

# **S-OIL Corporation and Subsidiary**

**Consolidated Financial Statements**

**December 31, 2015 and 2014**

# S-OIL Corporation and Subsidiary

## Index

December 31, 2015 and 2014

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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 – 59

**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, 2015 and 2014, 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 consolidated financial statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of S-OIL Corporation and its subsidiary as of December 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with the Korean IFRS.

**Other Matters**

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

March 9, 2016

Seoul, Korea

This report is effective as of March 9, 2016, 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, 2015 and 2014**

(In millions of Korean won)

	Notes	2015	2014
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7,11	₩ 201,203	₩ 711,525
Trade receivables	8,11	1,030,881	1,524,056
Other receivables	8,11	253,208	575,445
Other current financial assets	9,11	2,497,628	441,183
Derivative financial instruments	10,11	17,302	816
Inventories	12	1,598,710	2,415,448
Other current assets	9	16,709	9,591
Current income tax assets		74,139	29,444
		<u>5,689,780</u>	<u>5,707,508</u>
<b>Non-current assets</b>			
Other receivables	8,11	72,007	78,982
Other non-current financial assets	9,11	50,154	60,255
Investments in associate and jointly controlled entity	13	35,433	30,862
Property, plant and equipment	14,16	4,730,793	4,321,716
Intangible assets	15	47,243	49,960
Other non-current assets	9	170,116	6,455
		<u>5,105,746</u>	<u>4,548,230</u>
<b>Total assets</b>		<u>₩ 10,795,526</u>	<u>₩ 10,255,738</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	11,17	₩ 589,528	₩ 840,852
Other payables	11,17	911,229	644,211
Borrowings	11,18	1,587,942	2,324,356
Derivative financial instruments	10,11	11,081	341
Current income tax liabilities		7,073	-
Provisions for other liabilities and charges	19	4,678	4,885
Deferred revenues		28,016	27,663
Other current liabilities	17	82,610	112,837
		<u>3,222,157</u>	<u>3,955,145</u>
<b>Non-current liabilities</b>			
Other payables	11,17	23,581	19,693
Borrowings	11,18	2,007,255	1,313,289
Net defined benefit liabilities	20	4,523	32,723
Deferred income tax liabilities	30	148,093	25,871
		<u>2,183,452</u>	<u>1,391,576</u>
<b>Total liabilities</b>		<u>5,405,609</u>	<u>5,346,721</u>
<b>Equity</b>			
Capital stock	22	291,512	291,512
Capital surplus	22	379,190	379,190
Reserves	25	977,968	977,812
Treasury stock	23	(1,876)	(1,876)
Retained earnings	24	3,743,123	3,262,379
<b>Total equity</b>		<u>5,389,917</u>	<u>4,909,017</u>
<b>Total liabilities and equity</b>		<u>₩ 10,795,526</u>	<u>₩ 10,255,738</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, 2015 and 2014**

<i>(In millions of Korean won, except per share data)</i>	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Sales</b>	6	₩ 17,890,272	₩ 28,557,562
<b>Cost of sales</b>	26	<u>(16,438,773)</u>	<u>(28,282,216)</u>
<b>Gross profit</b>		1,451,499	275,346
Selling expenses	27	(532,845)	(479,102)
Administrative expenses	27	<u>(101,050)</u>	<u>(85,948)</u>
<b>Operating income (expense)</b>		<u>817,604</u>	<u>(289,704)</u>
Other income	28	485,716	475,180
Other expenses	28	(392,871)	(468,024)
Finance income	29	145,963	220,233
Finance expenses	29	(253,480)	(329,258)
Share of profit of associate and jointly controlled entity	13	9,799	6,041
Profit (loss) before income tax		<u>812,731</u>	<u>(385,532)</u>
Income tax benefit (expense)	30	(181,409)	97,704
<b>Profit (loss) for the year</b>		<u>631,322</u>	<u>(287,828)</u>
<b>Other comprehensive income (loss), net of tax</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Remeasurements of net defined benefit liabilities	20	(22,419)	(12,569)
<b>Items that may be subsequently reclassified to profit or loss</b>			
Gains(losses) on valuation of available-for-sale financial assets	25	116	(24,645)
Share of other comprehensive income in jointly controlled entity	25	(21)	24
Currency translation differences	25	<u>61</u>	<u>37</u>
<b>Other comprehensive income (loss) for the year</b>		<u>(22,263)</u>	<u>(37,153)</u>
<b>Total comprehensive income (loss) for the year</b>		<u>₩ 609,059</u>	<u>₩ (324,981)</u>
<b>Earnings per share</b>			
Basic and diluted earnings (loss) per common share	33	<u>₩ 5,422</u>	<u>₩ (2,473)</u>
Basic and diluted earnings (loss) per preferred share	33	<u>₩ 5,447</u>	<u>₩ (2,448)</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, 2015 and 2014**

<i>(In millions of Korean won)</i>	<b>Capital Stock</b>	<b>Capital Surplus</b>	<b>Reserves</b>	<b>Treasury Stock</b>	<b>Retained Earnings</b>	<b>Total Equity</b>
<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 in other comprehensive income of jointly controlled entity	-	-	24	-	-	24
Currency translation differences	-	-	37	-	-	37
Remeasurements of net defined benefit liabilities	-	-	-	-	(12,569)	(12,569)
<b>Other comprehensive loss for the year</b>	-	-	(24,584)	-	(12,569)	(37,153)
<b>Total comprehensive loss for the year</b>	-	-	(24,584)	-	(300,397)	(324,981)
<b>Transactions with equity holders of the 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>
<b>Balance as of January 1, 2015</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>
Profit for the year	-	-	-	-	631,322	631,322
<b>Other comprehensive income (loss)</b>						
Change in value of available-for-sale financial assets	-	-	116	-	-	116
Share in other comprehensive income of jointly controlled entity	-	-	(21)	-	-	(21)
Currency translation differences	-	-	61	-	-	61
Remeasurements of net defined benefit liabilities	-	-	-	-	(22,419)	(22,419)
<b>Other comprehensive income (loss) for the year</b>	-	-	156	-	(22,419)	(22,263)
<b>Total comprehensive income for the year</b>	-	-	156	-	608,903	609,059
<b>Transactions with equity holders of the Company</b>						
Cash dividends to equity holders of the Company for 2014	-	-	-	-	(96)	(96)
Interim dividends to equity holders of the Company for 2015	-	-	-	-	(128,063)	(128,063)
<b>Balance as of December 31, 2015</b>	<u>₩ 291,512</u>	<u>₩ 379,190</u>	<u>₩ 977,968</u>	<u>₩ (1,876)</u>	<u>₩ 3,743,123</u>	<u>₩ 5,389,917</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, 2015 and 2014**

