

# **S-OIL Corporation and Subsidiary**

**Consolidated Financial Statements**

**December 31, 2014 and 2013**

# S-OIL Corporation and Subsidiary

## Index

December 31, 2014 and 2013

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	<b>Page(s)</b>
<b>Independent Auditor's Report</b> .....	1 - 2
<b>Consolidated Financial Statements</b>	
Consolidated Statements of Financial Position .....	3
Consolidated Statements of Comprehensive Income .....	4
Consolidated Statements of Changes in Equity .....	5
Consolidated Statements of Cash Flows .....	6
Notes to Consolidated Financial Statements .....	7 - 56

**Independent Auditor's Report**  
(English Translation of a Report Originally Issued in Korean)

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

We have audited the accompanying consolidated financial statements of S-OIL Corporation (the "Company") and its subsidiary, which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

***Management's responsibility for the financial statements***

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

***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of S-OIL Corporation and its subsidiary as of December 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with the Korean IFRS.

**Other Matters**

The financial statements of the Company as of and for the year ended December 31, 2013, were audited in accordance with the previous Korean Standards on Auditing.

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.

Samil PricewaterhouseCoopers

March 10, 2015  
Seoul, Korea

This report is effective as of March 10, 2015, 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, 2014 and 2013**

(In millions of Korean won)

	Notes	2014	2013
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7,11	₩ 711,525	₩ 584,603
Trade receivables	8,11	1,524,056	2,160,193
Other receivables	8,11	575,445	560,559
Other current financial assets	9,11	441,183	356,751
Derivative financial instruments	10,11	816	4,768
Inventories	12	2,415,448	4,237,915
Other current assets		9,591	7,716
Current income tax assets		29,444	-
		<u>5,707,508</u>	<u>7,912,505</u>
<b>Non-current assets</b>			
Other receivables	8,11	78,982	74,993
Other non-current financial assets	9,11	60,255	92,191
Investments in associate and jointly controlled entity	13	30,862	30,125
Property, plant and equipment	14,16	4,321,716	3,760,426
Intangible assets	15	49,960	46,526
Other non-current assets		6,455	3,969
		<u>4,548,230</u>	<u>4,008,230</u>
<b>Total assets</b>		<u>₩ 10,255,738</u>	<u>₩ 11,920,735</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	11,17	₩ 840,852	₩ 2,328,601
Other payables	11,17	644,211	714,026
Borrowings	11,18	2,324,356	2,686,599
Derivative financial instruments	10,11	341	4,503
Current income tax liabilities		-	23,264
Provisions for other liabilities and charges	19	4,885	4,216
Deferred revenues		27,663	28,085
Other current liabilities	17	112,837	95,529
		<u>3,955,145</u>	<u>5,884,823</u>
<b>Non-current liabilities</b>			
Other payables	11,17	19,693	17,890
Borrowings	11,18	1,313,289	519,879
Retirement benefit obligations	20	32,723	9,027
Deferred income tax liabilities	30	25,871	135,109
		<u>1,391,576</u>	<u>681,905</u>
<b>Total liabilities</b>		<u>5,346,721</u>	<u>6,566,728</u>
<b>Equity</b>			
Capital stock	22	291,512	291,512
Capital surplus	22	379,190	379,190
Reserves	25	977,812	1,002,396
Treasury stock	23	(1,876)	(1,876)
Retained earnings	24	3,262,379	3,682,785
<b>Total equity</b>		<u>4,909,017</u>	<u>5,354,007</u>
<b>Total liabilities and equity</b>		<u>₩ 10,255,738</u>	<u>₩ 11,920,735</u>

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, 2014 and 2013**

<i>(In millions of Korean won, except per share data)</i>	<b>Notes</b>	<b>2014</b>	<b>2013</b>
<b>Sales</b>	6	₩ 28,557,562	₩ 31,158,528
<b>Cost of sales</b>	26	<u>(28,282,216)</u>	<u>(30,229,317)</u>
<b>Gross profit</b>		275,346	929,211
Selling expenses	27	(479,102)	(475,847)
Administrative expenses	27	<u>(85,948)</u>	<u>(87,320)</u>
<b>Operating income (expense)</b>		<u>(289,704)</u>	<u>366,044</u>
Other income	28	475,180	511,185
Other expenses	28	(468,024)	(537,965)
Finance income	29	220,233	290,884
Finance expenses	29	(329,258)	(250,001)
Share of profit of jointly controlled entities	13	6,041	7,082
Profit (loss) before income tax		<u>(385,532)</u>	<u>387,229</u>
Income tax benefit (expense)	30	97,704	(97,590)
<b>Profit (loss) for the year</b>		<u>(287,828)</u>	<u>289,639</u>
<b>Other comprehensive income (loss), net of tax</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Remeasurements of post employment benefit obligations	20	(12,569)	(2,370)
<b>Items that may be subsequently reclassified to profit or loss</b>			
Change in value of available-for-sale financial assets	25	(24,645)	(1,398)
Cash flow hedges	25	-	686
Share of other comprehensive income in jointly controlled entities	25	24	31
Currency translation differences	25	<u>37</u>	<u>(13)</u>
<b>Other comprehensive income (loss), for the year</b>		<u>(37,153)</u>	<u>(3,064)</u>
<b>Total comprehensive income (loss) for the year</b>		<u>₩ (324,981)</u>	<u>₩ 286,575</u>
<b>Earnings per share</b>			
Basic and diluted earnings (loss) per common share	33	<u>₩ (2,473)</u>	<u>₩ 2,487</u>
Basic and diluted earnings (loss) per preferred share	33	<u>₩ (2,448)</u>	<u>₩ 2,512</u>

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, 2014 and 2013**

<i>(In millions of Korean won)</i>	Capital Stock	Capital Surplus	Reserves	Treasury Stock	Retained Earnings	Total Equity
<b>Balance as of January 1, 2013</b>	₩ 291,512	₩ 379,190	₩ 1,003,090	₩ (1,876)	₩ 3,704,126	₩ 5,376,042
Profit for the year	-	-	-	-	289,639	289,639
<b>Other comprehensive income (loss)</b>						
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)
Remeasurements of post employment benefit obligations	-	-	-	-	(2,370)	(2,370)
<b>Total other comprehensive income (loss) for the year</b>	-	-	(694)	-	(2,370)	(3,064)
<b>Total comprehensive income (loss) for the year</b>	-	-	(694)	-	287,269	286,575
<b>Transactions with equity holders of the Parent Company</b>						
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)
<b>Balance as of December 31, 2013</b>	<u>₩ 291,512</u>	<u>₩ 379,190</u>	<u>₩ 1,002,396</u>	<u>₩ (1,876)</u>	<u>₩ 3,682,785</u>	<u>₩ 5,354,007</u>
<b>Balance as of January 1, 2014</b>	₩ 291,512	₩ 379,190	₩ 1,002,396	₩ (1,876)	₩ 3,682,785	₩ 5,354,007
Loss for the year	-	-	-	-	(287,828)	(287,828)
<b>Other comprehensive income (loss)</b>						
Change in value of available-for-sale financial assets	-	-	(24,645)	-	-	(24,645)
Share of other comprehensive income of jointly controlled entities	-	-	24	-	-	24
Currency translation difference	-	-	37	-	-	37
Remeasurements of post employment benefit obligations	-	-	-	-	(12,569)	(12,569)
<b>Total other comprehensive income (loss) for the year</b>	-	-	(24,584)	-	(12,569)	(37,153)
<b>Total comprehensive income (loss) for the year</b>	-	-	(24,584)	-	(300,397)	(324,981)
<b>Transactions with equity holders of the Parent Company</b>						
Cash dividends to equity holders of the Company for 2013	-	-	-	-	(102,546)	(102,546)
Interim dividends to equity holders of the Company for 2014	-	-	-	-	(17,463)	(17,463)
<b>Balance as of December 31, 2014</b>	<u>₩ 291,512</u>	<u>₩ 379,190</u>	<u>₩ 977,812</u>	<u>₩ (1,876)</u>	<u>₩ 3,262,379</u>	<u>₩ 4,909,017</u>

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, 2014 and 2013**

<i>(In millions of Korean won)</i>	<b>Notes</b>	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>			
Cash generated from operations	35	₩ 942,641	₩ 1,024,016
Interest received		29,286	41,900
Interest paid		(47,498)	(56,568)
Income tax paid		(52,382)	(224,366)
Dividends received		7,155	8,093
<b>Net cash generated from operating activities</b>		<u>879,202</u>	<u>793,075</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment	35	1,230	1,444
Proceeds from sale of intangible assets		14	326
Decrease in other receivables		24,915	28,845
Settlement of derivative financial instruments		3,509	(11,150)
Decrease in other financial assets		32,784	366,244
Decrease in other assets		3,949	4,445
Purchases of property, plant and equipment	14	(912,255)	(446,242)
Purchases of intangible assets	15	(1,344)	(6,815)
Acquisition of an associate	13	(264)	-
Increase in other receivables		(24,598)	(27,191)
Increase in other financial assets		(87,859)	-
Increase in other assets		(4,278)	(5,406)
<b>Net cash used in investing activities</b>		<u>(964,197)</u>	<u>(95,500)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		798,289	76,636
Repayment of borrowings		(466,250)	(315,435)
Dividends paid		(120,171)	(308,570)
<b>Net cash generated (used) in financing activities</b>		<u>211,868</u>	<u>(547,369)</u>
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of year	7	584,603	434,414
Exchange profit (loss) on cash and cash equivalents		49	(17)
<b>Cash and cash equivalents at the end of year</b>	7	<u>₩ 711,525</u>	<u>₩ 584,603</u>

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



**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

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**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, 2014, 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

The Group's major shareholder, Hanjin Energy Co., Ltd., has determined to dispose all of the shares owned to the largest shareholder, Aramco Overseas Co., B.V. The disposition was completed on January 19, 2015. As a result, number of shares owned by Aramco Overseas Co., B.V became 71,387,560 shares and it's ownership on common stock increased to 63.41%.

