S-OIL Corporation and Subsidiary

Consolidated Financial Statements

December 31, 2013 and 2012

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Report of Independent Auditors

To the Shareholders and Board of Directors of
S-OIL Corporation

We have audited the accompanying consolidated statements of financial position of S-OIL Corporation and its subsidiary (“the Group”) as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, expressed in Korean won. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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 consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements, referred to above, present fairly, in all material respects, the financial position of S-OIL Corporation and its subsidiary as of December 31, 2013 and 2012, and their financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (“Korean-IFRS”).

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

Samil PricewaterhouseCoopers

Seoul, Korea
March 13, 2014

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

S-OIL Corporation and Subsidiary
Consolidated Statements of Financial Position
December 31, 2013 and 2012

(In millions of Korean won)

	Notes	2013	2012
Assets			
Current assets			
Cash and cash equivalents	7,11	₩ 584,603	₩ 434,414
Trade receivables	8,11	2,160,193	2,293,500
Other receivables	8,11	560,559	726,036
Other current financial assets	9,11	356,751	722,274
Derivative financial instruments	10,11	4,768	10,765
Inventories	12	4,237,915	4,385,878
Other current assets		7,716	8,652
		7,912,505	8,581,519
Non-current assets			
Other receivables	8,11	74,993	74,547
Other non-current financial assets	9,11	92,191	94,543
Investments in jointly controlled entities	13	30,125	29,651
Property, plant and equipment	14,16	3,760,426	3,670,335
Intangible assets	15	46,526	42,881
Other non-current assets		3,969	3,903
		4,008,230	3,915,860
Total assets		₩ 11,920,735	₩ 12,497,379
Liabilities			
Current liabilities			
Trade payables	11,17	₩ 2,328,601	₩ 2,450,410
Other payables	11,17	714,026	662,752
Borrowings	11,18	2,686,599	2,827,009
Derivative financial instruments	10,11	4,503	7,796
Current income tax liabilities		23,264	169,267
Provisions for other liabilities and charges	19	4,216	7,707
Deferred revenues		28,085	28,611
Other current liabilities	17	95,529	121,569
		5,884,823	6,275,121

S-OIL Corporation and Subsidiary
Consolidated Statements of Financial Position
December 31, 2013 and 2012

(In millions of Korean won)	Notes	2013	2012
Non-current liabilities			
Other payables	11,17	17,890	17,356
Borrowings	11,18	519,879	673,230
Retirement benefit obligations	20	9,027	38,444
Deferred income tax liabilities	30	135,109	116,861
Other non-current liabilities	17	-	325
		681,905	846,216
Total liabilities		6,566,728	7,121,337
Equity			
Capital stock	22	291,512	291,512
Capital surplus	22	379,190	379,190
Reserves	25	1,002,396	1,003,090
Treasury stock	23	(1,876)	(1,876)
Retained earnings	24	3,682,785	3,704,126
Total equity		5,354,007	5,376,042
Total liabilities and equity		₩ 11,920,735	₩ 12,497,379

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

S-OIL Corporation and Subsidiary
Consolidated Statements of Comprehensive Income
Years ended December 31, 2013 and 2012

(In millions of Korean won, except per share data)	Notes	2013	2012
Revenue	6	₩ 31,158,528	₩ 34,723,291
Cost of sales	26	(30,229,317)	(33,410,816)
Gross profit		929,211	1,312,475
Selling expenses	27	(475,847)	(445,912)
Administrative expenses	27	(87,320)	(84,799)
Operating income		366,044	781,764
Other income	28	511,185	482,250
Other expenses	28	(537,965)	(706,021)
Finance income	29	290,884	369,502
Finance costs	29	(250,001)	(194,536)
Share of profit of jointly controlled entities	13	7,082	(14,013)
Profit before income tax		387,229	718,946
Income tax expense	30	(97,590)	(133,786)
Profit for the year		₩ 289,639	₩ 585,160
Other comprehensive income (loss), net of tax			
Change in value of available-for-sale financial assets	25	(1,398)	7,929
Cash flow hedges	25	686	1,360
Share of other comprehensive income in jointly controlled entities	25	31	3
Currency translation differences	25	(13)	(67)
Actuarial loss on post employment benefit obligations	20	(2,370)	(18,635)
Total comprehensive income for the year		₩ 286,575	₩ 575,750
Earnings per share			
Basic and diluted earnings per common share	33	₩ 2,487	₩ 5,025
Basic and diluted earnings per preferred share	33	₩ 2,512	₩ 5,050

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

S-OIL Corporation and Subsidiary
Consolidated Statements of Changes in Equity
Years ended December 31, 2013 and 2012

(In millions of Korean won)	Capital Stock	Capital Surplus	Reserves	Treasury Stock	Retained Earnings	Total Equity
Balance as of January 1, 2012	₩ 291,512	₩ 379,190	₩ 993,865	₩ (1,876)	₩ 3,562,633	₩ 5,225,324
Profit for the year					585,160	585,160
Other comprehensive income (loss)						
Change in value of available-for-sale financial assets	-	-	7,929	-	-	7,929
Cash flow hedges	-	-	1,360	-	-	1,360
Share of other comprehensive income of jointly controlled entities	-	-	3	-	-	3
Currency translation difference	-	-	(67)	-	-	(67)
Actuarial loss on post employment benefit obligations	-	-	-	-	(18,635)	(18,635)
Other comprehensive income (loss) for the year	-	-	9,225	-	(18,635)	(9,410)
Total comprehensive income (loss) for the year	-	-	9,225	-	566,525	575,750
Transaction with equity holders of the Parent Company						
Cash dividends to equity holders of the company for 2011	-	-	-	-	(372,642)	(372,642)
Interim dividends to equity holders of the company for 2012	-	-	-	-	(52,390)	(52,390)
Balance as of December 31, 2012	₩ 291,512	₩ 379,190	₩1,003,090	₩ (1,876)	₩ 3,704,126	₩ 5,376,042

S-OIL Corporation and Subsidiary
Consolidated Statements of Changes in Equity
Years ended December 31, 2013 and 2012

(In millions of Korean won)	Capital Stock	Capital Surplus	Reserves	Treasury Stock	Retained Earnings	Total Equity
Balance as of January 1, 2013	₩ 291,512	₩ 379,190	₩ 1,003,090	₩ (1,876)	₩ 3,704,126	₩ 5,376,042
Profit for the year					289,639	289,639
Other comprehensive income (loss)						
Change in value of available-for-sale financial assets	-	-	(1,398)	-	-	(1,398)
Cash flow hedges	-	-	686	-	-	686
Share of other comprehensive income of jointly controlled entities	-	-	31	-	-	31
Currency translation difference	-	-	(13)	-	-	(13)
Actuarial loss on retirement benefit obligations	-	-	-	-	(2,370)	(2,370)
Total comprehensive income (loss) for the year	-	-	(694)	-	287,269	286,575
Transaction with equity holders of the Parent Company						
Cash dividends to equity holders of the company for 2012	-	-	-	-	(256,221)	(256,221)
Interim dividends to equity holders of the company for 2013	-	-	-	-	(52,389)	(52,389)
Balance as of December 31, 2013	₩ 291,512	₩ 379,190	₩ 1,002,396	₩ (1,876)	₩ 3,682,785	₩ 5,354,007

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

S-OIL Corporation and Subsidiary
Consolidated Statements of Cash Flows
Years ended December 31, 2013 and 2012

(In millions of Korean won)	Notes	2013	2012
Cash flows from operating activities			
Cash generated from operations	35	₩ 1,024,016	₩ 1,148,748
Interest received		41,900	40,185
Interest paid		(56,568)	(87,314)
Income tax paid		(224,366)	(372,120)
Dividends received		8,093	5,590
Net cash generated from operating activities		793,075	735,089
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	35	1,444	4,090
Proceeds from sale of intangible assets		326	1,149
Decrease in other receivables		28,845	30,410
Settlement of derivative financial instruments		(11,150)	16,745
Decrease in other financial assets		366,891	-
Decrease in other assets		4,445	3,872
Purchases of property, plant and equipment	14	(446,242)	(187,346)
Purchases of intangible assets	15	(6,815)	(2,768)
Increase in other receivables		(27,191)	(15,931)
Increase in other financial assets		(647)	(442,880)
Increase in other assets		(5,406)	(4,616)
Net cash used in investing activities		(95,500)	(597,275)
Cash flows from financing activities			
Proceeds from borrowings		76,636	504,186
Repayment of borrowings		(315,435)	(659,437)
Dividends paid		(308,570)	(425,014)
Net cash used in financing activities		(547,369)	(580,265)
Net increase (decrease) in cash and cash equivalents		150,206	(442,451)
Cash and cash equivalents at the beginning of year	7	434,414	876,954
Exchange loss on cash and cash equivalents		(17)	(89)
Cash and cash equivalents at the end of year	7	₩ 584,603	₩ 434,414

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

1. General Information

The general information of S-OIL Corporation ("the Company"), and its subsidiary, S-International Ltd., (collectively referred to as "the Group") under Korean-IFRS 1110, '*Consolidated Financial Statements*', are as follows:

The Company

S-OIL Corporation was established in 1976 to manufacture and sell oil refining products, lube products and petrochemical products, and to import and export crude oil and products mentioned above. In 1987, the Group's shares of stock were listed in the Korean Stock Exchange. The Group's headquarters are located in Gongdeok-dong, Mapo-gu, Seoul, Korea.