<i>(In millions of Korean won)</i>	Notes	2015	2014
<b>Cash flows from operating activities</b>			
Cash generated from operations	35	₩ 2,586,187	₩ 942,640
Interest received		30,579	29,286
Interest paid		(57,116)	(47,498)
Income tax paid		(89,700)	(52,382)
Dividends received		5,600	7,155
<b>Net cash inflow from operating activities</b>		<u>2,475,550</u>	<u>879,201</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment	35	3,400	1,230
Proceeds from sale of intangible assets		3,058	14
Decrease in other receivables		23,865	24,915
Settlement of derivative financial instruments		49,229	3,509
Decrease in other financial assets		731	32,784
Purchases of property, plant and equipment	14	(654,448)	(912,255)
Purchases of intangible assets	15	(6,109)	(1,344)
Acquisition of an associate	13	(399)	(264)
Increase in other receivables		(21,277)	(24,598)
Increase in other financial assets		(2,052,971)	(87,859)
Others		(146,932)	(329)
<b>Net cash outflow from investing activities</b>		<u>(2,801,853)</u>	<u>(964,197)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		698,919	798,289
Repayment of borrowings		(754,865)	(466,250)
Dividends paid		(128,155)	(120,171)
<b>Net cash inflow (outflow) from financing activities</b>		<u>(184,101)</u>	<u>211,868</u>
<b>Net increase(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of year	7	711,525	584,603
Exchange profit on cash and cash equivalents		82	50
<b>Cash and cash equivalents at the end of year</b>	7	<u>₩ 201,203</u>	<u>₩ 711,525</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, 2015 and 2014**

**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. In 1987, the Group's shares of stock were listed in the Korean Stock Exchange. The Group's headquarters are located in Mapo-gu, Seoul, Korea.

As of December 31, 2015 and 2014, the major shareholders of the Group and their respective shareholdings are as follows:

Name of shareholders	2015		2014	
	Number of Common stocks	Percentage of Ownership (%)	Number of Common stocks	Percentage of Ownership (%)
Aramco Overseas Co., B.V.	71,387,560	63.41	39,403,974	35.00
Hanjin Energy Co., Ltd.	-	-	31,983,586	28.41
Institutional and individual investors	41,195,232	36.59	41,195,232	36.59
Total	112,582,792	100.00	112,582,792	100.00

The Group's major shareholder, Hanjin Energy Co., Ltd., sold all of its shares to the largest shareholder, Aramco Overseas Co., B.V., in accordance with a resolution of the Board of Directors' meeting held on July 2, 2014. The sale was completed on January 19, 2015.

**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 Crude oil and petroleum goods	Samoa	December

The summary of financial information of S-International Ltd. as of and for the years ended December 31, 2015 and 2014, follows:

(In millions of Korean won)	2015		2014	
Total Assets	₩	1,300	₩	1,216
Total Liabilities	₩	-	₩	-
Equity	₩	1,300	₩	1,216
Sales	₩	-	₩	-
Profit	₩	3	₩	3

# **S-OIL Corporation and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **December 31, 2015 and 2014**

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## **2. Significant Accounting Policies**

The principal accounting policies applied in the preparation of these consolidated 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 (Hangeul) 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 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 adopted by the Group*

The Group newly applied the following amended and enacted standards for the annual periods beginning January 1, 2015. The Group expects that these standards and amendments would not have a material impact on the consolidated financial statements.

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

Korean IFRS 1019, *Employee Benefits*, allows a practical expedient for companies that operate defined benefit plans and when contributions are made by employees or third parties. The application of this amendment does not have a material impact on the consolidated financial statements.

# S-OIL Corporation and Subsidiary

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

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#### - Annual Improvements to Korean IFRS 2010-2012 Cycle

Summary of annual improvements are as follows and the Group expects the application of these amendment does not have a material impact on the consolidated financial statements.

- Amendment to Korean IFRS 1102, *Share-based payment*

Korean IFRS 1102, *Share-based payment*, clarifies the definition of a 'vesting conditions', 'performance condition', and 'service condition'.

- Amendment to Korean IFRS 1103, *Business Combination*

Korean IFRS 1103, *Business Combination*, clarifies the classification and measurement of contingent consideration in the business combination.

- Amendment to Korean IFRS 1108, *Operating Segments*

Korean IFRS 1108, *Operating Segments*, requires disclosures of the judgments made by management in aggregating operating segments and a reconciliation of the reportable segments' assets to the entity's assets.

- Amendment to Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1038, *Intangible assets*

Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1038, *Intangible assets*, clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

- Amendment to Korean IFRS 1024, *Related Party Disclosures*

Korean IFRS 1024, *Related Party Disclosures*, includes, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').

#### - Annual Improvements to Korean IFRS 2011-2013 Cycle

Summary of annual improvements are as follows and the Group expects the application of these amendment does not have a material impact on the consolidated financial statements.

- Amendment to Korean IFRS 1103, *Business Combination*

Korean IFRS 1103, *Business Combination*, clarifies that Korean IFRS 1103 does not apply to the accounting for the formation of any joint arrangement.

## S-OIL Corporation and Subsidiary

### Notes to Consolidated Financial Statements

#### December 31, 2015 and 2014

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- Amendment to Korean IFRS 1113, *Fair Value Measurement*

Korean IFRS 1113, *Fair Value Measurement*, clarifies that the portfolio exception, which allows an entity to measure the fair value of a group of financial instruments on a net basis, applies to all contracts (including non-financial contracts) within the scope of Korean IFRS 1039.

- Amendment to Korean IFRS 1040, *Investment property*

Korean IFRS 1040, *Investment property*, clarifies that Korean IFRS 1040 and Korean IFRS 1103 are not mutually exclusive.

#### *(b) New and amended standards not yet adopted by the Group*

New standards and amendments issued but not effective for the financial year beginning January 1, 2015, and not early adopted are enumerated below. The Group expects that these standards and amendments would not have a material impact on its consolidated financial statements.