**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, 2014 and 2013, follows:

<i>(In millions of Korean won)</i>	<b>2014</b>		<b>2013</b>	
Total Assets	₩	1,216	₩	1,165
Total Liabilities	₩	-	₩	-
Equity	₩	1,216	₩	1,165
Sales	₩	-	₩	-
Profit	₩	3	₩	5

# **S-OIL Corporation and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **December 31, 2014 and 2013**

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## **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 consolidated financial statements of the Group for the annual period beginning on January 1, 2011, have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of the consolidated 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 consolidated financial statements are disclosed in Note 5.

### **2.2 Changes in Accounting Policy and Disclosures**

#### *(a) New and amended standards and enactment adopted by the Group*

The Group newly applied the following amended and enacted standards and amendments for the annual period beginning on January 1, 2014:

- Amendment of Korean IFRS 2121, *Levies*

Korean IFRS 2121, *Levies*, is applied to a liability to pay a levy imposed by the government in accordance with the legislation. The interpretation requires that the liability to pay a levy is recognized when the activity that triggers the payment of the levy occurs, as identified by the legislation. The application of this interpretation does not have a material impact on the consolidated financial statements.

# **S-OIL Corporation and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **December 31, 2014 and 2013**

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- Enactment of Korean IFRS 1102, *Share-based payment*

Korean IFRS 1102, *Share-based payment*, clarifies the definition of 'vesting conditions' such as 'performance condition', 'service condition' and others. This enactment is applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The application of this enactment does not have a material impact on the 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. The application of this enactment does not have a material impact on the consolidated financial statements.

- Amendment to Korean IFRS 1036, *Impairment of Assets*

Amendment to Korean IFRS 1036, *Impairment of Assets*, removed certain disclosures of the recoverable amount of CGUs which had been included in this amendment by the issuance of K-IFRS 1113. The application of this enactment does not have a material impact on the 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. The application of this enactment does not have a material impact on the consolidated financial statements.

#### *(b) New standards and interpretations not yet adopted*

The Group expects that new standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2014, and not early adopted would not have a material impact on its financial statements.

### **2.3 Consolidation**

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

## **S-OIL Corporation and Subsidiary**

### **Notes to Consolidated Financial Statements**

#### **December 31, 2014 and 2013**

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##### *(a) Subsidiaries*

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

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

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

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

##### *(b) Associates*

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

##### *(c) Joint Arrangements*

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator has rights to the assets, and obligations for the liabilities, relating to the joint operation and recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets relating to the joint venture and accounts for that investment using the equity method.

# **S-OIL Corporation and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **December 31, 2014 and 2013**

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#### **2.4 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 and presentation currency.

##### *(b) Transactions and balances*

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

#### **2.5 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.

## **S-OIL Corporation and Subsidiary**

### **Notes to Consolidated Financial Statements**

#### **December 31, 2014 and 2013**

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

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

#### *(b) Impairment*

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

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

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

#### *(c) Derecognition*

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

# S-OIL Corporation and Subsidiary

## Notes to Consolidated Financial Statements

### December 31, 2014 and 2013

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#### *(d) Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

#### **2.6 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 income (expenses)' or 'finance income (expenses)' according to the nature of transactions.

#### **2.7 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.

#### **2.8 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:

	<u>Estimated useful lives</u>
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 each financial year-end and, if appropriate, accounted for as changes in accounting estimates.

# S-OIL Corporation and Subsidiary

## Notes to Consolidated Financial Statements

### December 31, 2014 and 2013

---

#### 2.9 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.

#### 2.10 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:

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

#### 2.11 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.

#### 2.12 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 payables' and 'borrowings' in the consolidated statement of financial position.



# **S-OIL Corporation and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **December 31, 2014 and 2013**

---

#### *(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.

#### **2.13 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.

Management periodically evaluates tax policies that are applied in tax returns in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax on the basis of the amount expected to be paid to the tax authorities.

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

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

# **S-OIL Corporation and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **December 31, 2014 and 2013**

---

#### **2.14 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.

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

#### **2.15 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.

#### **2.16 Customer Loyalty Program**

The Group operates 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".

#### **2.17 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.

# **S-OIL Corporation and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **December 31, 2014 and 2013**

---

#### **2.18 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.

##### **c. Dividend income**

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

#### **2.19 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.

#### **2.20 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.

# **S-OIL Corporation and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **December 31, 2014 and 2013**

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#### **2.21 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.

#### **2.22 Segment Reporting**

Information of each operating segment is 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.

#### **2.23 Approval of Issuance of the Financial Statements**

The issuance of the December 31, 2014 consolidated financial statements of the Group was approved by the Board of Directors on February 27, 2015, which is subject to change with the approval of shareholders at the general shareholders' meeting.

### **3. Financial Risk Management**

#### **3.1 Financial Risk Factors**

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.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

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, 2014, 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 ₩ 196,681 million (2013: ₩ 295,956 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, 2014 and 2013, are converted into Korean won as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>		<b>2013</b>	
Trade receivables				
KRW	₩	309,753	₩	428,448
USD		1,211,710		1,731,745
EUR		1,415		-
AUD		1,178		-
Total	₩	1,524,056	₩	2,160,193
Trade payables				
KRW		28,342		₩54,965
USD		812,510		2,273,636
Total	₩	840,852	₩	2,328,601
Borrowings				
KRW		1,318,493		673,609
USD		2,319,152		2,532,869
Total	₩	3,637,645	₩	3,206,478

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 to mitigate a risk of future price fluctuation.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

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 impact of 1% higher/lower of interest rate with all other variables held constant on the Company's post-tax profit for the year and on equity as of December 31, 2014 and 2013, is as follows:

<i>(In millions of Korean won)</i>	2014		2013	
	Income after tax	Capital	Income after tax	Capital
1% increase	₩ (727)	₩ (727)	₩ (188)	₩ (188)
1% decrease	₩ 727	₩ 727	₩ 188	₩ 188

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 impact of 10% higher/lower of the equity index and of unlisted stock prices with all other variables held constant on the Company's other comprehensive income for the year (change in value of available-for-sale financial assets) as of December 31, 2014 and 2013, is as follows:

<i>(In millions of Korean won)</i>	2014		2013	
Listed stocks	₩	18	₩	2,707
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.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

The maximum exposure to credit risk as of December 31, 2014 and 2013:

<i>(In millions of Korean won)</i>	<b>2014</b>		<b>2013</b>	
Financial assets				
Cash and cash equivalents	₩	711,380	₩	584,553
Trade receivables		1,524,056		2,160,193
Other receivables		170,656		185,152
Other financial assets		448,959		360,981
Derivative assets		816		4,768
Total	₩	2,855,867	₩	3,295,647

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 except for trade receivables.

(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.

Details of the Group's liquidity risk analysis as of December 31, 2014 and 2013:

<i>(In millions of Korean won)</i>	<b>Less than</b>		<b>Over</b>	<b>Total</b>
	<b>1 year</b>	<b>2 years</b>	<b>2 years</b>	
<b>December 31, 2014</b>				
Trade payables	₩ 840,852	₩ -	₩ -	₩ 840,852
Other payables	270,492	5,026	4,162	279,680
Borrowings	2,332,755	45,170	1,448,385	3,826,310
Currency forward				
Outflow	(187,168)	-	-	(187,168)
Inflow	187,986	-	-	187,986
Commodity Swap	341	-	-	341
Total	₩ 3,445,258	₩ 50,196	₩ 1,452,547	₩ 4,948,001
<b>December 31, 2013</b>				
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

The amounts disclosed in the table are undiscounted cash flows.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**3.2 Capital Risk Management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other 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:

<i>(In millions of Korean won, except for ratios)</i>	<b>2014</b>	<b>2013</b>
Interest bearing liability (A)	₩ 3,637,645	₩ 3,206,478
Cash and cash equivalents and current financial deposits (B)	1,152,525	940,603
Net borrowings (C=A-B)	2,485,120	2,265,875
Equity (D)	4,909,017	5,354,007
Debt-to-equity ratio (A/D)	74%	60%
Net borrowings/equity ratio (C/D)	51%	42%

**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, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	<b>2014</b>		<b>2013</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Financial assets				
Available-for-sale financial assets	₩ 60,425	₩ 60,425	₩ 92,929	₩ 92,929
Derivative financial instruments	816	816	4,768	4,768
Total	<u>₩ 61,241</u>	<u>₩ 61,241</u>	<u>₩ 97,697</u>	<u>₩ 97,697</u>
Financial liabilities				
Derivative financial instruments	₩ 341	₩ 341	₩ 4,503	₩ 4,503
Total	<u>₩ 341</u>	<u>₩ 341</u>	<u>₩ 4,503</u>	<u>₩ 4,503</u>

Carrying amount of other financial assets and liabilities other than available-for-sale financial assets and derivative financial instruments is a reasonable approximation of fair value.