As of December 31, 2013, the major shareholders of the Group and their respective shareholdings are as follows:

Name of shareholders	Number of Common stocks	Percentage of Ownership (%)
Aramco Overseas Co., B.V.	39,403,974	35.00
Hanjin Energy Co., Ltd.	31,983,586	28.41
Institutional and individual investors	41,195,232	36.59
Total	112,582,792	100.00

Consolidated Subsidiary

Details of the consolidated subsidiary are as follows:

	Number of Shares	Percentage of Ownership (%)	Main business	Location	Closing Month
S-International Ltd.	10	100	Purchasing and sales of petroleum goods	Samoa	December

The summary of financial information of S-International Ltd. as of and for the years ended December 31, 2013 and 2012, are as follows:

	2013					
(In millions of Korean won)	**Total Assets**	**Total Liabilities**	**Equity**	**Revenues**	**Profit**	**Comprehensive income**
S-International Ltd.	1,165	-	1,165	-	5	5

	2012					
(In millions of Korean won)	**Total Assets**	**Total Liabilities**	**Equity**	**Revenues**	**Profit**	**Comprehensive income**
S-International Ltd.	1,177	-	1,177	-	13	13

2. Significant Accounting Policies

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

2.1. Basis of Preparation

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

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The Group's financial statements have been prepared in accordance with Korean-IFRS effective or early adopted for the financial year December 31, 2013.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

2.1.1 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

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

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

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

- Amendment to Korean-IFRS 1019, *Employee Benefits*

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

- Korean-IFRS 1110, *Consolidated Financial Statements*

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

- Korean-IFRS 1111, *Joint Arrangements*

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

- Korean-IFRS 1112, *Disclosures of Interests in Other Entities*

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

- Korean-IFRS 1027, *Separate Financial Statements*

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

- Korean-IFRS 1113, *Fair Value Measurement*

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

(b) New standards and interpretations not yet adopted

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

- Amendment to Korean-IFRS 1110, *Consolidated Financial Statements*

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

- Amendment to Korean-IFRS 1032, *Financial Instruments: Presentation*

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

- Amendment to Korean-IFRS 1039, *Financial Instruments: Recognition and Measurement*

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

- Enactment of Korean- IFRS 2121, *Levies*

Korean-IFRS 2121, *Levies* is applicable to charges imposed by the government regulations on entities, and requires recognizing the levies when the activity that triggers the payment of the levy (obligating event) occurs, as identified by the legislation. This amendment is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted. The Group expects that the application of this interpretation would not have a material impact on its consolidated financial statements.

2.2 Consolidation

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

(a) Subsidiary

Subsidiary is all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The Company also assesses the existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Company's voting rights relative to the size and dispersion of holdings of other shareholders give the Company the power to govern the financial and operating policies and others. Subsidiary is fully consolidated from the date on which control is transferred to the Company. It is de-consolidated from the date that control ceases.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is measured as the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with Korean-IFRS 1039, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Unrealized losses are also eliminated after recognizing impairment of transferred assets.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor’s share of the profit or loss of the investee after the date of acquisition. The Group’s investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group’s share of post-acquisition profit or loss is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as 'impairment loss on investment in an associate' in the consolidated statement of comprehensive income within 'other expenses'

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized as profit or loss in the consolidated statement of comprehensive income.

(e) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties (co-venturers) exercise joint control. As with associates, investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in jointly controlled entities includes goodwill identified on acquisition, net of accumulated impairment loss.

The Group does not recognize its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

2.3 Foreign Currency Translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

(c) *Translation to presentation currency*

The results and financial position of subsidiary that have a functional currency different from the presentation currency of the Group are translated into the presentation currency of the Group as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognized in other comprehensive income.

2.4 Financial Assets

(a) *Classification and measurement*

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

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

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

(b) *Impairment*

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

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

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments over three months; or the disappearance of an active market for that financial asset because of financial difficulties. A decline in the fair value of an available-for-sale equity instrument by more than 30% from its cost or a prolonged decline below its cost for more than six months is also objective evidence of impairment.

(c) *Derecognition*

If the Group transfers a financial asset and the transfer does not result in derecognition because the Group has retained substantially of all risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as ‘borrowings’ in the consolidated statement of financial position.

2.5 Derivative Instruments

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

The Group applies cash flow hedge accounting. The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and the ineffective portion is recognized in ‘other income (expenses)’ or ‘financial income (expenses)’. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that is reported in other comprehensive income is recognized as ‘other income (expenses)’ or ‘financial income (expenses)’.

2.6 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method except for in-transit inventories which are determined using the specific identification method and supplies which are determined using the moving weighted average method.

2.7 Property, Plant and Equipment

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

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

	Estimated useful lives
Buildings	20 - 40 years
Structures	20 - 40 years
Machinery and equipment	15 years
Vehicles	5 years
Other property, plant and equipment	3 – 5 years
Catalysts	Units-of-production method

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

2.8 Borrowing Costs

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

2.9 Intangible Assets

Intangible assets are initially recognized at its historical cost and carried at its cost less accumulated amortization and accumulated impairment losses. Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the assets are expected to be utilized. Intangible assets with definite useful life that are amortized using the straight-line method over their estimated useful lives, are as follows:

	Estimated useful lives
Facility usage rights	Periods with exclusive supply rights or contract periods
Other intangible assets	5 years

2.10 Impairment of Non-financial Assets

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

2.11 Financial Liabilities

(a) Classification and measurement

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

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

(b) Derecognition

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

2.12 Current and Deferred Tax

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

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

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

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

2.13 Employee Benefits

The Group has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The contributions are recognized as employee benefit expenses when an employee has rendered service.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

Cases like plan amendments, curtailments, or settlements are recognized as profit or loss for the year.

2.14 Provisions

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

2.15 Customer Loyalty Program

The Group manages customer loyalty program granting loyalty points and members can redeem the points for further purchasing. Some of the consideration received or receivable from the sales transaction related to customer loyalty program are recognized as “deferred revenue”.

2.16 Share Capital

Ordinary shares and preferred shares that are not mandatorily redeemable are classified as equity.

Where the Group purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the subsequently reissued, any consideration received is included in equity attributable to the Group's equity holders.

2.17 Revenue Recognition

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

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

a. Sale of goods

The Group recognizes revenue when the significant risks and rewards of ownership of goods are transferred to the buyer.

b. Interest income

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

c. Dividend income

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

2.18 Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are retained by the Group are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term.

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases and recognized as lease assets and liabilities at the lower of the fair value of the leased property and the present value of the minimum lease payments on the opening date of the lease period.

2.19 Dividend Distribution

Dividend distribution to the Group's shareholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the Group's shareholders.

2.20 Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year. Basic earnings per preferred share is also calculated by dividing the profit attributable to participating shares with right to participate in distribution of earnings by the weighted average number of preferred shares in issue during the year.

2.21 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's management. The Group's management is responsible for allocating resources and assessing performance of the operating segments.

2.22 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2013 consolidated financial statements of the Group was approved by the Board of Directors on February 27, 2014, which is subject to change with the approval of shareholders at the general shareholders' meeting.

3. Financial Risk Management

3.1 Management Factors of Financial Risk

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by each relevant department under policies approved by the Board of Directors. The Group identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

The Group uses derivative financial instruments to hedge foreign exchange risk, product margin risk and interest rate risk. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions.

(1) Market risk

a. Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognized as assets and liabilities, which are not denominated in the functional currency.

The purpose of foreign exchange risk management is to maximize the Group's value by minimizing the uncertainty and volatility of foreign exchange gains and losses from foreign exchange rate fluctuations.

The Group maintains foreign exchange risk management system to offset foreign exchange effects arising from recognized income/expense and assets/liabilities.

As of December 31, 2013, if the Korean won had weakened/strengthened by 10% against the foreign currencies with all other variables held constant, profit before income tax for the year would have been decreased/increased by ₩ 295,956 million (2012: ₩ 306,499 million) in relation to foreign currency-denominated trade receivables, trade payables, and usance borrowings. However, the Group's foreign exchange risk is controlled effectively as the above foreign exchange risk has offsetting effect with other foreign exchange effects affecting profit before income tax for the year.

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

(In millions of Korean won)		2013		2012
Trade receivables				
KRW	₩	428,448	₩	380,039
USD		1,731,745		1,913,456
EUR		-		5
Total	₩	2,160,193	₩	2,293,500
Trade payables				
KRW		54,965		75,117
USD		2,273,636		2,375,293
Total	₩	2,328,601	₩	2,450,410
Borrowings				
KRW		673,609		875,991
USD		2,532,869		2,624,248
Total	₩	3,206,478	₩	3,500,239

b. Product margin risk

The Group is exposed to product margin risk arising from difference in timing of purchase and sale.

The purpose of product margin risk management is to maximize the Group's value by minimizing the uncertainty of volatility of product margin.

In order to minimize the product margin risk, the Group tries to sell products produced within the month. For the products that need to be stored for a longer period, the Group secures the product margin by executing product swap.

c. Interest rate risk

The Group is exposed to interest rate risk through changes in interest-bearing liabilities or assets. The risk mainly arises from long-term borrowings with variable interest rates linked to market interest rate changes in the future.

The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty caused by fluctuations in interest rates and minimizing net interest expense.

The table below demonstrates the sensitivity of income after tax and capital by the change of interest rate while holding all other variables constant as of December 31, 2013 and 2012:

	2013		2012	
(In millions of Korean won)	**Income after tax**	**Capital**	**Income after tax**	**Capital**
1% increase	₩ (188)	₩ (188)	₩ (1,022)	₩ (1,022)
1% decrease	₩ 188	₩ 188	₩ 1,022	₩ 1,022

d. Price risk of available-for-sale financial assets

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

The table below summarizes the impact of increases/decreases of the equity index and increases/decreases of prices of unlisted stocks on the Group's other comprehensive income for the year (change in value of available-for-sale financial assets). The analysis is based on the assumption that the equity index had increased/decreased by 10% with all other variables held constant.

(In millions of Korean won)	2013	2012
Listed stocks	₩ 2,707	₩ 2,835
Unlisted stocks	3,961	3,961

(2) Credit risk

Credit risk arises from receivables, cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with high ratings are accepted. If customers are independently rated, these ratings are used. If there is no independent rating, the credit quality of the customer is evaluated taking into account its financial position, past experience and other factors.

Individual risk limits are set based on internal or external ratings in accordance with limits set by the Group. The utilization of credit limits is strictly executed.

The table below demonstrates the maximum exposure to credit risk as of December 31, 2013 and 2012:

(In millions of Korean won)		2013		2012
Financial assets				
Cash and cash equivalents	₩	584,553	₩	434,341
Trade receivables		2,160,193		2,293,500
Other receivables		185,152		199,778
Other financial assets		356,013		721,913
Derivative assets		4,768		10,765
Total	₩	3,290,679	₩	3,660,297

With the exception of trade receivables and other receivables, none of financial assets is past due or impaired. There is no collateral held by the Group.