#### - Amendment to Korean IFRS 1001, *Presentation of Financial Statements*

Korean IFRS 1001, *Presentation of Financial Statements*, clarifies that materiality applies to the omission, addition, and aggregation of the disclosed items. It also clarifies that the share of other comprehensive income of associates and joint ventures accounted for using the equity method, should be separated into the share of items that will not be reclassified subsequently to profit or loss and will be reclassified subsequently to profit or loss. Additionally, certain items in relation to the order for notes are added. The amendments to Korean IFRS 1001 and become mandatory for annual periods beginning on or after January 1, 2016 and early application is permitted.

#### - Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1041, *Agriculture and fishing: Productive plants*

The amendments require bearer plants to be accounted for as property, plant and equipment and included within the scope of Korean IFRS 1016, *Property, plant and equipment*, instead of Korean IFRS 1041, *Agriculture and fishing: Productive plants*. Bearer plants before they mature are measured using a cost accumulation approach and mature bearer plants measured using either a cost model or a revaluation model in accordance with Korean IFRS 1016. The amendments will be applied from the annual periods beginning on or after January 1, 2016, but early application is permitted.

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

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

#### **December 31, 2015 and 2014**

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- Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1038, *Intangible assets: Amortization based on revenue*

Korean IFRS 1016, *Property, plant and equipment*, clarifies that a method of depreciation that is based on revenue generated from an activity that includes the use of an asset is not appropriate. Korean IFRS 1038, *Intangible assets*, clarifies that a method of depreciation that is based on revenue generated from an activity that includes the use of an asset is not appropriate unless a rebuttable presumption is overcome. The amendments will be applied from the annual periods beginning on or after January 1, 2016, but early application is permitted.

- Korean IFRS 1110, *Consolidated Financial Statements*, Korean IFRS 1028, *Investments in Associates and Joint ventures* and Korean IFRS 1112, *Disclosures of Interests in Other Entities: Exemption for consolidation of investee*

Korean IFRS 1110, *Consolidated Financial Statements*, confirmed that the exemption from preparing consolidated financial statements which are available to a parent entity that is a subsidiary of an investment entity. Also, it clarifies the investment entity to measure all of its subsidiaries who provide investment management services at fair value. Korean IFRS 1028, *Investments in Associates and Joint ventures*, is amended that an entity need not apply the equity method to its investment in associate or a joint venture if the entity is a parent that is the investment entity. Korean IFRS 1112, *Disclosure of Interests in Other Entities*, clarifies the applicability of Korean IFRS 1112 to the financial statements of an investment entity regardless the entity prepares the consolidated financial statements or not. The amendments will be applied from the annual periods beginning on or after January 1, 2016, but early application is permitted.

- Korean IFRS 1111, *Joint Agreements*

Korean IFRS 1111, *Joint Agreements*, clarifies an acquirer of an interest in a joint operation in which the activity constitutes a business to apply all of the principles on business combinations. The amendments will be applied from the annual periods beginning on or after January 1, 2016, but early application is permitted.

- Annual Improvements to Korean IFRS 2012-2014 Cycle

Summary of annual improvements are as follows and the Group expects the application of these amendment does not have a material impact on the consolidated financial statements.

- Korean IFRS 1105, *Non-current Assets Held for Sale and Discontinued Operations*

Korean IFRS 1105, *Non-current Assets Held for Sales and Discontinued Operations*, clarifies the accounting for a change to a plan of sale or to a plan of distribution to owners remains consistent with the existing standards.

## S-OIL Corporation and Subsidiary

### Notes to Consolidated Financial Statements

#### December 31, 2015 and 2014

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- Korean IFRS 1107, *Financial Instruments: Disclosures*

Korean IFRS 1107, *Financial Instruments: Disclosures*, clarifies the standards to decide whether servicing contracts constitute continuing involvement. Additionally, it clarifies the additional disclosure required by the amendments issued in 2012 concerning offsetting is not specifically required for all interim periods in accordance with Korean IFRS 1034, *Interim Financial Reporting*.

- Korean IFRS 1019, *Employee Benefits*

Korean IFRS 1019, *Employee Benefits*, clarifies the selection and use of discount rate for post-employment benefit obligations should be determined at a currency level, not a country level.

- Korean IFRS 1034, *Interim Reporting*

Korean IFRS 1034, *Interim Reporting*, clarifies the meaning of disclosure of information 'elsewhere in the interim financial report' and the requirement that disclosures incorporated by cross-reference should be made available.

#### - Korean IFRS 1109, *Financial Instruments*

The new Standard issued in December 2015 regarding financial instruments replaces Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*.

Korean IFRS 1109, *Financial Instruments*, requires financial assets to be classified and measured on the basis of the holder's business model and the instrument's contractual cash flow characteristics. The Standard requires a financial instrument to be classified and measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss, and provides guidance on accounting for related gains and losses. The impairment model is changed into an expected credit loss model, and changes in those expected credit losses are recognized in profit or loss. The new Standard is effective for the financial year initially beginning on or after January 1, 2018, but early adoption is allowed. Early adoption of only the requirements related to financial liabilities designated at fair value through profit or loss is also permitted. The Group is in the process of determining the effects resulting from the adoption of the new Standard.

#### - Korean IFRS 1115, *Revenue from Contracts with Customers*

The new Standard for the recognition of revenue issued in December 2015 will replace Korean IFRS 1018, *Revenue*, Korean IFRS 1011, *Construction Contracts*, and related Interpretations.

# **S-OIL Corporation and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **December 31, 2015 and 2014**

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Korean IFRS 1115, *Revenue from Contracts with Customers*, will replace the risk-and-reward model under the current standards and is based on the principle that revenue is recognized when control of goods or services transfer to the customer by applying the five-step process. Key changes to current practices include guidance on separate recognition of distinct goods or services in any bundled arrangement, constraint on recognizing variable consideration, criteria on recognizing revenue over time, and increased disclosures. The new Standard is effective for annual reporting beginning on or after January 1, 2018, but early application is permitted. The Group is in the process of determining the effects resulting from the adoption of the new Standard.

### **2.3 Consolidation**

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

#### *(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 and subsidiaries are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

# **S-OIL Corporation and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **December 31, 2015 and 2014**

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#### *(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.