**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**(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, 2014, are as follows:

<i>(in millions of Korean won)</i>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Recurring fair value measurements				
Assets				
Available-for-sale financial assets				
Equity securities	₩ 223	₩ -	₩ 52,256	₩ 52,479
Debt securities	7,946	-	-	7,946
Financial asset measured at fair value through profit or loss				
Derivative financial assets	-	816	-	816
Total	<u>₩ 8,169</u>	<u>₩ 816</u>	<u>₩ 52,256</u>	<u>₩ 61,241</u>
Liabilities				
Financial liability measured at fair value through profit or loss				
Derivative financial liabilities	-	341	-	341
Total	<u>₩ -</u>	<u>₩ 341</u>	<u>₩ -</u>	<u>₩ 341</u>

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:

<i>(in millions of Korean won)</i>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>₩ 40,673</u>	<u>₩ 4,768</u>	<u>₩ 52,256</u>	<u>₩ 97,697</u>
Liabilities				
Financial liability measured at fair value through profit or loss				
Derivative financial liabilities	-	4,503	-	4,503
Total	<u>₩ -</u>	<u>₩ 4,503</u>	<u>₩ -</u>	<u>₩ 4,503</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**(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 fair value measurements and disclosed fair values categorized within Level 2 and Level 3 of the fair value hierarchy as of December 31, 2014, are as follows:

**1) Level 3**

*(in millions of Korean won)*

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

<sup>1</sup> DCF: Discounted Cash Flow method <sup>2</sup> IMV: Imputed Market Value Model

**2) Level 2**

*(in millions of Korean won)*

	<b>Fair value</b>	<b>Level</b>	<b>Valuation techniques</b>
<b>Financial assets at fair value through profit or loss</b>			
Currency forward	₩ 816	2	Present value technique
<b>Financial liabilities at fair value through profit or loss</b>			
Commodity swap	₩ 341	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.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

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**(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 whose changes in fair value are 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 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 income generated from the Group's operation is subject to income taxes based on tax laws and interpretations of tax authority. There are transactions and calculations for which the ultimate tax determination is uncertain (Note 30).

**d. Provisions for Other Liabilities and Charges**

As of December 31, 2014, the Group records environmental restoration provisions. These provisions are estimated based on past experience (Note 19).

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**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, 2014 and 2013, follows:

	<b>2014</b>			
	<b>Oil Refining Business</b>	<b>Lube Oil Business</b>	<b>Petrochemical Business</b>	<b>Total</b>
<i>(In millions of Korean won)</i>				
Gross sales	₩ 23,080,139	₩ 1,971,559	₩ 3,505,864	₩ 28,557,562
Inter-segment sales	7,246,146	986,789	1,517,810	9,750,745
Total sales	30,326,285	2,958,348	5,023,674	38,308,307
Operating profit (loss)	₩ (729,468)	₩ 257,811	₩ 181,953	₩ (289,704)
Property, plant, equipment and intangible assets	2,892,013	85,909	1,393,754	4,371,676
Depreciation and amortization	222,296	16,052	101,355	339,703
	<b>2013</b>			
	<b>Oil Refining Business</b>	<b>Lube Oil Business</b>	<b>Petrochemical Business<sup>1</sup></b>	<b>Total</b>
<i>(In millions of Korean won)</i>				
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 (loss)	₩ (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

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

Net sales by geographic region are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>		<b>2013</b>	
Korea	₩	10,998,525	₩	12,294,775
Southeast Asia		3,291,373		4,072,313
China		3,943,503		3,901,716
Japan		3,066,979		3,967,727
Australia		2,120,441		1,448,893
United States of America		1,810,282		1,624,408
Europe		404,474		807,594
Others		2,921,985		3,041,102
Total	₩	<u>28,557,562</u>	₩	<u>31,158,528</u>

**7. Cash and Cash Equivalents**

Cash and cash equivalents as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>		<b>2013</b>	
Cash on hand	₩	145	₩	50
Checking accounts		14		8
Passbook accounts		11,455		4,996
Foreign currency deposits		222,941		160,989
Time deposits		390,000		315,000
MMDA and others		86,970		103,560
Total	₩	<u>711,525</u>	₩	<u>584,603</u>

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

**8. Trade and Other Receivables**

Trade and other receivables as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>		<b>2013</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Trade receivables	₩ 1,528,381	₩ -	₩ 2,165,934	₩ -
Less : provision for impairment	(4,325)	-	(5,741)	-
	<u>1,524,056</u>	<u>-</u>	<u>2,160,193</u>	<u>-</u>
Other receivables	566,394	-	546,325	-
Accrued revenues	2,467	-	3,412	-
Less : provision for impairment	(1)	-	(1)	-
Loans	6,585	56,405	10,823	52,941
Less : provision for impairment	-	-	-	(76)
Deposits received	-	22,577	-	22,128
	<u>575,445</u>	<u>78,982</u>	<u>560,559</u>	<u>74,993</u>
Net book amount	₩ <u>2,099,501</u>	₩ <u>78,982</u>	₩ <u>2,720,752</u>	₩ <u>74,993</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

The aging analysis of trade receivables as of December 31, 2014 and 2013, is as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>		<b>2013</b>	
Receivables not past due	₩	1,519,442	₩	2,156,686
Up to one month		5,032		4,443
One to three months		72		541
Three to six months		182		31
Six to 12 months		580		590
Over one year		3,073		3,643
Total	₩	<u>1,528,381</u>	₩	<u>2,165,934</u>

As of December 31, 2014, trade receivables of ₩ 594,042 million (2013: ₩ 730,414 million) are pledged as collateral. Among the trade receivables pledged, ₩ 6,636 million (2013: ₩ 5,428 million) is past due but not impaired.

The aging analysis of these other receivables as of December 31, 2014 and 2013, is as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>		<b>2013</b>	
Receivables not past due	₩	654,420	₩	634,848
Up to one month		8		19
One to three months		-		8
Three to six months		-		11
Six to 12 months		-		743
Over one year		-		-
Total	₩	<u>654,428</u>	₩	<u>635,629</u>

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

<i>(In millions of Korean won)</i>	<b>2014</b>		<b>2013</b>	
Beginning balance	₩	5,741	₩	6,213
Bad debts expense		(604)		(61)
Other		(812)		(411)
Ending balance	₩	<u>4,325</u>	₩	<u>5,741</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

Movements on the provision for impairment of for other receivables as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
Beginning balance	₩ 77	₩ 170
Bad debts expense	31	70
Reversal	(76)	(4)
Other	(31)	(159)
Ending balance	<u>₩ 1</u>	<u>₩ 77</u>

**9. Other Financial Assets**

Other financial assets as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
Current		
Short-term available-for-sale financial assets	₩ 183	₩ 751
Short-term financial instruments	<u>441,000</u>	<u>356,000</u>
	<u>441,183</u>	<u>356,751</u>
Non-current		
Long-term deposit	13	13
Long-term available-for-sale financial assets	<u>60,242</u>	<u>92,178</u>
	<u>60,255</u>	<u>92,191</u>
Total	<u>₩ 501,438</u>	<u>₩ 448,942</u>

Available-for-sale financial assets as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
Current		
Government and public bonds	<u>₩ 183</u>	<u>₩ 751</u>
Non-current		
Listed equities	223	35,705
Non-listed equities	52,256	52,256
Government and public bonds	<u>7,763</u>	<u>4,217</u>
	<u>60,242</u>	<u>92,178</u>
Total	<u>₩ 60,425</u>	<u>₩ 92,929</u>

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

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

The changes in available-for-sale financial assets for the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>		<b>2013</b>	
At January 1	₩	92,929	₩	94,904
Additions		3,847		647
Disposals		(3,838)		(778)
Net gains (losses) reclassified to equity		(17)		(1,566)
Net gains (losses) reclassified from equity		(32,496)		(278)
At December 31	₩	<u>60,425</u>	₩	<u>92,929</u>
Non-current portion	₩	<u>60,242</u>	₩	<u>92,178</u>
Current portion	₩	<u>183</u>	₩	<u>751</u>

**10. Derivative Financial Instruments**

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

<i>(In millions of Korean won)</i>	<b>2014</b>		<b>2013</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Trading purpose				
Forward foreign exchange	₩ 816	₩ -	₩ 3,991	₩ 3,135
Commodity Swap	-	341	777	1,368
	<u>₩ 816</u>	<u>₩ 341</u>	<u>₩ 4,768</u>	<u>₩ 4,503</u>
Current	816	341	4,768	4,503

Derivatives financial instruments held for trading purposes are classified as a current asset or liability.