(3) Liquidity risk

Liquidity risk is defined as the risk that the Group is unable to meet its short-term payment obligations on time due to deterioration of its business performance or inability to access financing.

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

The below table analyzes the Group's liquidity risk:

(In millions of Korean won)		Less than 1 year	Less than 2 years	Over 2 years	Total
December 31, 2013					
Trade payables		₩ 2,328,601	-	-	₩ 2,328,601
Other payables		313,492	6,228	4,254	323,974
Borrowings		2,717,004	21,776	560,167	3,298,947
Currency Forward	Outflow	(682,664)	-	-	(682,664)
	Inflow	683,775	-	-	683,775
Commodity Swap		591	-	-	591
Total		₩ 5,360,799	₩ 28,004	₩ 564,421	₩ 5,953,224
December 31, 2012					
Trade payables		₩ 2,450,410	-	-	₩ 2,450,410
Other payables		347,694	4,973	4,576	357,243
Borrowings		2,870,141	176,595	581,890	3,628,626
Currency Swap	Outflow	(112,900)	-	-	(112,900)
	Inflow	107,110	-	-	107,110
Currency Forward	Outflow	(696,215)	-	-	(696,215)
	Inflow	697,044	-	-	697,044
Commodity Swap		1,101	-	-	1,101
Total		₩ 5,664,385	₩ 181,568	₩ 586,466	₩ 6,432,419

The amounts disclosed in the table are undiscounted cash flows.

3.2 Capital Management

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

The Group monitors financial ratios, such as debt/equity ratio and net borrowing/equity ratio each month and implements required action plan to maintain or adjust the capital structure.

Debt-to-equity ratio and net borrowings ratio are as follows:

(In millions of Korean won, except for ratios)	2013	2012
Interest bearing liability (A)	₩ 3,206,478	₩ 3,500,239
Cash and cash equivalents and current financial deposits (B)	940,603	1,156,314
Net borrowings (C=A-B)	2,265,875	2,343,925
Equity (D)	5,373,828	5,376,042
Debt-to-equity ratio (A/D)	60%	65%
Net borrowings/equity ratio (C/D)	42%	44%

4. Fair Value

(1) Fair Value of Financial Instruments by Category

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

(in millions of Korean won)	2013		2012	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Available-for-sale financial assets	₩ 92,929	₩ 92,929	₩ 94,904	₩ 94,904
Derivative financial instruments	4,768	4,768	10,765	10,765
Total	₩ 97,697	₩ 97,697	₩ 105,669	₩ 105,669
Financial liabilities				
Derivative financial instruments	₩ 4,503	₩ 4,503	₩ 7,796	₩ 7,796
Total	₩ 4,503	₩ 4,503	₩ 7,796	₩ 7,796

Loans and receivables and financial instruments measured at cost whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.

(2) Fair Value Hierarchy

Assets measured at fair value or for which the fair value is disclosed are categorized within the fair value hierarchy, and the defined levels are as follows:

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

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

(in millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Assets				
Available-for-sale financial assets				
Equity securities	₩ 35,705	₩ -	₩ 52,256	₩ 87,961
Debt securities	4,968	-	-	4,968
Financial asset measured at fair value through profit or loss				
Derivative financial assets	-	4,768	-	4,768
Total	₩ 40,673	₩ 4,768	52,256	₩ 97,697
Liabilities				
Financial liability measured at fair value through profit or loss				
Derivative financial liabilities	-	4,503	-	4,503
Total	₩ -	₩ 4,503	₩ -	₩ 4,503

Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value or its fair value is disclosed as of December 31, 2012, are as follows:

(in millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Assets				
Available-for-sale financial assets				
Equity securities	₩ 37,396	₩ -	₩ 52,256	₩ 89,652
Debt securities	5,252	-	-	5,252
Financial asset measured at fair value through profit or loss				
Derivative financial assets	-	10,765	-	10,765
Total	₩ 42,648	₩ 10,765	₩ 52,256	₩105,669
Liabilities				
Financial liability measured at fair value through profit or loss				
Derivative financial liabilities	-	1,101	-	1,101
Cash flow hedges	-	6,695	-	6,695
Total	₩ -	₩ 7,796	₩ -	₩ 7,796

(3) Transfers between Fair Value Hierarchy Levels of Recurring Fair Value Measurements

The Group's policy is to recognize transfers between levels of the fair value at the end of the reporting period. During current reporting period, there are no transfers between Level 1 and Level 2 that are measured at fair value on a recurring basis, and no changes in the amounts of Level 3 on a recurring basis either.

(4) Valuation Technique and the Inputs

Valuation techniques and inputs used in the recurring, non-recurring fair value measurements and disclosed fair values categorized within Level 2 and Level 3 of the fair value hierarchy as of December 31, 2013, are as follows:

1) Level 3

(in millions of Korean won)

	Fair value	Level	Valuation techniques	Inputs	Range of inputs (weighted average)
Available-for-sale financial assets					
Equity securities	₩ 52,256	3	Present value technique (DCF[1]) and IMV[2]	Discount rate	8.1%~12.1%

[1] DCF: Discounted Cash Flow method [2] IMV: Imputed Market Value Model

2) Level 2

(in millions of Korean won)

		Fair value	Level	Valuation techniques
Financial assets at fair value through profit or loss				
Currency forward	₩	3,991	2	Present value technique
Commodity swap		777	2	Present value technique
Financial liabilities at fair value through profit or loss				
Currency forward	₩	3,135	2	Present value technique
Commodity swap		1,368	2	Present value technique

(5) Valuation Processes for Fair Value Measurements Categorized Within Level 3

The accounting department of the Group performs the fair value measurements required for financial reporting purposes, including Level 3 fair values. This team discusses valuation processes and results with the management.

(6) Sensitivity Analysis for Recurring Fair Value Measurements Categorized within Level 3

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by the unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or most unfavorable. Financial instruments that are categorized within Level 3 and subject to sensitivity analysis include unlisted stocks of which changes in fair value being recognized in other comprehensive income.

5. Critical Accounting Estimates and Assumptions

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

a. Retirement Benefit Obligations

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

b. Fair Value of Derivative Instruments and Other Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using discounted cash flow analysis. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 4).

c. Income Taxes

The Group has uncertainty in calculation of final tax effect because corporation tax on taxable income of the Group is calculated by applying tax laws and resolution of tax authority (Note 30).

d. Provisions for Other Liabilities and Charges

As of December 31, 2013, the Group records environmental restoration provisions. Assumptions used for the provisions are based on the Group’s experiences (Note 19).

6. Segment Information

The reportable operating segments of the Group are oil refining business, lube oil business and petrochemical business.

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

	2013			
(In millions of Korean won)	Oil Refining Business	Lube Oil Business	Petrochemical Business	Total
Gross sales	₩ 25,508,594	₩ 1,751,616	₩ 3,898,318	₩ 31,158,528
Inter-segment sales	7,386,914	1,034,146	1,464,269	9,885,329
Total sales	32,895,508	2,785,762	5,362,587	41,043,857
Operating profit	₩ (350,519)	₩ 153,914	₩ 562,649	₩ 366,044
Property, plant, equipment and intangible assets	₩ 1,998,302	₩ 92,880	₩ 1,715,770	₩ 3,806,952
Depreciation and amortization	₩ 242,432	₩ 10,727	₩ 114,670	₩ 367,829

	2012			
(In millions of Korean won)	Oil Refining Business	Lube Oil Business	Petrochemical Business[1]	Total
Gross sales	₩ 28,172,069	₩ 2,254,216	₩ 4,297,006	₩ 34,723,291
Inter-segment sales	11,086,766	1,195,837	2,013,578	14,296,181
Total sales	39,258,835	3,450,053	6,310,584	49,019,472
Operating profit	₩ (376,062)	₩ 330,470	₩ 827,356	₩ 781,764
Property, plant, equipment and intangible assets	₩ 1,869,707	₩ 51,411	₩ 1,792,097	₩ 3,713,215
Depreciation and amortization	₩ 256,321	₩ 14,266	₩ 120,606	₩ 391,193

[1] Inter-segment sales of prior year are retroactively restated, as some of manufacturing process has changed from petrochemical to refinery segment during current reporting period.

Net sales by geographic region are as follows:

(In millions of Korean won)		**2013**		**2012**
Korea	₩	12,294,775	₩	12,537,409
Southeast Asia		4,072,313		4,656,663
China		3,901,716		5,871,348
Japan		3,967,727		4,168,122
Australia		1,448,893		2,229,472
USA		1,624,408		1,654,290
Europe		807,594		759,953
Others		3,041,102		2,846,034
Total	₩	31,158,528	₩	34,723,291

7. Cash and Cash Equivalents

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

(In millions of Korean won)		**2013**		**2012**
Cash and cash equivalents				
Cash on hand	₩	50	₩	73
Checking accounts		8		13
Passbook accounts		4,996		13,351
Foreign currency deposits		160,989		88,897
Time deposits		315,000		250,000
MMDA and others		103,560		82,080
Total	₩	584,603	₩	434,414

Cash and cash equivalents recognized in the consolidated statement of financial position and cash flows are identical.

8. Trade and Other Receivables

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

(In millions of Korean won)	2013		2012	
	Current	**Non-current**	**Current**	**Non-current**
Trade receivables	₩ 2,165,934	-	₩ 2,299,713	-
Less : provision for impairment	(5,741)	-	(6,213)	-
	2,160,193	-	2,293,500	-
Other receivables	546,325	-	705,008	-
Accrued revenues	3,412	-	8,399	-
Less : provision for impairment	(1)	-	(5)	-
Loans	10,823	52,941	12,634	50,136
Less : provision for impairment	-	(76)	-	(165)
Deposits received	-	22,128	-	24,576
	560,559	74,993	726,036	74,547
Net book amount	₩ 2,720,752	₩ 74,993	₩ 3,019,536	₩ 74,547

The aging analysis of trade receivables as of December 31, 2013 and 2012, is as follows:

(In millions of Korean won)	2013	2012
Receivables not past due	₩ 2,156,686	₩ 2,286,334
Up to 1 month	4,443	6,845
1 to 3 months	541	1,798
3 to 6 months	31	490
6 to 12 months	590	430
Over one year	3,643	3,816
Total	₩ 2,165,934	₩ 2,299,713

As of December 31, 2013, trade receivables of ₩ 730,414 million (2012: ₩ 618,575 million) are pledged as collateral. Among the trade receivables pledged, ₩ 5,428 million (2012: ₩ 5,828 million) is past due but not impaired.