## **2.4 Foreign Currency Translation**

#### *(a) Functional and presentation currency*

Items included in the consolidated 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;



# S-OIL Corporation and Subsidiary

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

---

- 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.

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.

# S-OIL Corporation and Subsidiary

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

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#### *(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.

#### *(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:

	<b>Estimated useful lives</b>
Buildings	20 - 40 years
Structures	20 - 40 years
Machinery and equipment	15 - 30 years
Vehicles	5 years
Other property, plant and equipment	3 - 5 years
Catalysts	Units-of-production method

# S-OIL Corporation and Subsidiary

## Notes to Consolidated Financial Statements

### December 31, 2015 and 2014

---

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.

#### 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:

	Estimated useful lives
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.

# **S-OIL Corporation and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **December 31, 2015 and 2014**

---

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.

#### *(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 jointly controlled entities, 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, 2015 and 2014**

---

#### **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 a customer loyalty program granting loyalty points and where members can redeem the points on future purchases. 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, 2015 and 2014**

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#### **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 special consumption taxes, 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. The Group bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

##### **a. 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, 2015 and 2014**

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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 Greenhouse Gas Emissions Rights (Allowances) and Obligations**

With Enforcement of Allocation and Trading of Greenhouse Gas Emissions Allowances, allowances that are received free of charge from the government are measured at zero while allowances purchased are measured at acquisition cost and stated net of accumulated impairment loss. Emissions obligations are measured as the sum of the carrying amount of the allocated allowances that will be submitted to the government and the best estimate of expenditure required to settle the obligation at the end of reporting period for any excess emission. The allowances and emissions obligations are classified as intangible assets and provisions for other liabilities and charges, respectively, in the statement of financial position.

#### **2.24 Approval of Issuance of the Consolidated Financial Statements**

The issuance of the December 31, 2015 consolidated financial statements of the Group was approved by the Board of Directors on February 26, 2016, 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.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

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(1) Market risk

a. Foreign exchange risk

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

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

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

As of December 31, 2015, if the Korean won had weakened/strengthened by 10% against the foreign currencies with all other variables held constant, profit for the year would have been decreased/increased by ₩ 93,329 million (2014: ₩ 149,084 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 operating income.

The Group's financial instruments denominated in major foreign currencies as of December 31, 2015 and 2014, are converted into Korean won as follows:

*(In millions of Korean won)*

		<b>2015</b>		<b>2014</b>
Trade receivables				
KRW	₩	191,801	₩	309,753
USD		835,578		1,211,710
EUR		2,192		1,415
AUD		1,310		1,178
Total	₩	1,030,881	₩	1,524,056
Trade payables				
KRW	₩	26,698	₩	28,342
USD		562,830		812,510
Total	₩	589,528	₩	840,852
Borrowings				
KRW	₩	2,012,739	₩	1,318,493
USD		1,582,458		2,319,152
Total	₩	3,595,197	₩	3,637,645

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.



**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

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.

c. Interest rate risk

The Group is exposed to interest rate risk that the interest income or expenses arising from deposits and borrowings will fluctuate because of changes in future market interest rate. The risk mainly arises from borrowings with variable interest rates linked to market interest rate.

The objective of interest rate risk management lies in maximizing the Group's 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 Group's profit for the year and on equity as of December 31, 2015 and 2014, is as follows:

<i>(In millions of Korean won)</i>	2015		2014	
	Profit for the year	Equity	Profit for the year	Equity
1% increase	₩ (120)	₩ (120)	₩ (159)	₩ (159)
1% decrease	₩ 120	₩ 120	₩ 159	₩ 159

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 stock prices with all other variables held constant on the Group's other comprehensive income for the year (change in value of available-for-sale financial assets) as of December 31, 2015 and 2014, is as follows:

<i>(In millions of Korean won)</i>	2015		2014	
Listed stocks	₩	14	₩	18
Unlisted stocks	₩	3,479	₩	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, 2015 and 2014**

The maximum exposure to credit risk as of December 31, 2015 and 2014, is as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Financial assets				
Cash and cash equivalents	₩	201,110	₩	711,380
Trade receivables		1,030,881		1,524,056
Other receivables		200,127		170,656
Other financial assets		2,501,702		448,959
Derivative assets		17,302		816
Total	₩	3,951,122	₩	2,855,867

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, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Over 2 years</b>	<b>Total</b>
<b>December 31, 2015</b>				
Trade payables	₩ 589,528	₩ -	₩ -	₩ 589,528
Other payables	500,013	15,108	880	516,001
Borrowings	1,651,486	411,956	1,841,646	3,905,088
Currency forward				
Outflow	276,792	-	-	276,792
Inflow	(268,946)	-	-	(268,946)
Commodity Swap	3,284	-	-	3,284
Total	₩ 2,752,157	₩ 427,064	₩ 1,842,526	₩ 5,021,747
<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	₩ 3,443,622	₩ 50,196	₩ 1,452,547	₩ 4,946,365

The amounts disclosed in the table are undiscounted cash flows.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**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-to-equity ratio and net borrowings-to-equity ratio each month and implements required action plan to maintain or adjust the capital structure.

Debt-to-equity ratio and net borrowings-to-equity ratio as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won, except for ratios)</i>	<b>2015</b>	<b>2014</b>
Interest bearing liabilities (A)	₩ 3,595,197	₩ 3,637,645
Cash and cash equivalents and current financial deposits (B)	2,695,053	1,152,525
Net borrowings (C=A-B)	900,144	2,485,120
Equity (D)	5,389,917	4,909,017
Debt-to-equity ratio (A/D)	67%	74%
Net borrowings-to-equity ratio (C/D)	17%	51%

**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, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Financial assets				
Available-for-sale financial assets	₩ 53,919	₩ 53,919	₩ 60,425	₩ 60,425
Derivative financial instruments	17,302	17,302	816	816
Total	<u>₩ 71,221</u>	<u>₩ 71,221</u>	<u>₩ 61,241</u>	<u>₩ 61,241</u>
Financial liabilities				
Derivative financial instruments	₩ 11,081	₩ 11,081	₩ 341	₩ 341
Total	<u>₩ 11,081</u>	<u>₩ 11,081</u>	<u>₩ 341</u>	<u>₩ 341</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, 2015 and 2014**