**11. Financial Instruments by Category**

Categorizations of financial assets and liabilities as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>			
	<b>Loans and receivables</b>	<b>Financial assets at fair value through profit or loss</b>	<b>Financial assets classified as available-for-sale</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	₩ 711,525	₩ -	₩ -	₩ 711,525
Trade receivables	1,524,056	-	-	1,524,056
Other receivables	170,656	-	-	170,656
Other financial assets	441,013	-	60,425	501,438
Derivative financial instruments	-	816	-	816
Total	<u>₩ 2,847,250</u>	<u>₩ 816</u>	<u>₩ 60,425</u>	<u>₩ 2,908,491</u>



**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

<i>(In millions of Korean won)</i>	<b>2014</b>		
	<b>Financial liabilities at amortized cost</b>	<b>Financial liabilities at fair value through profit or loss</b>	<b>Total</b>
<b>Liabilities</b>			
Trade payables	₩ 840,852	-	₩ 840,852
Other payables	279,680	-	279,680
Borrowings	3,637,645	-	3,637,645
Derivative financial instruments	-	341	341
Total	<u>₩ 4,758,177</u>	<u>₩ 341</u>	<u>₩ 4,758,518</u>

<i>(In millions of Korean won)</i>	<b>2013</b>			
	<b>Loans and receivables</b>	<b>Financial assets at fair value through profit or loss</b>	<b>Financial assets classified as available-for-sale</b>	<b>Total</b>
<b>Assets</b>				
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	<u>₩ 3,285,961</u>	<u>₩ 4,768</u>	<u>₩ 92,929</u>	<u>₩ 3,383,658</u>

<i>(In millions of Korean won)</i>	<b>2013</b>		
	<b>Financial liabilities at amortized cost</b>	<b>Financial liabilities at fair value through profit or loss</b>	<b>Total</b>
<b>Liabilities</b>			
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	<u>₩ 5,859,053</u>	<u>₩ 4,503</u>	<u>₩ 5,863,556</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

Net gains or net losses on each category of financial instruments for the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
<b>Loans and receivables</b>		
Interest income	₩ 28,191	₩ 36,756
Foreign currency gain (loss)	70,223	(41,935)
Bad debt expenses	604	61
Other bad debt expenses	(31)	(70)
Reversal of bad debts allowance	76	4
<b>Assets and liabilities at fair value through profit or loss</b>		
Derivative financial instruments gain (loss)	3,719	(20,159)
<b>Derivatives used for hedging</b>		
Derivative financial instruments gain (loss)	-	5,400
Cash flow hedges	-	905
<b>Assets classified as available-for-sale</b>		
Gain (Loss) on valuation (Other comprehensive income (loss))	(17)	(1,566)
Gain (Loss) on disposal (Reclassification)	(32,496)	(278)
Gain (Loss) on disposal (Profit or loss)	29,816	288
Interest income	153	162
Dividends income	1,555	1,443
<b>Financial liabilities at amortized cost</b>		
Foreign currency gain (loss)	(187,910)	77,144
Interest expenses <sup>1</sup>	(42,648)	(53,609)

<sup>1</sup> Interest expenses exclude capitalized borrowing costs on qualifying assets.

## 12. Inventories

Inventories as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
Merchandise	₩ 25,248	₩ -
Finished goods	622,019	900,719
Valuation allowance for finished goods	(19,004)	(6,062)
Work in progress	304,438	475,649
Valuation allowance for work in progress	(22,988)	(15,978)
Raw materials and materials-in-transit	1,450,542	2,802,099
Valuation allowance for raw materials and materials-in-transit	(38,397)	(301)
Supplies	93,590	81,789
Total	<u>₩ 2,415,448</u>	<u>₩ 4,237,915</u>

The cost of inventories recognized as expense and included in cost of sales amounted to ₩ 25,995,035 million (2013: ₩ 27,784, 861 million). The Group recognized inventory valuation loss of ₩ 58,048 million for the year ended December 31, 2014, and reversal of inventory valuation loss of ₩ 15,848 million for the year ended December 31, 2013.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**13. Investments in Associate and Jointly Controlled Entity**

Details of associate and jointly controlled entity as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won except  
number of shares)

Investee	Location	Closing month	Number of Shares	Percentage of Ownership (%)	Acquisition cost	2014	2013
Jointly controlled entity							
S-OIL TOTAL Lubricants Co.,Ltd.	Korea	December	3,500,001	50% plus one share	₩ 20,134	₩ 30,844	₩ 30,125
Associate							
Korea Oil Terminal Co., Ltd. <sup>1</sup>	Korea	December	5,280	11%	264	18	-
Total					₩ 20,398	₩ 30,862	₩ 30,125

<sup>1</sup> In 2014, the Group acquired 11% ownership interest of Korea Oil Terminal Co., Ltd. Although the Company owns less than 20% of the voting rights of Korea Oil Terminal Co., Ltd., the Company is considered to have a significant influence over Korea Oil Terminal Co., Ltd., which is classified as an associate, as the Company has a right to participate in the investee's board of directors.

Details of adjustments from financial information of associate and joint venture to the book value of investments in associate and joint venture for the years ended December 31, 2014 and 2013, are as follows:

		2014				
		Net Assets	Percentage of Ownership (%)	Shares of Net Assets	Inter-Company Transactions	Book Value
Jointly controlled entity	S-OIL TOTAL Lubricants Co., Ltd.	₩ 62,112	50% plus one share	₩ 31,056	₩ (212)	₩ 30,844
	Korea Oil Terminal Co., Ltd.	166	11%	18	-	18

		2013				
		Net Assets	Percentage of Ownership (%)	Shares of Net Assets	Inter-Company Transactions	Book Value
Jointly controlled entity	S-OIL TOTAL Lubricants Co., Ltd.	₩ 60,854	50% plus one share	₩ 30,427	₩ (302)	₩ 30,125

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

Summarized financial information of jointly controlled entity and associate as of and for the years ended December 31, 2014 and 2013, is as follows:

<i>(In millions of Korean won)</i>	<b>S-OIL TOTAL Lubricants Co., Ltd.</b>		<b>Korea Oil Terminal Co., Ltd</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	
Current assets	₩ 69,810	₩ 63,909	₩	1,409
Non-current assets	19,063	18,029		87
Total assets	88,873	81,938		1,496
Current liabilities	26,761	21,084		1,311
Non-current liabilities	-	-		19
Total liabilities	26,761	21,084		1,330
Total equity	62,112	60,854		166
Revenue	272,875	256,609		-
Operating income	16,597	17,882		(2,253)
Profit before income tax	16,234	17,912		(2,235)
Profit for the year	12,384	13,974		(2,235)
Total comprehensive income for the year	12,447	14,058		(2,235)

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

<i>(In millions of Korean won)</i>	<b>2014</b>		
	<b>S-OIL TOTAL Lubricants Co., Ltd</b>	<b>Korea Oil Terminal Co., Ltd</b>	<b>Total</b>
Beginning balance	₩ 30,125	₩ -	₩ 30,125
Acquisition	-	264	264
Share of profit (loss)	6,192	(246)	5,946
Unrealized gain (loss)	95	-	95
Dividend received	(5,600)	-	(5,600)
Other equity changes	32	-	32
Ending balance	₩ 30,844	₩ 18	₩ 30,862

<i>(In millions of Korean won)</i>	<b>2013</b>	
	<b>S-OIL TOTAL Lubricants Co., Ltd.</b>	
Beginning balance	₩	29,651
Acquisition		-
Share of profit		6,987
Unrealized gain (loss)		95
Dividend received		(6,650)
Other equity changes		42
Ending balance	₩	30,125

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**14. Property, Plant and Equipment**

Changes in carrying amounts of property, plant and equipment for the years ended December 31, 2014 and 2013, are as follows:

