
	Usance	EUR	2,203,200
	General loan	KRW	36,387,000
	At sight L/C	USD	3,000,000
	Bank overdraft	KRW	5,500,000
	Commercial paper discount	KRW	30,000,000
	Other	KRW	60,000
Woori Bank	General loan	KRW	16,000,000
Citibank	General loan	KRW	10,000,000
Korea Exchange Bank	Usance	USD	8,000,000
	General loan	USD	3,500,000
Standard Chartered	General loan	KRW	30,000,000
Meritz Investment Bank	Commercial paper discount	KRW	60,000,000
Dreambuild Ltd. #4	General loan	KRW	41,000,000
		KRW	362,349,783
		USD	46,920,000
		EUR	2,203,200

(2) As of December 31, 2013, the Group provided guarantees amounting to ₩300 million to the Group's customer for the implementation of contracts.

(3) The Group has been provided guarantees from financial institutes for collecting receivables of local film distributors which are as follows;

(In thousands of won)

Counter party	Guarantor	Amount
Seoul Yongbae Ltd.	Hana Bank	400,000
Taekyung Ltd.	Woori Bank	200,000
Dongbo Cinema Ltd.	Standard Chartered Bank	200,000

(4) The Group has been provided guarantees by Seoul Guarantee Insurance Company for money deposits made post-provisional attachment related to the recourse of investments are as follows;

(In thousands of won)

Insurant	Purpose	Amount
OH Kim and five others	Security provisional attachment	1,183,100

(5) As of December 31, 2013, guarantees of ₩25,658 million are provided to the Group by Shinhan Bank and Seoul Guarantee Insurance Company for the implementation of contracts.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2013 and 2012

### (6) Consignment contract

Consignment contract of Sports Toto co., Ltd. was concluded on February 15, 2001 upon Ministry of Culture and Tourism approval. Since the issuance of Sports Toto was temporally ceased on October 14, 2002 due to business depression, the details of consignment contract were changed to normalize it based on agreement on April 18, 2003.

Additionally, agreements and amendments were entered into to clarify the details of the original contract. The Group extended the contract effective period to September 30, 2012. After expiration date, the contract was further extended to July 2, 2014.

Consignment operating income is collected based on rate determined by the Minister of Culture-Sports at each year since 2007. Since the minimum amount to be settled is ₩3,000 million at the end of each year, ₩971,581 million has been collected in 2013.

The Group issued performance bond whose face value was ₩3,000 million and beneficiary was Korea Sports Promotion Foundation.

The Group takes property insurance of ₩18,873 million as it is compulsory with regard to one contract.

The Group recognized excess of certain amount of revenue as contribution pursuant to the related contract. Contribution is not recognized in 2013.

### (7) The Group takes a performance guarantee insurance to repair defects with a regard to construction contracts.

(8) On July 31, 2013, Mega Mark co., Ltd. of the Group received administrative penalties. As of December 31, 2013, the entity has stopped operating.

### (9) Lawsuit pending

A lawsuit for a damage claim of ₩5,752 million against the Group is pending as of December 31, 2013 and the Group cannot estimate the financial impact from the litigation.

## 39. Related Parties

### (1) Related parties as of December 31, 2013 are as follows, except subsidiaries:

Relationship	Related Company
Associates	Beijing Zhongguan Megabox Cinema Co., Ltd.
	Michigan Global Contents Investment Fund
	Michigan Global Contents Investment Fund #3
	Michigan Global Contents Investment Fund #4
	CJ Global Contents Venture Capital #11
	Gemini Contents Investment Partnership #1
	Hubei Radio&TV Mega Trading Co., Ltd.
Others	Baksugundal Culture Co., Ltd.
	I pack Corp
	Orion drink Corp.
	Prime link international
	Daehan distributor Corp.
	Beijing mega media co., Ltd
	Beijing media tech co., Ltd
Rangbang ae bou packing co., Ltd	
	Stellarway Limited.

### (2) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2013 and 2012 are summarized as follows:

(In thousands of won)

Relationship	Transaction	2013	2012
Associates	Receipt of investment deposits	6,600,000	14,750,000
	Payment of investment deposits	11,075,045	9,715,992
	Settlement of film revenue(cost)	(321,108)	3,690,133
Other	Purchase	67,319,193	79,195,784
	Sale of tangible assets	-	100,000
	Acquisition of tangible assets	21,251,000	-



## Notes to the Consolidated Financial Statements

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### (3) Accounts payable balances with related companies as of December 31, 2013 and 2012 were as follows:

(In thousands of won)

Relationship	December 31, 2013		December 31, 2012	
	Trade payables	Other payables	Trade payables	Other payables
Associates	1,944,253	7,463,183	3,077,438	11,938,229
Other	9,561,564	4,260	12,133,172	4,113
	<b>11,505,817</b>	<b>7,467,443</b>	<b>15,210,610</b>	<b>11,942,342</b>

### (4) Details of key management personnel compensation for the years ended December 31, 2013 and 2012 are summarized as follows:

(In thousands of won)

	2013	2012
Short-term employee benefits	50,118,306	42,031,532
Stock compensation expense	-	2,464
Post-employment benefits	730,637	1,690,160
	<b>50,848,943</b>	<b>43,724,156</b>

## 40. Statements of Cash Flows

Non-cash transactions for years ended December 31 2013 was as follows:

(In thousands of won)

	2013
Reclassification from construction in progress to property, plant and equipment	288,409,031
Reclassification from prepayments to publication right	79,672,981
Transferred from construction in progress to the Korea Sports Promotion Ordinance	16,458,380
Acquisition of property, plant and equipment	2,086,195
Disposal of property, plant and equipment	1,719,901
Disposal of intangible assets	1,374,000