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**(2) Fair Value Hierarchy**

Financial instruments 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 as of December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Recurring fair value measurements				
Assets				
Available-for-sale financial assets				
Equity securities	₩ 181	₩ -	₩ 45,899	₩ 46,080
Debt securities	7,839	-	-	7,839
Financial assets measured at fair value through profit or loss				
Derivative financial assets	-	17,302	-	17,302
Total	<u>₩ 8,020</u>	<u>₩ 17,302</u>	<u>₩ 45,899</u>	<u>₩ 71,221</u>
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities	₩ -	₩ 11,081	₩ -	₩ 11,081
Total	<u>₩ -</u>	<u>₩ 11,081</u>	<u>₩ -</u>	<u>₩ 11,081</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

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

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

**(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. Details of changes in Level 3 of the fair value hierarchy for the recurring fair value measurements are as follows:

<i>(In millions of Korean won)</i>	2015
At January 1, 2015	₩ 52,256
Amount recognized in other comprehensive income	195
Disposals	(6,552)
At December 31, 2015	<u>₩ 45,899</u>

**(4) Valuation Technique and the Inputs**

Valuation techniques and inputs used in the fair value of financial instruments categorized within Level 2 and Level 3 of the fair value hierarchy as of December 31, 2015, are as follows:

**1) Level 3**

<i>(in millions of Korean won)</i>	Fair value	Level	Valuation techniques	Inputs	Range of inputs
<b>Available-for-sale financial assets</b>					
Equity securities	₩ 45,899	3	Present value technique (DCF <sup>1</sup> )	Discount rate	7.94%

<sup>1</sup> DCF: Discounted Cash Flow method

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

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**2) Level 2**

<i>(in millions of Korean won)</i>	<b>Fair value</b>	<b>Level</b>	<b>Valuation techniques</b>
<b>Financial assets at fair value through profit or loss</b>			
Commodity swap	₩ 17,302	2	Present value technique
<b>Financial liabilities at fair value through profit or loss</b>			
Currency forward	7,797	2	Present value technique
Commodity swap	₩ 3,284	2	Present value technique

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

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

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

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by the unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or most unfavorable. Financial instruments that are categorized within Level 3 and subject to sensitivity analysis include unlisted stocks 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 estimates 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 resulting accounting estimates will, by definition, seldom equal the related actual results. 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.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**a. Changes in the estimated useful lives of machinery and equipment**

The Group changed the estimated useful lives of machinery and equipment from 15 years to 15-30 years this year. This changes were made in order to reflect the economic substance of the transactions and to achieve the matching principle better in the consolidated financial statements. As a result of this changes in accounting estimates, the financial impact in current and subsequent years is as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>After 2018</b>
Depreciation of machinery and equipment before changes	₩ (126,102)	₩ (109,558)	₩ (107,345)	₩ (758,908)
Depreciation of machinery and equipment after changes	(64,808)	(48,264)	(46,320)	(942,521)
Increase (decrease) in profit before income tax	₩ 61,294	₩ 61,294	₩ 61,025	₩ (183,613)

**b. Net Defined Benefit Liabilities**

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).

**c. Fair value of financial instruments**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. 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).

**d. 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).

If certain portion of the taxable income is not used for investments, increase in wages, or dividends in accordance with the Tax System For Recirculation of Corporate Income, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

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

As of December 31, 2015, 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, 2015 and 2014**

**6. Segment Information**

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

Financial information by operating segments as of and for the years ended December 31, 2015 and 2014, follows:

<i>(In millions of Korean won)</i>	<b>2015</b>			
	<b>Oil Refining Business</b>	<b>Lube Oil Business</b>	<b>Petrochemical Business</b>	<b>Total</b>
Sales from external customers	₩ 14,054,208	₩ 1,339,762	₩ 2,496,302	₩ 17,890,272
Inter-segment sales	3,686,791	154,758	913,606	4,755,155
Total sales	<u>17,740,999</u>	<u>1,494,520</u>	<u>3,409,908</u>	<u>22,645,427</u>
Operating profit	<u>₩ 227,911</u>	<u>₩ 311,131</u>	<u>₩ 278,562</u>	<u>₩ 817,604</u>
Property, plant, equipment and intangible assets	₩ 3,240,196	₩ 82,137	₩ 1,455,703	₩ 4,778,036
Depreciation and amortization	₩ 173,084	₩ 11,821	₩ 88,286	₩ 273,191
	<b>2014</b>			
<i>(In millions of Korean won)</i>	<b>Oil Refining Business</b>	<b>Lube Oil Business</b>	<b>Petrochemical Business</b>	<b>Total</b>
Sales from external customers	₩ 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	<u>30,326,285</u>	<u>2,958,348</u>	<u>5,023,674</u>	<u>38,308,307</u>
Operating profit (loss)	<u>₩ (729,468)</u>	<u>₩ 257,811</u>	<u>₩ 181,953</u>	<u>₩ (289,704)</u>
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

Sales by geographic region for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Korea	₩ 7,509,720	₩ 10,998,525
Southeast Asia	2,025,227	3,291,373
China	1,766,811	3,943,503
Japan	1,726,993	3,066,979
Australia	1,273,252	2,120,441
United States of America	1,399,951	1,810,282
Europe	351,072	404,474
Others	1,837,246	2,921,985
Total	<u>₩ 17,890,272</u>	<u>₩ 28,557,562</u>



**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

Details of a customer, who contributes more than 10% of the Group sales for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>		<b>2015</b>		<b>2014</b>		<b>Segments</b>
Customer 1	₩	1,898,713	₩	-	-	Oil refining business

**7. Cash and Cash Equivalents**

Cash and cash equivalents as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>		<b>2015</b>		<b>2014</b>
Cash on hand	₩	93	₩	145
Checking accounts		10		14
Passbook accounts		9,724		11,455
Foreign currency deposits		64,506		222,941
Time deposits		50,000		390,000
MMDA and others		76,870		86,970
Total	₩	<u>201,203</u>	₩	<u>711,525</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, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Trade receivables	₩ 1,034,906	₩ -	₩ 1,528,381	₩ -
Less : provision for impairment	(4,025)	-	(4,325)	-
	<u>1,030,881</u>	<u>-</u>	<u>1,524,056</u>	<u>-</u>
Other receivables				
Non-trade receivables	235,379	-	566,394	-
Accrued revenues	6,849	-	2,467	-
Less : provision for impairment	-	-	(1)	-
Loans	10,980	48,539	6,585	56,405
Deposits received	-	23,468	-	22,577
	<u>253,208</u>	<u>72,007</u>	<u>575,445</u>	<u>78,982</u>
Net book amount	₩ <u>1,284,089</u>	₩ <u>72,007</u>	₩ <u>2,099,501</u>	₩ <u>78,982</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