	<b>2014</b>								
	<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Machinery and equipment</b>	<b>Vehicles</b>	<b>Others</b>	<b>Catalysts</b>	<b>Construction-in-progress</b>	<b>Total</b>
<i>(In millions of Korean won)</i>									
At January 1, 2014									
Acquisition cost	₩ 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	<u>₩ 1,257,427</u>	<u>₩ 198,739</u>	<u>₩ 353,065</u>	<u>₩ 1,179,041</u>	<u>₩ 2,243</u>	<u>₩ 149,847</u>	<u>₩ 159,991</u>	<u>₩ 460,073</u>	<u>₩ 3,760,426</u>
Changes during 2014									
Opening net book value	1,257,427	198,739	353,065	1,179,041	2,243	149,847	159,991	460,073	3,760,426
Additions	-	87	70	-	43	13,211	60,590	837,440	911,441
Transfers	84	3,219	131,173	67,373	-	372	-	(212,463)	(10,242)
Disposals	(731)	(6,641)	(639)	-	(27)	(305)	-	-	(8,343)
Depreciation	-	(6,506)	(32,268)	(144,501)	(648)	(58,807)	(88,836)	-	(331,566)
Closing net book value	<u>₩ 1,256,780</u>	<u>₩ 188,898</u>	<u>₩ 451,401</u>	<u>₩ 1,101,913</u>	<u>₩ 1,611</u>	<u>₩ 104,318</u>	<u>₩ 131,745</u>	<u>₩ 1,085,050</u>	<u>₩ 4,321,716</u>
At December 31, 2014									
Cost or valuation	1,256,780	253,947	882,747	3,567,636	11,847	345,181	746,687	1,085,050	8,149,875
Accumulated depreciation	-	(65,049)	(431,346)	(2,465,723)	(10,236)	(240,863)	(614,942)	-	(3,828,159)
Net book value	<u>₩ 1,256,780</u>	<u>₩ 188,898</u>	<u>₩ 451,401</u>	<u>₩ 1,101,913</u>	<u>₩ 1,611</u>	<u>₩ 104,318</u>	<u>₩ 131,745</u>	<u>₩ 1,085,050</u>	<u>₩ 4,321,716</u>
	<b>2013</b>								
	<b>Land</b>	<b>Buildings</b>	<b>Structures</b>	<b>Machinery and equipment</b>	<b>Vehicles</b>	<b>Others</b>	<b>Catalysts</b>	<b>Construction-in-progress</b>	<b>Total</b>
<i>(In millions of Korean won)</i>									
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	<u>₩ 1,257,969</u>	<u>₩ 201,408</u>	<u>₩ 358,628</u>	<u>₩ 1,281,013</u>	<u>₩ 1,259</u>	<u>₩ 70,554</u>	<u>₩ 170,079</u>	<u>₩ 329,425</u>	<u>₩ 3,670,335</u>
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	<u>₩ 1,257,427</u>	<u>₩ 198,739</u>	<u>₩ 353,065</u>	<u>₩ 1,179,041</u>	<u>₩ 2,243</u>	<u>₩ 149,847</u>	<u>₩ 159,991</u>	<u>₩ 460,073</u>	<u>₩ 3,760,426</u>
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	<u>₩ 1,257,427</u>	<u>₩ 198,739</u>	<u>₩ 353,065</u>	<u>₩ 1,179,041</u>	<u>₩ 2,243</u>	<u>₩ 149,847</u>	<u>₩ 159,991</u>	<u>₩ 460,073</u>	<u>₩ 3,760,426</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

Details of the expenditure related to property, plant and equipment for the years ended December 31, 2014 and 2013, are as follows:

<b>Account Name</b>	<b>Details</b>	<b>2014</b>		<b>2013</b>	
Construction in-progress	Improvement of plant facility and land	₩	837,440	₩	349,451
Others	Equipment, fixtures and catalysts		74,001		107,932
Total		₩	911,441	₩	457,383

Depreciation expense of ₩ 312,380 million (2013: ₩ 340,129 million) has been charged to cost of sales, ₩ 15,519 million (2013: ₩ 16,407 million) to selling expenses and ₩ 3,667 million (2013: ₩ 4,708 million) to administrative expenses.

As of December 31, 2014, a certain portion of property, plant and equipment is pledged as collateral for various loans (Note 16).

In 2014, the Group has capitalized borrowing costs amounting to ₩ 6,114 million (2013: ₩ 840 million) on qualifying assets. The capitalization rate of borrowings used to determine the amount of borrowing costs eligible for capitalization is 1.22% (2013: 0.75%) for general borrowings and 2.86% for specific borrowings.

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, 2014 and 2013 are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>			
	<b>Facility usage rights</b>	<b>Others</b>	<b>Membership rights</b>	<b>Total</b>
At January 1, 2014				
Acquisition cost	₩ 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
Changes during 2014				
Opening net book value	4,716	20,847	20,963	46,526
Additions	-	1,312	32	1,344
Transfers	-	10,242	-	10,242
Disposals	-	(15)	-	(15)
Amortization	(405)	(7,732)	-	(8,137)
Closing net book value	₩ 4,311	₩ 24,654	₩ 20,995	₩ 49,960
At December 31, 2014				
Cost or valuation	8,113	59,420	20,995	88,528
Accumulated amortization	(3,802)	(34,766)	-	(38,568)
Net book value	₩ 4,311	₩ 24,654	₩ 20,995	₩ 49,960

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

<i>(In millions of Korean won)</i>	2013			
	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	<u>₩ 5,124</u>	<u>₩ 19,894</u>	<u>₩ 17,863</u>	<u>₩ 42,881</u>
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	<u>₩ 4,716</u>	<u>₩ 20,847</u>	<u>₩ 20,963</u>	<u>₩ 46,526</u>
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	<u>₩ 4,716</u>	<u>₩ 20,847</u>	<u>₩ 20,963</u>	<u>₩ 46,526</u>

Amortization expense of ₩ 2,358 million (2013: ₩ 1,844 million) is included in cost of sales, ₩ 1,015 million (2013: ₩ 1,126 million) in selling expenses and ₩ 4,764 million (2013: ₩ 3,615 million) in administrative expenses.

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

**16. Assets Pledged as Collateral**

As of December 31, 2014, assets pledged as collateral are as follows:

<i>(In millions of Korean won and millions of other foreign currencies)</i>				
Pledged Assets as Collateral	Secured Amount	Creditors	Related Borrowings/ Guarantees	Balance of Borrowings
	₩ 19,350			
Land, Buildings, BTX and others	USD 144 FRF 155 JPY 11,781	The Korea Development Bank	Usance Borrowings of US\$ 480 million	₩ 527,545
R2R Debottlenecking and others	₩ 75,168	The Korea Development Bank	Loans for facility	₩ 75,000
Time deposits	₩ 4,088	Defense Acquisition Program Administration	Contractual Guarantee	-
		Total		<u>₩ 602,545</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**17. Trade Payables, Other Payables and Other Liabilities**

Trade payables and other payables as of December 31, 2014 and 2013 are as follows:

<i>(In millions of Korean won)</i>	2014		2013	
	Current	Non-current	Current	Non-current
Trade payables	₩ 840,852	₩ -	₩ 2,328,601	₩ -
Other payables				
Non-trade payables	638,102	-	708,589	-
Accrued expenses	6,043	-	5,209	-
Dividend payables	66	-	228	-
Rental deposit payables	-	19,693	-	17,890
	<u>644,211</u>	<u>19,693</u>	<u>714,026</u>	<u>17,890</u>
Total	<u>₩ 1,485,063</u>	<u>₩ 19,693</u>	<u>₩ 3,042,627</u>	<u>₩ 17,890</u>

Other liabilities as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014		2013	
	Current	Non-current	Current	Non-current
Advances from customers	₩ 109,100	₩ -	₩ 92,192	₩ -
Withholdings	3,737	-	3,337	-
Total	<u>₩ 112,837</u>	<u>₩ -</u>	<u>₩ 95,529</u>	<u>₩ -</u>

**18. Borrowings**

Details of borrowings as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014	2013
<b>Current</b>		
Banker's usance	₩ 2,319,152	₩ 2,532,869
Current maturities of debentures	-	149,895
Current maturities of long-term borrowings	5,204	3,835
	<u>2,324,356</u>	<u>2,686,599</u>
<b>Non-current</b>		
Debentures	1,222,519	498,904
Long-term borrowings	90,770	20,975
	<u>1,313,289</u>	<u>519,879</u>
Total	<u>₩ 3,637,645</u>	<u>₩ 3,206,478</u>



**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

Details of bank borrowings as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>Creditor</b>	<b>Maturity date</b>	<b>Interest Rates (%) Dec 31, 2014</b>	<b>2014</b>	<b>2013</b>
<b>Short-term borrowings</b>					
Banker's usance	Korea Development Bank and others	Feb. 4, 2015 and others	0.45 – 0.68	₩ 2,319,152	₩ 2,532,869
<b>Current maturities of long-term borrowings</b>					
Loans for facilities from energy usage rationalization fund	Hana Bank	Mar. 15, 2015 and others	1.50 - 1.75	3,803	2,434
Loans for facilities from energy usage rationalization fund	Korea Exchange Bank	Mar. 15, 2015	1.75	633	633
Environment improvement supporting funds loans	Hana Bank	Mar. 31, 2015	2.77	768	768
				<u>5,204</u>	<u>3,835</u>
<b>Long-term borrowings</b>					
Loans for facilities from energy usage rationalization fund	Hana Bank	Dec. 15, 2016	1.50 - 1.75	12,607	16,410
Environment improvement supporting funds loans	Hana Bank	Mar. 31, 2019	2.77	2,213	2,982
Loans for facilities from energy usage rationalization fund	Korea Exchange Bank	Jun. 15, 2017	1.75	950	1,583
Loans for industry facilities fund	Korea Development Bank	Jul. 31, 2024	2.64 – 2.93	75,000	-
				<u>90,770</u>	<u>20,975</u>
Total				<u>₩ 2,415,126</u>	<u>₩ 2,557,679</u>

Details of debentures as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>Issuance date</b>	<b>Maturity date</b>	<b>Interest Rates (%) Dec 31, 2014</b>	<b>2014</b>	<b>2013</b>
Public bonds (43-2)	Sep. 18, 2009	Sep. 18, 2014	5.45	₩ -	₩ 150,000
Public bonds (45-1)	Aug. 28, 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
Public bonds (46-1)	Jun. 26, 2014	Jun. 26, 2019	3.09	180,000	-
Public bonds (46-2)	Jun. 26, 2014	Jun. 26, 2021	3.23	110,000	-
Public bonds (46-3)	Jun. 26, 2014	Jun. 26, 2024	3.47	70,000	-
Public bonds (47-1)	Nov. 27, 2014	Nov. 27, 2019	2.47	155,000	-
Public bonds (47-2)	Nov. 27, 2014	Nov. 27, 2021	2.71	80,000	-
Public bonds (47-3)	Nov. 27, 2014	Nov. 27, 2024	2.99	130,000	-
				<u>1,225,000</u>	<u>650,000</u>
Less: Present value discount				(2,481)	(1,201)
Sub total				<u>1,222,519</u>	<u>648,799</u>
Less: Current maturities				-	(149,895)
Total				<u>₩ 1,222,519</u>	<u>₩ 498,904</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

Borrowings exposed to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

<i>(In millions of Korean won)</i>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Contractual repricing dates : six months or less		
Current maturities of long-term borrowings	₩ 5,204	₩ 3,835
Long-term borrowings	90,770	20,975
Total	<u>₩ 95,974</u>	<u>₩ 24,810</u>

As of December 31, 2014 and 2013, a certain portion of property, plant and equipment is pledged as collateral for various loans (Note 16).