The aging analysis of these other receivables as of December 31, 2013 and 2012, is as follows:

(In millions of Korean won)		2013		2012
Receivables not past due	₩	634,848	₩	800,237
Up to 1 month		19		54
1 to 3 months		8		62
3 to 6 months		11		154
6 to 12 months		743		123
Over one year		-		123
Total	₩	635,629	₩	800,753

Movements on the provision for impairment of trade receivables are as follows:

(In millions of Korean won)		2013		2012
Beginning balance	₩	6,213	₩	9,998
Bad debts expense		(61)		(3,561)
Other		(411)		(224)
Ending balance	₩	5,741	₩	6,213

Movements on the provision for impairment of for other receivables as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)		2013		2012
Beginning balance	₩	170	₩	-
Bad debts expense		70		170
Other		(163)		-
Ending balance	₩	77	₩	170

9. Other Financial Assets

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

(In millions of Korean won)		2013		2012
Current				
Short-term available-for-sale financial assets	₩	751	₩	374
Short-term financial instruments		356,000		721,900
		356,751		722,274
Non-current				
Long-term deposit		13		13
Long-term available-for-sale financial assets		92,178		94,530
		92,191		94,543
Total	₩	448,942	₩	816,817

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

(In millions of Korean won)	**2013**	**2012**
Current		
Government and public bonds	₩ 751	₩ 374
Non-current		
Listed equities	35,705	37,396
Non-listed equities	52,256	52,256
Government and public bonds	4,217	4,878
	92,178	94,530
Total	₩ 92,929	₩ 94,904

The fair value of non-listed equities is determined using discounted cash flow analysis based on the risk adjusted yield.

The changes in available-for-sale financial assets for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**2013**	**2012**
At January 1	₩ 94,904	₩ 78,939
Additions	647	268
Disposals	(778)	(1,317)
Net gains (losses) reclassified to equity	(1,566)	10,461
Net gains (losses) reclassified from equity	(278)	-
Transfers	-	6,553
At December 31	₩ 92,929	₩ 94,904
Less: Non-current portion	92,178	94,530
Current portion	751	374

10. Derivative Financial Instruments

Derivative financial instruments as of December 31, 2013 and 2012, are as follows:

	2013		2012	
(In millions of Korean won)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trading derivative				
Forward foreign exchange	₩ 3,991	₩ 3,135	₩ 10,765	-
Commodity Swap	777	1,368	-	1,101
Hedging derivative				
Currency Swap	-	-	-	6,695
	₩ 4,768	₩ 4,503	₩ 10,765	₩ 7,796
Current	4,768	4,503	10,765	7,796
Non-current	-	-	-	-

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining period to maturity of the hedged item is more than 12 months and, as a current asset or liability, if the remaining period to maturity of the hedged item is less than 12 months.

11. Financial Instruments by Category

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

	2013			
(In millions of Korean won)	**Loans and receivables**	**Assets at fair value through profit or loss**	**Assets classified as available-for-sale financial assets**	**Total**
Assets				
Cash and cash equivalents	₩ 584,603	₩ -	₩ -	₩ 584,603
Trade receivables	2,160,193	-	-	2,160,193
Other receivables	185,152	-	-	185,152
Other financial assets	356,013	-	92,929	448,942
Derivative financial instruments	-	4,768	-	4,768
Total	₩ 3,285,961	₩ 4,768	₩ 92,929	₩ 3,383,658

	2013			
(In millions of Korean won)	**Financial liabilities at amortized cost**	**Liabilities at fair value through profit or loss**	**Derivatives used for hedging**	**Total**
Liabilities				
Trade payables	₩ 2,328,601	₩ -	₩ -	₩ 2,328,601
Other payables	323,974	-	-	323,974
Borrowings	3,206,478	-	-	3,206,478
Derivative financial instruments	-	4,503	-	4,503
Total	₩ 5,859,053	₩ 4,503	-	₩ 5,863,556

	2012			
(In millions of Korean won)	**Loans and receivables**	**Assets at fair value through profit or loss**	**Assets classified as available-for-sale financial assets**	**Total**
Assets				
Cash and cash equivalents	₩ 434,414	-	-	₩ 434,414
Trade receivables	2,293,500	-	-	2,293,500
Other receivables	199,778	-	-	199,778
Other financial assets	721,913	-	94,904	816,817
Derivative financial instruments	-	10,765	-	10,765
Total	₩ 3,649,605	₩ 10,765	₩ 94,904	₩ 3,755,274

	2012			
(In millions of Korean won)	**Financial liabilities at amortized cost**	**Liabilities at fair value through the profit and loss**	**Derivatives used for hedging**	**Total**
Liabilities				
Trade payables	₩ 2,450,410	-	-	₩ 2,450,410
Other payables	357,243	-	-	357,243
Borrowings	3,500,239	-	-	3,500,239
Derivative financial instruments	-	1,101	6,695	7,796
Total	₩ 6,307,892	₩ 1,101	₩ 6,695	₩ 6,315,688

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

(In millions of Korean won)	2013	2012
Loans and receivables		
Interest income	₩ 36,756	₩ 44,933
Interest expenses	-	(1,319)
Foreign currency gain (loss)	(41,935)	(160,738)
Bad debt expenses	61	3,561
Other bad debt expenses	(70)	(170)
Reversal of bad debts allowance	4	-
Assets and liabilities at fair value through profit or loss		
Derivative financial instruments gain (loss)	(20,159)	28,427
Derivatives used for hedging		
Derivative financial instruments gain (loss)	5,400	(8,220)
Cash flow hedges	905	1,794
Assets classified as available-for-sale		
Gain(Loss) on valuation (Other comprehensive income (loss))	(1,566)	10,461
Gain(Loss) on disposal/disposal (Reclassification)	(278)	-
Gain(Loss) on disposal/disposal (Profit or loss)	288	-
Interest income	162	172
Dividends received	1,443	1,390
Financial liabilities at amortized cost		
Foreign currency gain (loss)	77,144	368,321
Interest expenses[1]	(53,609)	(84,232)

[1] Interest expenses represent amounts less capitalization on qualifying assets.

12. Inventories

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

(In millions of Korean won)	2013	2012
Finished goods	₩ 900,719	₩ 1,071,704
Reserve for finished goods	(6,062)	(24,095)
Work in progress	475,649	400,387
Reserve for work in progress	(15,978)	(13,833)
Raw materials and materials-in-transit	2,802,099	2,831,128
Reserve for raw materials and materials-in-transit	(301)	(261)
Supplies	81,789	120,848
Total	₩ 4,237,915	₩ 4,385,878

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩ 27,784,861 million (2012: ₩ 30,550,006 million). The Group recognized reversal of inventory valuation loss of ₩ 15,848 million for the year ended December 31, 2013, and inventory valuation loss of ₩ 24,787 million for the year ended December 31, 2012.

13. Investments in Jointly Controlled Entity

Details of jointly controlled entity as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)

Investee	Location	Closing month	Number of Shares	Percentage of Ownership (%)	Acquisition cost	2013	2012
Jointly controlled entities							
S-OIL TOTAL Lubricants Co.,Ltd.[1]	Korea	December	3,500,001	50 plus one share	₩ 20,134	₩ 30,125	₩ 29,651

[1] In accordance with the joint venture contract with Total Raffinage Marketing S.A., the Group acquired 50% plus one share of S-OIL TOTAL Lubricants Co., Ltd.'s outstanding shares.

The Group's share of the results of its jointly controlled entity and its aggregated assets and liabilities are as follows:

	2013					
(In millions of Korean won)	Assets	Liabilities	Equity	Revenues	Profit (loss)	Total comprehensive income
S-OIL TOTAL Lubricants Co., Ltd.	₩ 40,969	₩ 10,542	₩ 30,427	₩ 128,305	₩ 6,987	₩ 7,029

	2012					
(In millions of Korean won)	Assets	Liabilities	Equity	Revenues	Profit (loss)	Total comprehensive income
S-OIL TOTAL Lubricants Co., Ltd.	₩ 43,673	₩ 13,614	₩ 30,059	₩ 146,955	₩ 8,238	₩ 8,242

Summarized financial status of jointly controlled entity as of December 31, 2013 and 2012, is as follows:

	S-OIL TOTAL Lubricants Co., Ltd.	
(In millions of Korean won)	**2013**	**2012**
Current assets	₩ 63,909	₩ 69,578
Non-current assets	18,029	17,769
Total assets	81,938	87,347
Current liabilities	21,084	27,228
Non-current liabilities	-	-
Total liabilities	21,084	27,228
Total equity	60,854	60,119
Revenue	256,609	293,910
Operating income	17,882	21,248
Profit before income tax	17,912	21,140
Profit for the year	13,974	16,476
Total comprehensive income for the year	14,058	16,484

Changes in investments in subsidiary and jointly controlled entities are as follows:

	2013
(In millions of Korean won)	**S-OIL TOTAL Lubricants Co., Ltd.**
Beginning balance	₩ 29,651
Acquisition	-
Share of profit	6,987
Unrealized gain (loss)	95
Dividends received	(6,650)
Other equity movement	42
Ending balance	₩ 30,125

	2012					
(In millions of Korean won)	S-OIL TOTAL Lubricants Co., Ltd.		HanKook Silicon Co., Ltd.		Total	
Beginning balance	₩	25,422	₩	264,770	₩	290,192
Acquisition		-		-		-
Share of profit		8,238		(18,330)		(10,092)
Unrealized gain (loss)		187		(4,108)		(3,921)
Dividends received		(4,200)		-		(4,200)
Other equity movement		4		-		4
Impairment[1]		-		(235,779)		(235,779)
Transfers[1]		-		(6,553)		(6,553)
Ending balance	₩	29,651		-	₩	29,651

[1] On June 28, 2011, the Group acquired 33.4% ownership of HanKook Silicon Co., Ltd. As HanKook Silicon applied for corporate rehabilitation proceedings at the Seoul Central District Court on November 28, 2012, the Group lost its significant influence. According to the impairment test performed on December 31, 2012, the Group recognized impairment loss on investment in jointly controlled entities amounting to ₩ 235,779 million in the comprehensive income statement within ‘other expenses’ and transferred the residual book value of ₩ 6,553 million to available-for-sale financial assets. Impairment loss is not subject to classification or distribution to each operating segment.