The aging analysis of trade receivables as of December 31, 2015 and 2014, is as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Receivables not past due	₩	1,027,894	₩	1,519,442
Up to one month		3,238		5,032
One to three months		347		72
Three to six months		223		182
Six to 12 months		105		580
Over one year		3,099		3,073
Total	₩	<u>1,034,906</u>	₩	<u>1,528,381</u>

As of December 31, 2015, trade receivables of ₩ 485,235 million (2014: ₩ 594,042 million) are pledged as collateral. Among the trade receivables pledged, ₩ 4,606 million (2014: ₩ 6,636 million) is past due but not impaired.

The aging analysis of other receivables as of December 31, 2015 and 2014, is as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Receivables not past due	₩	325,215	₩	654,420
Up to one month		-		8
One to three months		-		-
Three to six months		-		-
Six to 12 months		-		-
Over one year		-		-
Total	₩	<u>325,215</u>	₩	<u>654,428</u>

Movements on the provision for impairment of trade receivables for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Beginning balance	₩	4,325	₩	5,741
Reversal		(174)		(604)
Receivables written off		(126)		(812)
Ending balance	₩	<u>4,025</u>	₩	<u>4,325</u>

Movements on the provision for impairment of other receivables for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Beginning balance	₩	1	₩	77
Bad debt expenses		-		31
Reversal		(1)		(76)
Receivables written off		-		(31)
Ending balance	₩	<u>-</u>	₩	<u>1</u>

As of December 31, 2015, discounted trade receivables is amounting to USD 66 million (2014: USD 85 million). As of December 31, 2015, the Group derecognized the trade receivables from the consolidated financial statements transferred to Shinhan Bank and four other financial institutions by transferring substantially all the risks and rewards.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**9. Other Financial Assets and Other Assets**

Other financial assets as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Current		
Short-term available-for-sale financial assets	₩ 3,778	₩ 183
Short-term financial instruments	2,493,850	441,000
	<u>2,497,628</u>	<u>441,183</u>
Non-current		
Long-term deposit	13	13
Long-term available-for-sale financial assets	50,141	60,242
	<u>50,154</u>	<u>60,255</u>
Total	<u>₩ 2,547,782</u>	<u>₩ 501,438</u>

Other assets as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Advance payments	₩ 8,626	₩ 158,102	₩ 2,560	₩ 6,455
Prepaid expenses	8,083	12,014	7,031	-
Total	<u>₩ 16,709</u>	<u>₩ 170,116</u>	<u>₩ 9,591</u>	<u>₩ 6,455</u>

Available-for-sale financial assets as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Current		
Government and public bonds	₩ 3,778	₩ 183
Non-current		
Listed equities	181	223
Non-listed equities	45,899	52,256
Government and public bonds	4,061	7,763
	<u>50,141</u>	<u>60,242</u>
Total	<u>₩ 53,919</u>	<u>₩ 60,425</u>

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

The changes in available-for-sale financial assets for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
At January 1, 2015	₩ 60,425	₩ 92,929
Additions	150	3,847
Disposals	(6,809)	(3,838)
Gains (losses) reclassified to equity	153	(17)
Losses reclassified from equity	-	(32,496)
At December 31, 2015	<u>₩ 53,919</u>	<u>₩ 60,425</u>
Non-current portion	<u>₩ 50,141</u>	<u>₩ 60,242</u>
Current portion	<u>₩ 3,778</u>	<u>₩ 183</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**10. Derivative Financial Instruments**

Details of derivative financial instruments as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	2015		2014	
	Assets	Liabilities	Assets	Liabilities
Trading purpose				
Forward foreign exchange	₩ -	₩ 7,797	₩ 816	₩ -
Commodity Swap	17,302	3,284	-	341
	<u>₩ 17,302</u>	<u>₩ 11,081</u>	<u>₩ 816</u>	<u>₩ 341</u>
Current	17,302	11,081	816	341

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, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	2015			
	Loans and receivables	Financial assets at fair value through profit or loss	Financial assets classified as available-for-sale	Total
<b>Assets</b>				
Cash and cash equivalents	₩ 201,203	₩ -	₩ -	₩ 201,203
Trade receivables	1,030,881	-	-	1,030,881
Other receivables	200,127	-	-	200,127
Other financial assets	2,493,863	-	53,919	2,547,782
Derivative financial instruments	-	17,302	-	17,302
Total	<u>₩ 3,926,074</u>	<u>₩ 17,302</u>	<u>₩ 53,919</u>	<u>₩ 3,997,295</u>

<i>(In millions of Korean won)</i>	2015		
	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total
<b>Liabilities</b>			
Trade payables	₩ 589,528	₩ -	₩ 589,528
Other payables	516,001	-	516,001
Borrowings	3,595,197	-	3,595,197
Derivative financial instruments	-	11,081	11,081
Total	<u>₩ 4,700,726</u>	<u>₩ 11,081</u>	<u>₩ 4,711,807</u>

<i>(In millions of Korean won)</i>	2014			
	Loans and receivables	Financial assets at fair value through profit or loss	Financial assets classified as available-for-sale	Total
<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, 2015 and 2014**

<i>(In millions of Korean won)</i>	2014		
	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total
<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>

Net gains or net losses on each category of financial instruments for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	2015	2014
<b>Loans and receivables</b>		
Interest income	₩ 34,752	₩ 28,191
Foreign currency gain	82,723	70,222
Reversal of bad debts allowance	175	680
Other bad debt expenses	-	(31)
<b>Assets and liabilities at fair value through profit or loss</b>		
Derivative financial instruments gain	54,975	3,719
<b>Assets classified as available-for-sale</b>		
Gains (Losses) on valuation (other comprehensive income (loss))	153	(17)
Losses on disposal (other comprehensive income (loss))	-	(32,496)
Gains (Losses) on disposal (Profit or loss)	(6,079)	29,816
Interest income	210	153
Dividend income	-	1,555
<b>Financial liabilities at amortized cost</b>		
Foreign currency loss	(211,397)	(187,910)
Interest expenses <sup>1</sup>	(35,822)	(42,648)