**19. Provisions for Other Liabilities and Charges**

Changes in provisions for other liabilities and charges for the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>Environmental Restoration</b>	
	<b>2014</b>	<b>2013</b>
Beginning balance	₩ 4,216	₩ 7,707
Additional provisions adjustment	11,471	4,380
Used during the year	(10,802)	(7,871)
Ending balance	<u>₩ 4,885</u>	<u>₩ 4,216</u>

**20. Retirement Benefit Obligations**

The majority of defined benefit plans that the Group operates 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.

Details of net retirement benefit obligations recognized in the consolidated statements of financial position as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
Present value of funded defined benefit liability	₩ 212,935	₩ 175,493
Fair value of plan assets <sup>1</sup>	(180,212)	(166,466)
Liability in the consolidated statement of financial position	<u>₩ 32,723</u>	<u>₩ 9,027</u>

<sup>1</sup> The fair value of plan assets includes contributions to the National Pension Fund of ₩ 535 million as of December 31, 2014 (2013: ₩ 554 million).

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

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

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
Beginning balance	₩ 175,493	₩ 152,945
Current service cost	23,451	21,322
Interest expense	8,287	6,764
Remeasurements :		
Actuarial losses (gains) arising from changes in financial assumption	18,319	(5,471)
Actuarial losses (gains) arising from changes in experience adjustments	(4,738)	7,282
Benefits paid	(7,877)	(7,349)
Ending Balance	<u>₩ 212,935</u>	<u>₩ 175,493</u>

Changes in the fair value of plan assets for the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
Beginning balance	₩ 166,466	₩ 114,501
Expected return on plan assets	8,435	5,454
Contributions	15,000	54,583
Benefits paid	(6,688)	(6,756)
Remeasurements :		
Return on plan assets	(3,001)	(1,316)
Ending balance	<u>₩ 180,212</u>	<u>₩ 166,466</u>

The total amount of plan assets as of December 31, 2014 and 2013, consist of financial assets including deposits.

The principal actuarial assumptions as of December 31, 2014 and 2013, were as follows:

	<u><b>2014</b></u>	<u><b>2013</b></u>
Discount rate	3.90%	4.80%
Expected return on plan assets	3.90%	4.80%
Salary growth rate	5.24%	5.24%

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

	<b>Changes in principal assumption</b>	<b>Impact on overall liability</b>	
		<u><b>December 31, 2014</b></u>	<u><b>December, 31 2013</b></u>
Salary growth rate	1% increase	10.76% increase	10.80% increase
	1% decrease	9.46% decrease	9.50% decrease
Discount rate	1% increase	9.49% decrease	9.46% decrease
	1% decrease	11.03% increase	10.96% increase

# **S-OIL Corporation and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **December 31, 2014 and 2013**

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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.

The weighted average duration of the defined benefit obligations is 10.26 years and expected contributions to post-employment benefit plans for the year ending December 31, 2015, are ₩ 27,421 million.

Recognized expense related to the defined contribution plan for the year ended December 31, 2014, is ₩ 146 million (2013: ₩ 97 million).

## **21. Contingencies**

As of December 31, 2014, the Company has been entered into overdraft agreement of up to ₩ 23,000 million with Shinhan Bank and another bank, and general loan agreement of up to ₩ 14,750 million and USD 382 million with Shinhan Bank and other two banks.

As of December 31, 2014, the Company has banker's usance agreements, imported credit and others of up to a maximum of USD 6,884 billion with Korea Development Bank and 20 other banks.

As of December 31, 2014, Hana Bank has provided guarantees of up to ₩ 30,000 million for the Company's repayment of remaining bonus points.

As of December 31, 2014, the Company offered two blank checks to KNOC as a purpose of payment guarantee.

As of December 31, 2014, the Company 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 September 20, 2011, the FTC decided that four oil refiners, including the Company, 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 Company of a penalty amounting to ₩ 43,871 million and the Company recorded the said penalty as other expenses in 2011. The case was filed as an administrative case at the Seoul High Court in October 2011 and the court ruled in the Company's favor in August 2012, but the FTC appealed to the Supreme Court in September 2012. The Supreme Court ruled in the Company's favor in January 2015.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

(B) On March 17, 2008, the KNOC notified the Company to pay the excess refund of surcharge amounting to ₩ 32,009 million, which the Company recorded as other expenses and paid in 2008. The Company filed an objection to the Board of Audit and Inspection (BAI), but its request was overruled by BAI on March 13, 2012. The Company filed an administrative case at the Suwon District Court in June 2012 and the court ruled in the Company's favor in February 2014. The KNOC subsequently appealed to the Seoul High Court and the Company earned the favorable ruling by the Seoul High Court in January 2015. The KNOC appealed to the Supreme Court in February 2015.

(C) 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 Company 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 against the Company's receivables for the supply of September and October 2012. On November 21, 2012, the Company filed a civil suit for the receivables at the Seoul Central District Court and the court ruled in the Company's favor in December 2013, but the DAPA subsequently appealed to the Seoul High Court.

(D) The Company claimed additional refund regarding surcharge for the year of 2008 (₩ 7,961 million), which the Company did not claim on the grounds of the Board of Audit and Inspection's audit results on the KNOC. However, the KNOC rejected the Company's claim. The Company 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 Company's favor in January 2014, but the KNOC subsequently appealed to the Seoul High Court.

**22. Capital Stock and Capital Surplus**

Capital stock and capital surplus as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won, except number of shares)</i>	<b>Number of shares issued (Common Stock)</b>	<b>Number of shares issued (Preferred Stock)</b>	<b>Common Stocks</b>	<b>Preferred Stocks</b>	<b>Capital Surplus</b>	<b>Total</b>
<b>December 31, 2013</b>	112,582,792	4,021,927	₩ 281,457	₩ 10,055	₩ 379,190	₩ 670,702
<b>December 31, 2014</b>	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, 2014, 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, 2014, there is no outstanding convertible stock issued by the Group.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

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, 2014, 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, 2014, 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, 2014 and 2013, consist of:

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
<b>Legal reserve</b>		
Earned surplus reserve <sup>1</sup>	₩ 145,756	₩ 145,756
<b>Discretionary reserve</b>		
Reserve for improvement of financial structure	55,700	55,700
Reserve for business rationalization	103,145	103,145
Reserve for market development	2,286,198	2,154,198
	<u>2,445,043</u>	<u>2,313,043</u>
<b>Revaluation reserve</b>	984,648	984,648
<b>Unappropriated retained earnings (deficit)</b>	<u>(313,068)</u>	<u>239,338</u>
	<u>₩ 3,262,379</u>	<u>₩ 3,682,785</u>

<sup>1</sup> 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 2013 amounting to ₩ 99,073 million for common stock and ₩ 3,473 million for preferred stock were paid out in April 2014 (Dividends paid in 2013: ₩ 247,682 million for common stock and ₩ 8,539 million for preferred stock).

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

In accordance with the Articles of Incorporation, on July 14, 2014, the Board of Directors declared interim cash dividends of ₩ 150 per share on June 30, 2014:

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

	No. of shares		Dividend rate	Cash Dividends
	Issued	Amount		
Common stock	112,582,792	₩ 281,457	6%	₩ 16,887
Preferred stock	3,837,847 <sup>1</sup>	9,595	6%	576
	<u>116,420,639</u>	<u>₩ 291,052</u>		<u>₩ 17,463</u>

<sup>1</sup> Treasury stocks are excluded from the number of shares issued.