14. Property, Plant and Equipment

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

	2013								
(In millions of Korean won)	Land	Buildings	Structures	Machinery and equipment	Vehicles	Others	Catalysts	Construction-in-progress	Total
At January 1, 2013									
Acquisition cost	₩ 1,257,969	₩ 257,160	₩ 731,002	₩ 3,422,883	₩ 11,919	₩ 232,427	₩ 594,331	₩ 329,425	₩ 6,837,116
Accumulated depreciation	-	(55,752)	(372,374)	(2,141,870)	(10,660)	(161,873)	(424,252)	-	(3,166,781)
Net book value	₩ 1,257,969	₩ 201,408	₩ 358,628	₩ 1,281,013	₩ 1,259	₩ 70,554	₩ 170,079	₩ 329,425	₩ 3,670,335
Changes during 2013									
Opening net book value	1,257,969	201,408	358,628	1,281,013	1,259	70,554	170,079	329,425	3,670,335
Additions	79	31	323	19	252	15,462	91,766	349,451	457,383
Transfers	255	4,031	25,453	78,412	1,321	105,534	-	(218,803)	(3,797)
Disposals	(876)	(254)	(662)	-	(35)	(424)	-	-	(2,251)
Depreciation	-	(6,477)	(30,677)	(180,403)	(554)	(41,279)	(101,854)	-	(361,244)
Closing net book value	₩ 1,257,427	₩ 198,739	₩ 353,065	₩ 1,179,041	₩ 2,243	₩ 149,847	₩ 159,991	₩ 460,073	₩ 3,760,426
At December 31, 2013									
Cost or valuation	1,257,427	260,722	754,961	3,501,170	12,028	345,720	686,097	460,073	7,278,198
Accumulated depreciation	-	(61,983)	(401,896)	(2,322,129)	(9,785)	(195,873)	(526,106)	-	(3,517,772)
Net book value	₩ 1,257,427	₩ 198,739	₩ 353,065	₩ 1,179,041	₩ 2,243	₩ 149,847	₩ 159,991	₩ 460,073	₩ 3,760,426

(In millions of Korean won)	2012								
	Land	**Buildings**	**Structures**	**Machinery and equipment**	**Vehicles**	**Others**	**Catalysts**	**Construction-in-progress**	**Total**
At January 1, 2012									
Acquisition cost	₩ 1,251,810	₩ 256,286	₩ 695,226	₩ 3,397,431	₩ 11,945	₩ 222,331	₩ 575,229	₩ 326,823	₩ 6,737,081
Accumulated depreciation	-	(50,072)	(340,939)	(1,959,540)	(10,498)	(124,431)	(369,141)	-	(2,854,621)
Net book value	₩ 1,251,810	₩ 206,214	₩ 354,287	₩ 1,437,891	₩ 1,447	₩ 97,900	₩ 206,088	₩ 326,823	₩ 3,882,460
Changes during 2012									
Opening net book value	1,251,810	206,214	354,287	1,437,891	1,447	97,900	206,088	326,823	3,882,460
Additions	33	91	425	7	367	13,560	82,845	90,322	187,650
Transfers	8,021	2,758	36,297	27,802	-	3,139	204	(87,720)	(9,499)
Disposals	(1,895)	(1,218)	(277)	(223)	-	(587)	-	-	(4,200)
Depreciation	-	(6,437)	(32,104)	(184,464)	(555)	(43,458)	(119,058)	-	(386,076)
Closing net book value	₩ 1,257,969	₩ 201,408	₩ 358,628	₩ 1,281,013	₩ 1,259	₩ 70,554	₩ 170,079	₩ 329,425	₩ 3,670,335
At December 31, 2012									
Cost or valuation	1,257,969	257,160	731,002	3,422,883	11,919	232,427	594,331	329,425	6,837,116
Accumulated depreciation	-	(55,752)	(372,374)	(2,141,870)	(10,660)	(161,873)	(424,252)	-	(3,166,781)
Net book value	₩ 1,257,969	₩ 201,408	₩ 358,628	₩ 1,281,013	₩ 1,259	₩ 70,554	₩ 170,079	₩ 329,425	₩ 3,670,335

Depreciation expense of ₩ 340,129 million (2012: ₩ 362,577 million) has been charged to 'cost of sales', ₩ 16,407 million (2012: ₩ 18,399 million) to 'selling expenses' and ₩ 4,708 million (2012: ₩ 5,101 million) to 'administrative expenses'.

As of December 31, 2013, a certain portion of property, plant and equipment is pledged as collateral for various loans (Note 16).

During the year, the Group has capitalized borrowing costs amounting to ₩ 840 million (2012: ₩ 304 million) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 0.75% (2012: 1.5 %) and capitalized borrowing costs for specific borrowings are same as that of debentures.

Construction in-progress consists of expenses related to facilities installation and land.

15. Intangible Assets

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

	2013			
(In millions of Korean won)	Facility usage rights	Others	Membership rights	Total
At January 1, 2013				
Acquisition cost	₩ 8,113	₩ 46,974	₩ 17,863	₩ 72,950
Accumulated amortization	(2,989)	(27,080)	-	(30,069)
Net book value	₩ 5,124	₩ 19,894	₩ 17,863	₩ 42,881
Changes during 2013				
Opening net book value	5,124	19,894	17,863	42,881
Additions	-	3,333	3,482	6,815
Transfers	-	3,797	-	3,797
Disposals	-	-	(382)	(382)
Amortization	(408)	(6,177)	-	(6,585)
Closing net book value	₩ 4,716	₩ 20,847	₩ 20,963	₩ 46,526
At December 31, 2013				
Cost or valuation	8,113	46,974	20,963	76,050
Accumulated amortization	(3,397)	(26,127)	-	(29,524)
Net book value	₩ 4,716	₩ 20,847	₩ 20,963	₩ 46,526

	2012			
(In millions of Korean won)	Facility usage rights	Others	Membership rights	Total
At January 1, 2012				
Acquisition cost	₩ 8,113	₩ 37,116	₩ 16,744	₩ 61,973
Accumulated amortization	(2,583)	(22,390)	-	(24,973)
Net book value	₩ 5,530	₩ 14,726	₩ 16,744	₩ 37,000
Changes during 2012				
Opening net book value	5,530	14,726	16,744	37,000
Additions	-	387	2,381	2,768
Transfers	-	9,499	-	9,499
Disposals	-	(8)	(1,262)	(1,270)
Amortization	(406)	(4,710)	-	(5,116)
Closing net book value	5,124	19,894	17,863	42,881
At December 31, 2012				
Cost or valuation	8,113	46,974	17,863	72,950
Accumulated amortization	(2,989)	(27,080)	-	(30,069)
Net book value	₩ 5,124	₩ 19,894	₩ 17,863	₩ 42,881

Amortization expense of ₩ 1,844 million (2012: ₩ 1,718 million) is included in ‘cost of sales’, ₩ 1,126 million (2012: ₩ 1,129 million) in ‘selling expenses’ and ₩ 3,615 million (2012: ₩ 2,269 million) in ‘administrative expenses’.

Membership impairment reviews are undertaken annually. As a result of the impairment test, the Group expects the carrying value of membership is higher than the recoverable amount.

16. Assets Pledged as Collateral

As of December 31, 2013, assets pledged as collateral are as follows:

(In millions of Korean won and millions of other foreign currencies)

Pledged Assets as Collateral	Secured Amount	Creditors	Related Borrowings/ Guarantees	Balance of Borrowings
Land, Buildings, BTX and others	₩ 19,350 USD 144 FRF 155 JPY 11,781	The Korea Development Bank	Usance Borrowings of US$ 360 million	₩ 380,174
R2R Debottlenecking and others	Security for transfer	Hana Bank	Loans for facility	₩ 12,047
Time deposits	₩ 2,745	Defense Acquisition Program Administration	Contractual Guarantee	-
Time deposits	₩ 122	Korea Midland Power Co.,Ltd.	Contractual Guarantee	-
		Total		₩ 392,221

17. Trade Payables, Other Payables and Other Liabilities

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

	2013		2012	
(In millions of Korean won)	Current	Non-current	Current	Non-current
Trade payables	₩ 2,328,601	-	₩ 2,450,410	-
Other payables		-		
Non-trade payables	708,589	-	653,182	-
Accrued expenses	5,209	-	9,383	-
Dividend payables	228	-	187	-
Rental deposit payables	-	17,890	-	17,356
	714,026	17,890	662,752	17,356
Total	₩ 3,042,627	₩ 17,890	₩ 3,113,162	₩ 17,356

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

	2013		2012	
(In millions of Korean won)	**Current**	**Non-current**	**Current**	**Non-current**
Advances from customers	₩ 92,192	₩ -	₩ 118,658	₩ -
Withholdings	3,337	-	2,911	-
Long-term unearned revenues	-	-	-	325
Total	₩ 95,529	₩ -	₩ 121,569	₩ 325

The carrying amount is a reasonable approximation of the fair value for current trade payables and other payables.