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

## 12. Inventories

Inventories as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	2015	2014
Merchandise	₩ 1,944	₩ 25,248
Valuation allowance for merchandise	(44)	-
Finished goods	353,326	622,019
Valuation allowance for finished goods	(21,559)	(19,004)
Work in progress	290,426	304,438
Valuation allowance for work in progress	(34,671)	(22,988)
Raw materials and materials-in-transit	991,717	1,450,542
Valuation allowance for raw materials and materials-in-transit	(69,955)	(38,397)
Supplies	87,526	93,590
Total	<u>₩ 1,598,710</u>	<u>₩ 2,415,448</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

The cost of inventories recognized as expenses and included in cost of sales amounted to ₩ 14,686,284 million (2014: ₩ 25,995,035 million). The Group recognized inventory valuation loss of ₩ 45,838 million and ₩ 58,048 million for the years ended December 31, 2015 and 2014, respectively.

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

Details of associate and jointly controlled entity as of December 31, 2015 and 2014, are as follows:

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

Investee	Location	Closing month	Number of Shares	Percentage of Ownership (%)	Acquisition cost	2015	2014
Jointly controlled entity							
S-OIL TOTAL Lubricants Co., Ltd.	Korea	December	3,500,001	50% plus one share	₩ 20,134	₩ 35,247	₩ 30,844
Associate							
Korea Oil Terminal Co., Ltd. <sup>1</sup>	Korea	December	14,094	18%	663	186	18
Total					<u>₩ 20,797</u>	<u>₩ 35,433</u>	<u>₩ 30,862</u>

<sup>1</sup> In 2014, the Group acquired 11% ownership interest in Korea Oil Terminal Co., Ltd. Although the Group owns less than 20% of the voting rights of Korea Oil Terminal Co., Ltd., the Group is considered to have a significant influence over Korea Oil Terminal Co., Ltd., which is classified as an associate, as the Group has a seat in the investee's board of directors. The Group also participated in the capital increase with consideration during the current year, resulting in its ownership interest to increase to 18%.

Details of adjustments from financial information of associate and jointly controlled entity to the book value of investments in associate and jointly controlled entity for the years ended December 31, 2015 and 2014, are as follows:

		2015				
<i>(In millions of Korean won)</i>		Net Assets	Percentage of Ownership (%)	Shares of Net Assets	Inter-Company Transactions	Book Value
Jointly controlled entity	S-OIL TOTAL Lubricants Co., Ltd.	₩ 70,811	50% plus one share	₩ 35,405	₩ (158)	₩ 35,247
Associate	Korea Oil Terminal Co., Ltd.	(105)	18%	(19)	205	186
		2014				
<i>(In millions of Korean won)</i>		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
Associate	Korea Oil Terminal Co., Ltd.	166	11%	18	-	18

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

Summarized financial information of associate and jointly controlled entity as of and for the years ended December 31, 2015 and 2014, 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>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Current assets	₩ 77,773	₩ 69,810	₩ 1,040	₩ 1,409
Non-current assets	20,071	19,063	3,148	87
Total assets	₩ 97,844	₩ 88,873	₩ 4,188	₩ 1,496
Current liabilities	27,033	26,761	4,218	1,311
Non-current liabilities	-	-	75	19
Total liabilities	₩ 27,033	₩ 26,761	₩ 4,293	₩ 1,330
Total equity	₩ 70,811	₩ 62,112	₩ (105)	₩ 166
Sales	₩ 273,032	₩ 272,875	₩ -	₩ -
Operating income (loss)	25,714	16,597	(1,583)	(2,253)
Profit (Loss) before income tax	25,640	16,234	(1,575)	(2,235)
Profit (Loss) for the year	19,902	12,384	(1,575)	(2,235)
Total comprehensive income (loss) for the year	19,846	12,447	(1,575)	(2,235)

Changes in investments in associate and jointly controlled entity as of and for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>		
	<b>S-OIL TOTAL Lubricants Co., Ltd.</b>	<b>Korea Oil Terminal Co., Ltd.</b>	<b>Total</b>
Beginning balance	₩ 30,844	₩ 18	₩ 30,862
Acquisition	-	399	399
Share of profit (loss)	9,951	(231)	9,720
Unrealized gain (loss)	79	-	79
Dividend received	(5,600)	-	(5,600)
Other equity changes	(27)	-	(27)
Ending balance	₩ 35,247	₩ 186	₩ 35,433

<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	95	-	95
Dividend received	(5,600)	-	(5,600)
Other equity changes	32	-	32
Ending balance	₩ 30,844	₩ 18	₩ 30,862

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**14. Property, Plant and Equipment**

Changes in property, plant and equipment for the years ended December 31, 2015 and 2014, are as follows:

	2015								Total
	Land	Buildings	Structures	Machinery and equipment	Vehicles	Others	Catalysts	Construction-in-progress	
<i>(In millions of Korean won)</i>									
At January 1, 2015									
Acquisition cost	₩ 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>
Changes during 2015									
Opening net book value	1,256,780	188,898	451,401	1,101,913	1,611	104,318	131,745	1,085,050	4,321,716
Additions	-	74	266	-	511	23,334	129,133	527,717	681,035
Transfers	325	3,718	38,354	21,861	1,394	2,193	-	(71,056)	(3,211)
Disposals	(2,491)	(1,241)	(398)	-	-	(390)	-	-	(4,520)
Depreciation	-	(6,451)	(33,837)	(74,594)	(857)	(51,753)	(96,735)	-	(264,227)
Closing net book value	<u>₩ 1,254,614</u>	<u>₩ 184,998</u>	<u>₩ 455,786</u>	<u>₩ 1,049,180</u>	<u>₩ 2,659</u>	<u>₩ 77,702</u>	<u>₩ 164,143</u>	<u>₩ 1,541,711</u>	<u>₩ 4,730,793</u>
At December 31, 2015									
Acquisition cost	1,254,614	255,819	916,002	3,589,497	13,422	362,159	875,820	1,541,711	8,809,044
Accumulated depreciation	-	(70,821)	(460,216)	(2,540,317)	(10,763)	(284,457)	(711,677)	-	(4,078,251)
Net book value	<u>₩ 1,254,614</u>	<u>₩ 184,998</u>	<u>₩ 455,786</u>	<u>₩ 1,049,180</u>	<u>₩ 2,659</u>	<u>₩ 77,702</u>	<u>₩ 164,143</u>	<u>₩ 1,541,711</u>	<u>₩ 4,730,793</u>



**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

<i>(In millions of Korean won)</i>	<b>2014</b>								<b>Total</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>	
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									
Acquisition cost	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>

In 2015, depreciation expense of ₩ 243,847 million (2014: ₩ 312,380 million) has been charged to cost of sales, ₩ 17,618 million (2014: ₩ 15,519 million) to selling expenses and ₩ 2,762 million (2014: ₩ 3,667 million) to administrative expenses.