**25. Reserves**

Changes in reserves for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)	Gain on disposal of treasury stocks	Changes in value of available-for-sale financial instruments	Share of other comprehensive income of jointly controlled entities	Cash flow hedges	Unrealized translation gains (losses) on foreign operation	Total
Balance at January 1, 2014	₩ 952,311	₩ 41,967	₩ -	₩ -	₩ 8,118	₩ 1,002,396
Available-for-sale assets	-	(24,645)	-	-	-	(24,645)
Currency translation difference	-	-	-	-	37	37
Share of other comprehensive Income of jointly controlled entities	-	-	24	-	-	24
Balance at December 31, 2014	<u>₩ 952,311</u>	<u>₩ 17,322</u>	<u>₩ 24</u>	<u>₩ -</u>	<u>₩ 8,155</u>	<u>₩ 977,812</u>
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	<u>₩ 952,311</u>	<u>₩ 41,967</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 8,118</u>	<u>₩ 1,002,396</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**26. Cost of Sales**

Cost of sales for the years ended December 31, 2014 and 2013, consists of:

<i>(In millions of Korean won)</i>	<b>2014</b>		<b>2013</b>	
Finished goods, beginning	₩	894,657	₩	1,047,609
Net purchases		1,244,984		1,818,568
Manufacturing cost for the year		29,111,117		30,857,973
Transfer from other accounts		-		33,287
Transfer to other accounts		(1,438,741)		(1,759,427)
Finished goods, ending		(628,263)		(894,657)
Adjustments		(901,538)		(874,036)
Cost of sales	₩	<u>28,282,216</u>	₩	<u>30,229,317</u>

**27. Selling and Administrative Expenses**

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

<i>(In millions of Korean won)</i>	<b>Selling expenses</b>		<b>Administrative expenses</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Salaries	₩ 52,323	₩ 51,909	₩ 26,516	₩ 26,482
Severance Benefits	5,660	5,776	2,991	2,985
Employee Benefits	14,006	21,904	7,462	11,061
Training Expenses	55	130	1,874	2,838
Travel Expenses	2,712	3,064	1,339	1,530
Miscellaneous Administrative Expenses	700	600	459	545
Communication Expenses	1,371	1,239	1,941	1,875
Vehicles Maintenance Expenses	450	466	452	409
Utility Expenses	1,304	1,468	894	1,015
Rental Expenses	6,560	6,332	1,686	1,532
Services expenses in oil storages	15,632	14,591	-	-
Service Fees	12,327	9,343	2,735	2,700
Entertainment Expenses	1,265	1,321	1,946	1,811
Export Expenses	165,197	145,938	-	-
Repairs and Maintenance Expenses	4,570	6,074	1,813	1,714
Supplies Expenses	71	61	2	3
Chemicals Expenses	295	330	-	-
Outsourcing Fees	9,390	12,471	11,499	8,531
Promotional and Advertising Expenses	20,413	23,584	6,298	7,084
Freight Expenses	141,790	143,672	-	-
Insurance Premium	3,832	4,293	116	127
Taxes and Dues	3,000	3,550	6,332	4,863
Depreciation and amortization	15,519	16,407	3,667	4,708
Amortization Expenses	1,015	1,126	4,764	3,615
Bad debts expense	(604)	(61)	-	-
Others	249	259	1,162	1,892
Total	₩ <u>479,102</u>	₩ <u>475,847</u>	₩ <u>85,948</u>	₩ <u>87,320</u>



**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

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**28. Other Income and Expenses**

Other income and expenses for the years ended December 31, 2014 and 2013, are as follows:

**Other income**

*(In millions of Korean won)*

	<b>2014</b>	<b>2013</b>
Gains from disposal of property, plant and equipment	₩ 197	₩ 361
Dividend income	1,555	1,443
Reversal of allowance for bad debts	76	4
Others	18,522	37,744
Gain on foreign currency transactions	366,407	392,861
Gain on foreign currency translation	7,545	7,535
Gain on derivative transactions	50,102	66,101
Gain on valuation of derivatives	816	4,768
Gains from disposal of available-for-sale financial instruments	29,960	368
Total	<u>₩ 475,180</u>	<u>₩ 511,185</u>

**Other expenses**

*(In millions of Korean won)*

	<b>2014</b>	<b>2013</b>
Loss on disposal of property, plant and equipment	₩ 7,310	₩ 1,168
Loss on disposal of intangible assets	-	56
Donations	8,458	10,838
Others	7,963	17,364
Loss on foreign currency transactions	389,018	408,855
Loss on foreign currency translation	7,901	8,506
Loss on derivative transactions	46,858	86,525
Loss on valuation of derivatives	341	4,503
Other bad debt expenses	31	70
Loss on disposal of available-for-sale financial instruments	144	80
Total	<u>₩ 468,024</u>	<u>₩ 537,965</u>

**29. Finance Income and expenses**

Finance income and expenses for the years ended December 31, 2014 and 2013, consist of the following:

**Finance income**

*(In millions of Korean won)*

	<b>2014</b>	<b>2013</b>
Interest income	₩ 28,344	₩ 36,918
Gain on foreign currency transactions	188,740	192,182
Gain on foreign currency translation	3,149	56,384
Gain on transaction of derivatives	-	5,400
Total	<u>₩ 220,233</u>	<u>₩ 290,884</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**Finance expenses**

*(In millions of Korean won)*

	<b>2014</b>	<b>2013</b>
Interest expenses <sup>1</sup>	₩ 42,648	₩ 53,609
Loss on foreign currency transactions	184,764	195,514
Loss on foreign currency translation	101,846	878
Total	<u>₩ 329,258</u>	<u>₩ 250,001</u>

<sup>1</sup> Interest expenses exclude capitalized borrowing costs on qualifying assets (Note 14).

**30. Deferred Income Tax and Income Tax Expense**

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

<i>(in millions Korean won)</i>	<b>2014</b>	<b>2013</b>
Current tax		
Current tax on profits for the year	₩ -	₩ (62,889)
Adjustments in respect of prior years	328	(15,475)
Total current tax	<u>328</u>	<u>(78,364)</u>
Deferred tax		
Origination and reversal of temporary differences	97,376	19,226
Income tax benefit (expense)	<u>₩ 97,704</u>	<u>₩ (97,590)</u>

Reconciliation between profit before income taxes and income tax expenses for the years ended December 31, 2014 and 2013, is as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
Profit (loss) before income tax (benefit)	₩ (385,532)	₩ 387,229
Income tax benefit (expense) based on statutory rate	₩ 93,298	₩ (93,248)
Income not subject to tax	8,178	2,123
Expenses not deductible for tax purposes	(4,567)	(5,362)
Adjustments in respect of prior years	328	(15,475)
Tax credit and others	467	14,372
Income tax benefit (expense)	<u>₩ 97,704</u>	<u>₩ (97,590)</u>

The weighted average applicable tax rate was 24.2 % in 2014 (2013: 24.1 %).

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

The income tax charged or credited directly to equity as of December 31, 2014 and 2013, is as follows:

<i>(in millions Korean won)</i>	<b>2014</b>		
	<b>Before tax</b>	<b>Tax (charge) credit</b>	<b>After tax</b>
Change in value of available-for-sale financial assets	₩ (32,513)	₩ 7,868	₩ (24,645)
Share of other comprehensive income of jointly controlled entities	32	(8)	24
Currency translation differences	48	(11)	37
Cash flow hedges	-	-	-
Remeasurement of post employment benefit obligations	(16,582)	4,013	(12,569)
<b>Total</b>	<b>₩ (49,015)</b>	<b>₩ 11,862</b>	<b>₩ (37,153)</b>

<i>(in millions Korean won)</i>	<b>2013</b>		
	<b>Before tax</b>	<b>Tax (charge) credit</b>	<b>After tax</b>
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
Remeasurement of post employment benefit obligations	(3,127)	757	(2,370)
<b>Total</b>	<b>₩ (4,042)</b>	<b>₩ 978</b>	<b>₩ (3,064)</b>

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2014 and 2013, is as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
<b>Deferred tax assets</b>		
Deferred tax asset to be recovered after more than 12 months	₩ 107,046	₩ 94,932
Deferred tax asset to be recovered within 12 months	95,781	24,163
	<u>202,827</u>	<u>119,095</u>
<b>Deferred tax liabilities</b>		
Deferred tax liability to be recovered after more than 12 months	(28,987)	(209,027)
Deferred tax liability to be recovered within 12 months	(199,711)	(45,177)
	<u>(228,698)</u>	<u>(254,204)</u>
<b>Deferred tax liabilities, net</b>	<b>₩ (25,871)</b>	<b>₩ (135,109)</b>

The gross movements on the deferred income tax account for the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
Beginning balance	₩ (135,109)	₩ (116,861)
Tax charged to income	97,376	(19,226)
Tax charged directly to equity	11,862	978
<b>Ending balance</b>	<b>₩ (25,871)</b>	<b>₩ (135,109)</b>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