18. Borrowings

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

(In millions of Korean won)	2013	2012
Current		
Banker's usance	₩ 2,532,869	₩ 2,517,138
Current maturities of debentures	149,895	306,946
Current maturities of long-term borrowings	3,835	2,925
	2,686,599	2,827,009
Non-current		
Debentures	498,904	648,420
Long-term borrowings	20,975	24,810
	519,879	673,230
Total	₩ 3,206,478	₩ 3,500,239

Details of bank borrowings as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**Creditor**	**Maturity date**	**Interest Rates (%) Dec 31, 2013**	**2013**	**2012**
Short-term borrowings					
Banker's usance	Korea Development Bank and others	July 4, 2014 and others	0.59 ~ 0.65	₩ 2,532,869	₩ 2,517,138
Current maturities of long-term borrowings					
Loans for facilities from energy usage rationalization fund	Hana Bank	Mar 15, 2014 and others	1.50 - 1.75	2,434	1,524
Loans for facilities from energy usage rationalization fund	Korea Exchange Bank	Mar 15, 2014	1.75	633	633
Environment improvement supporting funds loans	Hana Bank	Mar 31, 2014	3.22	768	768
				3,835	2,925
Long-term borrowings					
Loans for facilities from energy usage rationalization fund	Hana Bank	Dec 15, 2016	1.50 - 1.75	16,410	18,845
Environment improvement supporting funds loans	Hana Bank	Mar 31, 2019	3.22	2,982	3,749
Loans for facilities from energy usage rationalization fund	Korea Exchange Bank	Jun 15, 2017	1.75	1,583	2,216
				20,975	24,810
Total				₩ 2,557,679	₩ 2,544,873

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

(In millions of Korean won)	**Issuance date**	**Maturity date**	**Interest Rates (%) Dec 31, 2013**	**2013**	**2012**
Public bonds (43-2)	Sep 18, 2009	Sep 18, 2014	5.45	150,000	150,000
Public bonds (44-1)	May 26, 2010	May 26, 2013	-	-	107,110
Public bonds (44-2)	May 26, 2010	May 26, 2013	-	-	200,000
Public bonds (45-1)	Aug 26, 2012	Aug 28, 2017	3.18	350,000	350,000
Public bonds (45-2)	Aug 28, 2012	Aug 28, 2019	3.33	100,000	100,000
Public bonds (45-3)	Aug 28, 2012	Aug 28, 2022	3.53	50,000	50,000
				650,000	957,110
Less: Present value discount				(1,201)	(1,744)
Total				₩ 648,799	₩ 955,366

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

(In millions of Korean won)		**December 31, 2013**		**December 31, 2012**
6 months or less				
Debentures (including present value discount)	₩	-	₩	107,071
Current maturities of long-term borrowings		3,835		2,925
Long-term borrowings		20,975		24,810
Total	₩	24,810	₩	134,806

As of December 31, 2013 and 2012, a certain portion of property, plant and equipment is pledged as collateral for various loans (Note 16).

The carrying amount is a reasonable approximation of the fair value for long-term borrowings, with the effect of discount being insignificant.

19. Provisions for Other Liabilities and Charges

Changes in provisions for other liabilities and charges for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	**Environmental Restoration**			
		2013		**2012**
Beginning balance	₩	7,707	₩	8,094
Additional provisions adjustment		4,380		5,030
Used during year		(7,871)		(5,417)
Ending balance	₩	4,216	₩	7,707

20. Retirement Benefit Obligations

The majority of defined benefit plans that the Group operates in various countries are final salary pension plans, which provide benefits to employees in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on employees' length of service and their salary in the final years leading up to retirement. The majority of benefit payments are from trustee administered funds. Plan assets held in trusts are governed by local regulations.

The amounts of retirement benefit obligations recognized in the consolidated statements of financial position as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)		**2013**		**2012**
Present value of funded defined benefit liability	₩	175,493	₩	152,945
Fair value of plan assets [1]		(166,466)		(114,501)
Liability in the consolidated statement of financial position	₩	9,027	₩	38,444

[1] As of December 31, 2013 and 2012, the fair value of plan assets includes contributions to the National Pension Fund of ₩ 554 million as of December 31, 2013 (2012: ₩ 567 million).

The movements in the carrying amount of defined benefit obligations for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)		**2013**		**2012**
Beginning balance	₩	152,945	₩	115,405
Current service cost		21,322		16,487
Interest expense		6,764		5,860
Remeasurements :				
Actuarial (gains) / losses arising from changes in demographic assumption		-		790
Actuarial (gains) / losses arising from changes in financial assumption		(5,471)		18,569
Actuarial (gains) / losses arising from changes in experience adjustments		7,282		4,940
Benefits paid		(7,349)		(9,106)
Ending Balance	₩	175,493	₩	152,945

The movements in the fair value of plan assets for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)		**2013**		**2012**
Beginning balance	₩	114,501	₩	91,240
Expected return on plan assets		5,454		4,619
Contributions		54,583		24,000
Benefits paid		(6,756)		(5,072)
Remeasurements :				
Return on plan assets		(1,316)		(286)
Ending balance	₩	166,466	₩	114,501

The total amount of plan assets as of December 31, 2013 and 2012, consist of financial assets including deposits.

The principal actuarial assumptions as of December 31, 2013 and 2012, were as follows:

	2013	**2012**
Discount rate	4.80%	4.50%
Expected return on plan assets	4.80%	4.70%
Future salary increases	5.24%	5.24%

The sensitivity of the overall pension liability to changes in the principal actuarial assumptions is:

	Changes in principal assumption	**Impact on overall liability**	
		December 31, 2013	**December, 31 2012**
Salary growth rate	1% increase	10.80% increase	11.29% increase
	1% decrease	9.5% decrease	9.91% decrease
Discount rate	1% increase	9.46% decrease	9.88% decrease
	1% decrease	10.96% increase	11.50% increase

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

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

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

Expected contributions to post-employment benefit plans for the year ending December 31, 2014, are ₩ 24,244 million.

Expected maturity analysis of undiscounted pension benefits as of December 31, 2013, is as follows:

(in millions of Korean won)	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Pension benefits	₩ 5,689	₩ 8,811	₩ 31,400	₩ 115,375	₩ 161,275

The weighted average duration of the defined benefit obligations is 10.21 years.

Recognized expense related to the defined contribution plan for the year ended December 31, 2013, is ₩ 97 million (2012 : ₩ 8 million).

21. Contingencies

As of December 31, 2013, the Company has been entered into overdraft agreement of up to KRW ₩ 23,000 million with Shinhan Bank and another bank, and general loan agreement of up to KRW 14,750 million and USD 450 million with Shinhan Bank and two other banks.

As of December 31, 2013, the Company has banker’s usance agreements, imported credit and others of up to a maximum of USD 6,071 billion with Korea Development Bank and 19 other banks. As of December 31, 2013, Shinhan Bank has provided guarantees of up to ₩ 30,000 million for the Company’s repayment of remaining bonus points.

As of December 31, 2013, the Group is either a defendant or a plaintiff in various legal actions arising from the normal course of business, and the major pending litigations are as follows:

(A) On December 2, 2009, the FTC decided that the six LPG providers, including the Group, were involved in the price collusion from 2003 to 2008 charging a penalty of ₩ 668,954 million (₩ 38,466 million for the Group). The Group recorded the said penalty as other expenses in 2009 and paid the penalty in June 2010. The Group filed an administrative litigation at the Seoul High Court in May 2010, but the court ruled in FTC’s favor in January 2012. The Group appealed to the Supreme Court in February 2012.

(B) On September 20, 2011, the FTC decided that four oil refiners, including the Group, colluded among themselves to limit competition between gas stations by refraining from opening new stations near existing ones operated by rivals. As a result, the FTC notified the Group of a penalty amounting to ₩ 43,871 million and the Group recorded the said penalty as other expenses in 2011. The Group filed an administrative case at the Seoul High Court in October 2011 and the court ruled in the Group’s favor in August 2012. The FTC appealed to the Supreme Court in September 2012.

(C) On March 17, 2008, the KNOC notified the Group to pay the excess refund of surcharge amounting to ₩ 32,009 million, which the Group recorded as other expenses and paid in 2008. The Group filed an objection to the Board of Audit and Inspection (BAI), but its request was overruled by BAI on March 13, 2012. The Group filed an administrative case at the Suwon District Court in June 2012 and the court ruled in the Group's favor in February 2014.

(D) The Board of Audit and Inspection audited the military procurements and pointed out that the Defense Acquisition Program Administration (DAPA) had overpaid the four refinery companies on its purchase of military fuel. As a result, on September 13, 2012, the DAPA billed the Group for the amount of ₩ 32,834 million as alleged excessive profits and additional charges, for the period of 2007 to 2011. The DAPA offset those amounts with the Group’s receivables for the supply of September and October 2012. The Group filed a civil suit for the receivables at the Seoul Central District Court on November 21, 2012 and the court ruled in the Group's favor in December 2013. The DAPA subsequently appealed to the Seoul High Court.

(E) The Group claimed additional refund regarding surcharge for the year of 2008 (₩ 7,961 million), which the Group did not claim on the grounds of the Board of Audit and Inspection's audit results on the KNOC. However, the KNOC rejected down the Group's claim. The Group filed an administrative case at the Suwon District Court on April 18, 2013, for the cancellation of the decision by the KNOC and the court ruled in the Group's favor in January 2014. The KNOC subsequently appealed to the Seoul High Court.

22. Capital Stock and Capital Surplus

Capital stock and capital surplus as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won, except number of shares)	**Number of shares issued (Common Stock)**	**Number of shares issued (Preferred Stock)**	**Common Stocks**	**Preferred Stocks**	**Capital Surplus**	**Total**
December 31, 2012	112,582,792	4,021,927	₩281,457	₩ 10,055	₩ 379,190	₩ 670,702
December 31, 2013	112,582,792	4,021,927	₩281,457	₩ 10,055	₩ 379,190	₩ 670,702

Under its Articles of Incorporation, the Group is authorized to issue 60 million shares of cumulative, participating preferred stock that are non-voting and entitled to a minimum cash dividend at 9% of par value. As all of the preferred stock as of December 31, 2013, was issued before March 27, 1998, it receives 1% more dividends over common stock under the Articles of Incorporation.

The Group is authorized to issue non-voting convertible stock up to 4 million shares. Each share of this non-voting convertible stock was converted to one common share. As of December 31, 2013, there is no outstanding convertible stock issued by the Group.

The Group may grant options to purchase the Group's common stock to key employees or directors. The grant limit of the options is 15% of outstanding shares and the options may be granted with the special resolution of the shareholders. As of December 31, 2013, no option has been granted.

The Group is authorized to issue 180,000,000 shares of common stock with a par value of ₩2,500 per share and 112,582,792 shares are issued. The Group is authorized to issue 60,000,000 shares of cumulative, participating preferred stock with par value of ₩2,500 per share and 4,021,927 shares are issued.

23. Treasury Stock

As of December 31, 2013, the Group holds 184,080 treasury shares of preferred stock amounting to ₩ 1,876 million and is deducted from shareholders' equity. The Group intends to dispose of the treasury stock depending on the market conditions.

24. Retained Earnings

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

(In millions of Korean won)		2013		2012
Legal reserve				
Earned surplus reserve [1]	₩	145,756	₩	145,756
Discretionary reserve				
Reserve for improvement of financial structure		55,700		55,700
Reserve for business rationalization		103,145		103,145
Reserve for market development		2,154,198		1,901,498
		2,313,043		2,060,343
Revaluation reserve		984,648		984,648
Unappropriated retained earnings		239,338		513,379
	₩	3,682,785	₩	3,704,126

[1] The Commercial Code of the Republic of Korea requires the Group to appropriate, as a legal reserve, an amount equal to a minimum of 10% of annual cash dividends paid, until such reserve equals 50% of its issued capital stock. As the Group's reserve exceeds 50% of its issued capital stock, additional reserve is unnecessary. The reserve is not available for cash dividends payment, but may be transferred to capital stock or used to reduce accumulated deficit.

Year-end cash dividends for 2012 amounting to ₩ 247,682 million for common stock and ₩ 8,539 million for preferred stock were paid out in April 2013 (2011 dividends paid in 2012: ₩ 360,265 million for common stock and ₩ 12,377 million for preferred stock).

In accordance with the Articles of Incorporation, on July 5, 2013, the Board of Directors declared interim cash dividends of ₩ 450 per share on June 30, 2013:

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

	No. of shares Issued [1]		Amount	Dividend rate		Cash Dividends
Common stock	112,582,792	₩	281,457	18%	₩	50,662
Preferred stock	3,837,847		9,595	18%		1,727
	116,420,639	₩	291,052		₩	52,389

[1] Treasury stocks are excluded from the number of shares issued.

25. Reserves

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

(In millions of Korean won)	Gain on disposal of treasury stocks	Changes in value of available-for-sale financial instruments	Unrealized gain on equity-method investments	Cash flow hedges	Unrealized translation gains (losses) on foreign operation	Total
Balance at January 1, 2013	₩ 952,311	₩ 43,365	₩ (31)	₩ (686)	₩ 8,131	₩ 1,003,090
Available-for-sale assets	-	(1,398)	-	-	-	(1,398)
Cash flow hedges	-	-	-	686	-	686
Currency translation difference	-	-	-	-	(13)	(13)
Share of other comprehensive income of jointly controlled entities	-	-	31	-	-	31
Balance at December 31, 2013	₩ 952,311	₩ 41,967	₩ -	₩ -	₩ 8,118	₩ 1,002,396
Balance at January 1, 2012	₩ 952,311	₩ 35,436	₩ (34)	₩ (2,046)	₩ 8,198	₩ 993,865
Available-for-sale assets	-	7,929	-	-	-	7,929
Cash flow hedges	-	-	-	1,360	-	1,360
Currency translation difference	-	-	-	-	(67)	(67)
Share of other comprehensive income of jointly controlled entities	-	-	3	-	-	3
Balance at December 31, 2012	₩ 952,311	₩ 43,365	₩ (31)	₩ (686)	₩ 8,131	₩ 1,003,090

26. Cost of Sales

Cost of sales for the years ended December 31, 2013 and 2012, consists of:

(In millions of Korean won)	2013	2012
Finished goods, beginning	₩ 1,047,609	₩ 874,898
Net purchases	1,818,568	2,042,833
Manufacturing cost for the year	30,857,973	34,653,157
Transfer from other accounts	33,287	-
Transfer to other accounts	(1,759,427)	(2,116,100)
Finished goods, ending	(894,657)	(1,047,609)
Adjustments	(874,036)	(996,363)
Cost of sales	₩ 30,229,317	₩ 33,410,816

27. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	Selling expenses		Administrative expenses	
	2013	2012	2013	2012
Salaries	₩ 51,909	₩ 48,652	₩ 26,482	₩ 25,113
Severance Benefits	5,776	5,322	2,985	2,663
Employee Benefits	21,904	26,124	11,061	12,264
Training Expenses	130	152	2,838	3,137
Travel Expenses	3,064	3,013	1,530	1,483
Miscellaneous Administrative Expenses	600	658	545	564
Communication Expenses	1,239	1,144	1,875	1,708
Vehicles Maintenance Expenses	466	461	409	354
Utility Expenses	1,468	1,452	1,015	992
Rental Expenses	6,332	6,698	1,532	1,190
Services expenses in oil storages	14,591	12,374	-	-
Service Fees	9,343	7,718	2,700	2,546
Entertainment Expenses	1,321	1,354	1,811	1,589
Export Expenses	145,938	137,409	-	-
Repairs and Maintenance Expenses	6,074	5,985	1,714	2,061
Supplies Expenses	61	67	3	5
Chemicals Expenses	330	356	-	-
Outsourcing Fees	12,471	11,777	8,531	7,825
Promotional and Advertising Expenses	23,584	24,447	7,084	6,640
Freight Expenses	143,672	127,762	-	-
Insurance Premium	4,293	3,999	127	150
Taxes and Dues	3,550	2,754	4,863	5,572
Depreciation and amortization	16,407	18,399	4,708	5,101
Amortization Expenses	1,126	1,129	3,615	2,269
Bad debts expense	(61)	(3,561)	-	-
Others	259	267	1,892	1,573
Total	₩ 475,847	₩ 445,912	₩ 87,320	₩ 84,799

28. Other Income and Expenses

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

Other income

(In millions of Korean won)	2013	2012
Gains from disposal of property, plant and equipment	₩ 361	₩ 1,133
Dividend income	1,443	1,390
Reversal of allowance for bad debts	4	-
Others	37,744	15,977
Gain on foreign currency transactions	392,861	393,674
Gain on foreign currency translation	7,535	12,278
Gain on derivative transactions	66,101	47,033
Gain on valuation of derivatives	4,768	10,765
Gains from disposal of available-for-sale financial instruments	368	-
Total	₩ 511,185	₩ 482,250

Other expenses

(In millions of Korean won)	2013	2012
Loss on disposal of property, plant and equipment	₩ 1,168	₩ 1,243
Loss on disposal of intangible assets	56	121
Donations	10,838	14,259
Others	17,364	3,077
Loss on foreign currency transactions	408,855	409,596
Loss on foreign currency translation	8,506	12,405
Loss on derivative transactions	86,525	28,270
Loss on valuation of derivatives	4,503	1,101
Other bad debt expenses	70	170
Loss on disposal of available-for-sale financial instruments	80	-
Impairment losses on investments in jointly controlled entities	-	235,779
Total	₩ 537,965	₩ 706,021

29. Finance Income and Costs

Finance income and costs for the years ended December 31, 2013 and 2012, consist of the following:

Finance income

(In millions of Korean won)		2013		2012
Interest income	₩	36,918	₩	45,105
Gain on foreign currency transactions		192,182		235,900
Gain on foreign currency translation		56,384		88,497
Gain on transaction of derivatives		5,400		-
Total	₩	290,884	₩	369,502

Finance costs

(In millions of Korean won)		2013		2012
Interest expenses[1]	₩	53,609	₩	85,551
Loss on foreign currency transactions		195,514		100,750
Loss on foreign currency translation		878		15
Loss on valuation of derivatives		-		8,220
Total	₩	250,001	₩	194,536

[1] Interest expenses represent amounts capitalization on qualifying assets (Note 14).

30. Deferred Income Tax and Income Tax Expense

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

(in millions Korean won)		2013		2012
Current tax				
Current tax on profits for the year	₩	62,889	₩	256,587
Adjustments in respect of prior years		15,475		(31,705)
Total current tax		78,364		224,882
Deferred tax				
Origination and reversal of temporary differences		19,226		(91,096)
Income tax expense	₩	97,590	₩	133,786

Reconciliation between profit before income taxes and income tax expenses for the years ended December 31, 2013 and 2012, is as follows:

(In millions of Korean won)	**2013**	**2012**
Profit before income taxes	₩ 387,229	₩ 718,946
Income tax based on statutory rate	₩ 93,248	₩ 173,523
Income not subject to tax	(2,123)	(6,553)
Expenses not deductible for tax purposes	5,362	1,396
Adjustments in respect of prior years	15,475	(31,705)
Deductions and others	(14,372)	(2,875)
Income tax expenses	₩ 97,590	₩ 133,786

The weighted average applicable tax rate was 24.1 % in 2013 (2012: 24.1 %).

The income tax (charged)/credited directly to equity as of December 31, 2013 and 2012, is as follows:

(in millions Korean won)	**2013**		
	Before tax	**Tax (charge) credit**	**After tax**
Change in value of available-for-sale financial assets	₩ (1,844)	₩ 446	₩ (1,398)
Share of other comprehensive income of jointly controlled entities	42	(11)	31
Currency translation differences	(18)	5	(13)
Cash flow hedges	905	(219)	686
Actuarial loss on post employment benefit obligations	(3,127)	757	(2,370)
Total	₩ (4,042)	₩ 978	₩ (3,064)

(in millions Korean won)	**2012**		
	Before tax	**Tax (charge) credit**	**After tax**
Change in value of available-for-sale financial assets	₩ 10,461	₩ (2,532)	₩ 7,929
Share of other comprehensive income of jointly controlled entities	5	(2)	3
Currency translation differences	(89)	22	(67)
Cash flow hedges	1,794	(434)	1,360
Actuarial loss on post employment benefit obligations	(24,585)	5,950	(18,635)
Total	₩ (12,414)	₩ 3,004	₩ (9,410)

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

(In millions of Korean won)		**2013**		**2012**
Deferred tax assets				
Deferred tax asset to be recovered after more than 12 months	₩	94,932	₩	95,131
Deferred tax asset to be recovered within 12 months		24,163		23,959
		119,095		119,090
Deferred tax liabilities				
Deferred tax liability to be recovered after more than 12 months		(209,027)		(209,289)
Deferred tax liability to be recovered within 12 months		(45,177)		(26,662)
		(254,204)		(235,951)
Deferred tax assets(liabilities), net	₩	(135,109)	₩	(116,861)

The gross movements on the deferred income tax account for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)		**2013**		**2012**
Beginning balance	₩	(116,861)	₩	(210,961)
Tax charged to income		(19,226)		91,096
Tax charged/(credited) directly to equity		978		3,004
Ending balance	₩	(135,109)	₩	(116,861)