Changes in the deferred income taxes assets and liabilities during the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>			
	<b>Beginning Balance</b>	<b>Statement of income</b>	<b>Equity</b>	<b>Ending Balance</b>
Depreciation	₩ 11,687	₩ (499)	₩ -	₩ 11,188
Loss on impairment of investments	3,084	(2,638)	-	446
Salaries and wages payable	6,263	(6,263)	-	-
Gain (loss) on foreign currency translation	-	-	-	-
Accrued liabilities	8,381	(253)	-	8,128
Share of profit/(loss) of jointly controlled entities	62,298	(108)	-	62,190
Gain (loss) on valuation of derivative instruments	143	(61)	-	82
Loss on impairment of property, plant and equipment	1,444	-	-	1,444
Change in inventory costing method	(42)	42	-	-
Customs duties receivable	(36,248)	9,344	-	(26,904)
Accrued interest income	(815)	222	-	(593)
Defined benefit liability	(4,800)	5,491	-	691
Financial instruments	-	-	-	-
Employee benefits	5,918	884	-	6,802
Revaluation of lands	(189,723)	-	-	(189,723)
Others	(457)	3,056	-	2,599
Change in value of available for sale assets	(13,399)	-	7,868	(5,531)
Currency translation differences and share of other comprehensive income of jointly controlled entities	(2,519)	-	(19)	(2,538)
Cash flow hedges	-	-	-	-
Remeasurement of post employment benefit obligations	13,676	-	4,013	17,689
Tax loss carryforwards <sup>1</sup>	-	87,692	-	87,692
Tax credit carryforwards	-	467	-	467
<b>Total</b>	<b>₩ (135,109)</b>	<b>₩ 97,376</b>	<b>₩ 11,862</b>	<b>₩ (25,871)</b>

<sup>1</sup> The expiration of unused tax loss carryforwards earned this year is 2024.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

	<b>2013</b>			
	<b>Beginning Balance</b>	<b>Statement of income</b>	<b>Equity</b>	<b>Ending Balance</b>
<i>(In millions of Korean won)</i>				
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)	-
Remeasurement of post employment benefit obligations	12,919	-	757	13,676
<b>Total</b>	<b>₩ (116,861)</b>	<b>₩ (19,226)</b>	<b>₩ 978</b>	<b>₩ (135,109)</b>

**31. Expenses by Nature**

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

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
Raw materials used	₩ 25,550,420	₩ 27,705,026
Changes in inventories of finished goods and work in-progress	444,615	79,835
Employee benefit expense	254,343	254,040
Utility expenses	1,628,604	1,747,391
Depreciation and amortization	339,703	367,829
Transportation expenses	141,790	143,672
Advertising costs	11,252	16,206
Other expenses	476,539	478,485
<b>Total cost of sales, selling and administrative expenses</b>	<b>₩ 28,847,266</b>	<b>₩ 30,792,484</b>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**32. Employee Benefit Expense**

Details of employee benefit expense consist of:

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
Wages and salaries	₩ 213,934	₩ 212,404
Social security costs	21,112	18,906
Pension costs – defined benefit plans	23,303	22,632
Pension costs – defined contribution plans	146	97
Total	<u>₩ 258,495</u>	<u>₩ 254,039</u>

**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 common shares 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, 2014 and 2013, is calculated as follows:

<i>(In millions of Korean won, except per share data)</i>	<b>2014</b>	<b>2013</b>
Profit (loss) the year	₩ (287,828)	₩ 289,639
Adjustments:		
Dividends for preferred stock	(96)	(96)
Additional dividends for preferred stock	9,491	(9,545)
Profit (loss) attributable to common stock shareholders	<u>(278,433)</u>	<u>279,998</u>
Weighted average number of shares of common stock	112,582,792	112,582,792
Basic earnings (loss) per common share	<u>₩ (2,473)</u>	<u>₩ 2,487</u>

Basic earnings per preferred share for the years ended December 31, 2014 and 2013, is calculated as follows:

<i>(In millions of Korean won, except per share data)</i>	<b>2014</b>	<b>2013</b>
Profit (loss) attributable to preferred stock shareholders	₩ (9,395)	₩ 9,641
Weighted average number of shares of preferred stock <sup>1</sup>	<u>3,837,847</u>	<u>3,837,847</u>
Basic earnings (loss) per preferred share	<u>₩ (2,448)</u>	<u>₩ 2,512</u>

<sup>1</sup> 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(loss) per share is identical to basic earnings (loss) per share.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**34. Related Party Transactions**

Details of related parties for the years ended December 31, 2014 and 2013, are as follows:

	<b>2014</b>	<b>2013</b>
The investors which have significant influence	Aramco Overseas Co.,B.V., Hanjin Energy Co., Ltd.	Aramco Overseas Co.,B.V., Hanjin Energy Co., Ltd.
Jointly controlled entities	S-International Ltd. S-OIL TOTAL Lubricants Co., Ltd.	S-OIL TOTAL Lubricants Co., Ltd.
Associate	Korea Oil Terminal Co., Ltd.	-
Other related parties	S-International Ltd. Saudi Arabian Oil Company <sup>1</sup> , Korean Air Lines Co., Ltd <sup>2</sup> .	Saudi Arabian Oil Company, Korean Air Lines Co., Ltd.

<sup>1</sup> The ultimate parent company of Aramco Overseas Co.,B.V.

<sup>2</sup> The ultimate parent company of Hanjin Energy Co., Ltd.

Significant transactions with related parties for the years ended December 31, 2014 and 2013, and the related receivables and payables as of December 31, 2014 and 2013, are as follows:

*(In millions of Korean won)*

	<b>Sales</b>		<b>Purchases</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Jointly controlled entity</b>				
S-OIL TOTAL Lubricants Co., Ltd.	₩ 117,088	₩ 108,535	₩ 10,782	₩ 11,531
<b>Others</b>				
Saudi Arabian Oil Company	-	-	20,462,075	23,178,020
Korean Air Lines Co., Ltd.	554,283	517,344	1,641	1,742
Total	₩ 671,371	₩ 625,879	₩ 20,474,498	₩ 23,191,293

	<b>Receivables</b>		<b>Payables</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<i>(In millions of Korean won)</i>				
<b>Jointly controlled entity</b>				
S-OIL TOTAL Lubricants Co., Ltd.	₩ 2,210	₩ 1,286	₩ 971	₩ 747
<b>Others</b>				
Saudi Arabian Oil Company	-	-	682,264	1,933,525
Korean Air Lines Co., Ltd.	32,020	35,221	178	159
Total	₩ 34,230	₩ 36,507	₩ 683,413	₩ 1,934,431

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

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The Group has allowance of bad debts on receivables from related parties of ₩ 4 million and ₩ 2 million as of December 31, 2014 and 2013, respectively. The bad debt expense amounting to ₩ 2 million and ₩ 1 million was recognized for the years ended December 31, 2014 and 2013, respectively.

Investment in cash with related parties for the years ended December 31, 2014, are as follows:

<i>(in millions of Korean won)</i>	<u>Company Name</u>	<u>Amount of investment in cash</u>
Associate	Korea Oil Terminal Co., Ltd.	264

The compensation paid or payable to key management for employee services for the years ended December 31, 2014 and 2013, consists of:

<i>(In millions of Korean won)</i>	<b>2014</b>		<b>2013</b>	
Short-term employee benefits	₩	1,066	₩	1,008
Post-employment benefits		159		115
Total	₩	<u>1,225</u>	₩	<u>1,123</u>

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



**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**35. Cash Generated From Operations**

Cash generated from operations for the years ended December 31, 2014 and 2013, is as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
Profit (loss) for the year	₩ (287,828)	₩ 289,639
Adjustments :		
Income tax expense (income)	(97,704)	97,590
Depreciation expense	331,566	361,244
Amortization expense	8,137	6,585
Pension costs	23,303	22,632
Bad debts expense	(604)	(61)
Interest expense	42,648	53,609
Loss on foreign currency translation	109,747	9,384
Loss on derivative transactions	46,858	86,525
Loss on valuation of derivatives	341	4,503
Loss on disposal of property, plant, and equipment	7,310	1,168
Loss on disposal of intangible assets	-	56
(Reversal of ) Loss on valuation of inventories	58,048	(15,848)
Share of loss (profit) of associates	246	-
Share of profit of jointly controlled entities	(6,287)	(7,082)
Interest income	(28,344)	(36,918)
Gain on foreign currency translation	(10,694)	(63,919)
Gain on disposal of property, plant, and equipment	(197)	(361)
Gain on derivative transactions	(50,102)	(71,501)
Gain on valuation of derivatives	(816)	(4,768)
Dividend income	(1,555)	(1,443)
Gain on disposition of available-for-sale financial assets	(29,960)	(368)
Others	560	396
Changes in net working capital		
Increase in trade receivables	633,081	127,488
Increase in other receivables	(20,220)	158,388
Decrease in other current assets	(1,875)	1,247
Increase in inventories	1,764,419	163,811
Increase in trade payables	(1,485,019)	(117,914)
Increase in other payables	(63,656)	45,406
Decrease in other liabilities	1,238	(85,472)
<b>Cash generated from operations</b>	<b>₩ 942,641</b>	<b>₩ 1,024,016</b>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

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

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
Net book amount	₩ 8,343	₩ 2,251
Gain on disposal of property, plant and equipment	197	361
Loss on disposal of property, plant and equipment	<u>(7,310)</u>	<u>(1,168)</u>
Proceeds from sale of property, plant and equipment	<u>₩ 1,230</u>	<u>₩ 1,444</u>

Significant transactions not affecting cash flows for the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<b>2014</b>	<b>2013</b>
Reclassification of construction in-progress to property, plant and equipment and intangible assets	₩ 212,463	₩ 218,803
Current portion of long-term borrowings and debentures	5,204	153,730
Current portion of long-term loans receivable	17,933	21,403
Other payable related to acquisition property, plant and equipment	3,372	10,300