The movements in the deferred income taxes assets and liabilities during the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013			
	Beginning Balance	**Statement of income**	**Equity**	**Ending Balance**
Depreciation	₩ 12,217	₩ (530)	₩ -	₩ 11,687
Loss on impairment of investments	2,996	88	-	3,084
Salaries and wages payable	8,825	(2,562)	-	6,263
Gain (loss) on foreign currency translation	240	(240)	-	-
Accrued liabilities	9,442	(1,061)	-	8,381
Share of profit/(loss) of jointly controlled entities	62,403	(105)	-	62,298
Gain (loss) on valuation of derivative instruments	27	116	-	143
Loss on impairment of property, plant and equipment	1,444	-	-	1,444
Change in inventory costing method	(4,509)	4,467	-	(42)
Customs duties receivable	(19,700)	(16,548)	-	(36,248)
Accrued interest income	(2,009)	1,194	-	(815)
Defined benefit liability	1,643	(6,443)	-	(4,800)
Financial instruments	(480)	480	-	-
Employee benefits	3,543	2,375	-	5,918
Revaluation of lands	(189,723)	-	-	(189,723)
Others	-	(457)	-	(457)
Change in value of available for sale assets	(13,845)	-	446	(13,399)
Currency translation differences and share of other comprehensive income of jointly controlled entities	(2,513)	-	(6)	(2,519)
Cash flow hedges	219	-	(219)	-
Actuarial loss on post employment benefit obligations	12,919	-	757	13,676
Total	₩ (116,861)	₩ (19,226)	₩ 978	₩ (135,109)

(In millions of Korean won)	2012 Beginning Balance	2012 Statement of income	2012 Equity	2012 Ending Balance
Depreciation	₩ 12,405	₩ (188)	₩ -	₩ 12,217
Loss on impairment of investments	3,657	(661)	-	2,996
Salaries and wages payable	8,631	194	-	8,825
Gain (loss) on foreign currency translation	240	-	-	240
Accrued liabilities	9,731	(289)	-	9,442
Share of profit/(loss) of jointly controlled entities	937	61,466	-	62,403
Gain (loss) on valuation of derivative instruments	(240)	267	-	27
Loss on impairment of property, plant and equipment	1,444	-	-	1,444
Change in inventory costing method	(30,434)	25,925	-	(4,509)
Customs duties receivable	(21,560)	1,860	-	(19,700)
Accrued interest income	(823)	(1,186)	-	(2,009)
Defined benefit liability	(1,551)	3,194	-	1,643
Financial instruments	(520)	40	-	(480)
Employee benefits	3,269	274	-	3,543
Revaluation of lands	(189,909)	186	-	(189,723)
Others	(14)	14	-	-
Change in value of available for sale assets	(11,313)	-	(2,532)	(13,845)
Currency translation differences and share of other comprehensive income of jointly controlled entities	(2,533)	-	20	(2,513)
Cash flow hedges	653	-	(434)	219
Actuarial loss on post employment benefit obligations	6,969	-	5,950	12,919
Total	₩ (210,961)	₩ 91,096	₩ 3,004	₩ (116,861)

31. Expenses by Nature

Expenses by nature for the years ended December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	2013	2012
Raw materials used	₩27,705,026	₩ 30,711,240
Changes in inventories of finished goods and work in-progress	79,835	(161,234)
Employee benefit expense	254,040	238,055
Utility expenses	1,747,391	2,150,559
Depreciation and amortization	367,829	391,193
Transportation expenses	143,672	127,762
Advertising costs	16,206	17,093
Other expenses	478,485	466,859
Total cost of sales, selling and administrative expenses	₩ 30,792,484	₩ 33,941,527

32. Employee Benefit Expense

Details of employee benefit expense consist of:

(In millions of Korean won)		2013		2012
Wages and salaries	₩	212,404	₩	196,153
Social security costs		18,906		24,166
Pension costs – defined benefit plans		22,633		17,728
Pension costs – defined contribution plans		97		8
Total	₩	254,040	₩	238,055

33. Earnings per Share

Basic earnings per common share is calculated by dividing the profit attributable to common shareholders of the Group by the weighted average number of ordinary shares in issue during the year. As the Group's preferred shares are participating shares with right to participate in distribution of earnings, earnings per share on preferred share is also calculated.

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

(In millions of Korean won, except per share data)		2013		2012
Profit for the year	₩	289,639	₩	585,160
Adjustments:				
Dividends for preferred stock		(96)		(96)
Additional dividends for preferred stock		(9,545)		(19,287)
Profit attributable to common stock shareholders		279,998		565,777
Weighted average number of shares of common stock		112,582,792		112,582,792
Basic earnings per common share	₩	2,487	₩	5,025

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

(In millions of Korean won, except per share data)		2013		2012
Profit attributable to preferred stock shareholders	₩	9,641	₩	19,383
Weighted average number of shares of preferred stock[1]		3,837,847		3,837,847
Basic earnings per preferred share	₩	2,512	₩	5,050

[1] The 184,080 treasury shares are excluded in calculating weighted average number of shares of preferred share.

As there are no dilutive items outstanding, diluted earnings per share is identical to basic earnings per share.

34. Related Party Transactions

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

	2013	2012
The investors which have significant influence	Aramco Overseas Co.,B,V., Hanjin Energy Co., Ltd.	Aramco Overseas Co.,B,V., Hanjin Energy Co., Ltd.
Subsidiary	S-International Ltd.	S-International Ltd.
Jointly controlled entities	S-OIL TOTAL Lubricants Co., Ltd.	S-OIL TOTAL Lubricants Co., Ltd.,
Other related parties	Saudi Arabian Oil Company, Korean Air Lines Co., Ltd.	Saudi Arabian Oil Company[1], Korean Air Lines Co., Ltd.[2]

[1] The ultimate parent company of Aramco Overseas Co.,B.V.
[2] The ultimate parent company of Hanjin Energy Co., Ltd.

Significant transactions with related parties for the years ended December 31, 2013 and 2012, and the related receivables and payables as of December 31, 2013 and 2012, are as follows:

(In millions of Korean won)	Sales		Purchases	
	2013	2012	2013	2012
Jointly controlled entity				
S-OIL TOTAL Lubricants Co., Ltd.	₩ 107,992	₩ 127,603	₩ 10,562	₩ 649
Others				
Saudi Arabian Oil Company	-	73,446	23,178,020	26,913,050
Korean Air Lines Co., Ltd.	517,344	449,835	1,742	1,708
Total	₩ 625,336	₩ 650,884	₩ 23,190,324	₩ 26,915,407

	Receivables		Payables	
(In millions of Korean won)	2013	2012	2013	2012
Jointly controlled entity				
S-OIL TOTAL Lubricants Co., Ltd.	₩ 1,284	₩ 891	₩ 747	₩ 62
Others				
Saudi Arabian Oil Company	-	-	1,933,525	2,206,279
Korean Air Lines Co., Ltd.	35,221	34,962	159	1,219
Total	₩ 36,505	₩ 35,853	₩ 1,934,431	₩ 2,207,560

The Group has allowance of bad debts on receivables from related parties of ₩ 2 million and ₩ 1 million as of December 31, 2013 and 2012, respectively. The bad debt expense amounting to ₩ 1 million for the year ended December 31, 2013, and the reversal of bad debt allowance amounting to ₩ 6 million for the year ended December 31, 2012, was recognized.

The compensation paid or payable to key management for employee services for the years ended December 31, 2013 and 2012, consists of:

(In millions of Korean won)		2013		2012
Short-term employee benefits	₩	1,008	₩	884
Post-employment benefits		115		100
Total	₩	1,123	₩	984

Key management consists of registered executive officers who have the authority and responsibility in the planning, directing and control over the Group's operations.

35. Cash Generated From Operations

Cash generated from operations for the years ended December 31, 2013 and 2012, is as follows:

(In millions of Korean won)		2013		2012
Profit for the year	₩	289,639	₩	585,160
Adjustments :				
Income tax expense		97,590		133,786
Depreciation expense		361,244		386,076
Amortization expense		6,585		5,116
Bad debts expense		(61)		(3,561)
Interest expense		53,609		85,551
Loss on foreign currency translation		9,384		12,405
Loss on derivative transactions		86,525		28,270
Loss on valuation of derivatives		4,503		9,321
Loss on disposal of property, plant, and equipment		1,168		1,243
Loss on disposal of intangible assets		56		121
Loss on valuation of inventories		(15,848)		24,787
Share of profit of jointly controlled entities		(7,082)		14,013
Impairment losses on investments in jointly controlled entities		-		235,779
Interest income		(36,918)		(45,105)
Gain on foreign currency translation		(63,919)		(100,754)
Gain on disposal of property, plant, and equipment		(361)		(1,133)
Gain on derivative transactions		(71,501)		(47,033)
Gain on valuation of derivatives		(4,768)		(10,765)
Dividend income		(1,443)		(1,390)
Others		28		(531)
Changes in net working capital				
Increase in trade receivables		127,488		336,964
Increase in other receivables		158,388		(322,147)
Decrease in other current assets		1,247		2,068
Increase in inventories		163,811		206,454
Increase in trade payables		(117,914)		(156,534)

Increase in other payables	45,406	(235,576)
Decrease in other liabilities	(62,840)	6,163
Cash generated from operations	₩ 1,024,016	₩ 1,148,748

Proceeds from sale of property, plant and equipment in the statement of cash flows comprise:

(In millions of Korean won)	**2013**	**2012**
Net book amount	₩ 2,251	₩ 4,200
Gain on disposal of property, plant and equipment	361	1,133
Loss on disposal of property, plant and equipment	(1,168)	(1,243)
Proceeds from sale of property, plant and equipment	₩ 1,444	₩ 4,090

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

(In millions of Korean won)	**2013**	**2012**
Reclassification of construction in-progress to property, plant and equipment and intangible assets	₩ 218,803	₩ 87,720
Current portion of long-term borrowings and debentures	153,730	309,871
Current portion of long-term loans receivable	21,403	22,708
Other payable related to acquisition property, plant and equipment	10,300	-

36. Event After The Reporting Period

In February 27, 2014, the Board of Directors of the Company approved the purchase of the land located in Onsan-eup, Ulju, Ulsan for ₩ 519 billion from KNOC for the strategic purposes.