As of December 31, 2015, a certain portion of property, plant and equipment is pledged as collateral for various borrowings and guarantees (Note 16).

In 2015, the Group has capitalized borrowing costs amounting to ₩ 22,147 million (2014: ₩ 6,114 million) on qualifying assets. The capitalization rate of borrowings used to determine the amount of borrowing costs eligible for capitalization is 1.32% (2014: 1.22%) for general borrowings and 2.74% (2014: 2.86%) for specific borrowings.

As of December 31, 2015, Construction in-progress consists of expenses related to facilities installation and land.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**15. Intangible Assets**

Changes in intangible assets for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>			
	<b>Facility usage rights</b>	<b>Others</b>	<b>Membership rights</b>	<b>Total</b>
At January 1, 2015				
Acquisition cost	₩ 8,113	₩ 59,420	₩ 20,995	₩ 88,528
Accumulated amortization	(3,802)	(34,766)	-	(38,568)
Net book value	<u>₩ 4,311</u>	<u>₩ 24,654</u>	<u>₩ 20,995</u>	<u>₩ 49,960</u>
Changes during 2015				
Opening net book value	4,311	24,654	20,995	49,960
Additions	-	194	5,915	6,109
Transfers	-	3,211	-	3,211
Disposals	-	(1)	(3,072)	(3,073)
Amortization	(404)	(8,560)	-	(8,964)
Closing net book value	<u>₩ 3,907</u>	<u>₩ 19,498</u>	<u>₩ 23,838</u>	<u>₩ 47,243</u>
At December 31, 2015				
Acquisition cost	8,113	62,824	23,838	94,775
Accumulated amortization	(4,206)	(43,326)	-	(47,532)
Net book value	<u>₩ 3,907</u>	<u>₩ 19,498</u>	<u>₩ 23,838</u>	<u>₩ 47,243</u>
	<b>2014</b>			
<i>(In millions of Korean won)</i>	<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	<u>₩ 4,716</u>	<u>₩ 20,847</u>	<u>₩ 20,963</u>	<u>₩ 46,526</u>
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	<u>₩ 4,311</u>	<u>₩ 24,654</u>	<u>₩ 20,995</u>	<u>₩ 49,960</u>
At December 31, 2014				
Acquisition cost	8,113	59,420	20,995	88,528
Accumulated amortization	(3,802)	(34,766)	-	(38,568)
Net book value	<u>₩ 4,311</u>	<u>₩ 24,654</u>	<u>₩ 20,995</u>	<u>₩ 49,960</u>

In 2015, amortization expense of ₩ 2,570 million (2014: ₩ 2,358 million) is included in cost of sales, ₩ 1,002 million (2014: ₩ 1,015 million) in selling expenses and ₩ 5,392 million (2014: ₩ 4,764 million) in administrative expenses.

Membership impairment reviews are undertaken annually. As a result of the impairment test, the carrying value of membership is not higher than the recoverable amount.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**16. Assets Pledged as Collateral**

As of December 31, 2015, assets pledged as collateral are as follows:

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

<b>Pledged Assets as Collateral</b>	<b>Secured Amount</b>	<b>Creditors</b>	<b>Related Borrowings/ Guarantees</b>	<b>Balance of Borrowings</b>
	₩19,350			
Land, Buildings, BTX and others	USD 144 FFR 155 JPY 11,781	The Korea Development Bank	Usance Borrowings of USD 295 million	₩ 345,801
Construction-in-progress (Land)	₩75,168	The Korea Development Bank	Loans for facility	₩ 75,000
Time deposits	₩1,907	Defense Acquisition Program Administration	Contractual Guarantee	₩ -
Time deposits	₩4,627	Korea Industrial Complex Corporation	Contractual Guarantee	₩ -
Time deposits	₩102	Korea Midland Power Co., Ltd.	Contractual Guarantee	₩ -
Time deposits	₩315	Korea Southern Power Co., Ltd.	Contractual Guarantee	₩ -
		<b>Total</b>		<b>₩ 420,801</b>

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

Trade payables and other payables as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Trade payables	₩ 589,528	₩ -	₩ 840,852	₩ -
Other payables				
Non-trade payables	904,792	-	638,102	-
Accrued expenses	6,367	-	6,043	-
Dividend payables	70	-	66	-
Rental deposit payables	-	23,581	-	19,693
	911,229	23,581	644,211	19,693
<b>Total</b>	<b>₩ 1,500,757</b>	<b>₩ 23,581</b>	<b>₩ 1,485,063</b>	<b>₩ 19,693</b>

Other liabilities as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Advances from customers	₩ 77,590	₩ -	₩ 109,100	₩ -
Withholdings	5,020	-	3,737	-
<b>Total</b>	<b>₩ 82,610</b>	<b>₩ -</b>	<b>₩ 112,837</b>	<b>₩ -</b>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**18. Borrowings**

Details of borrowings as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
<b>Current</b>		
Banker's usance	₩ 1,582,458	₩ 2,319,152
Current maturities of long-term borrowings	<u>5,484</u>	<u>5,204</u>
	<u>1,587,942</u>	<u>2,324,356</u>
<b>Non-current</b>		
Debentures	1,621,969	1,222,519
Long-term borrowings	<u>385,286</u>	<u>90,770</u>
	<u>2,007,255</u>	<u>1,313,289</u>
Total	<u>₩ 3,595,197</u>	<u>₩ 3,637,645</u>

Details of borrowings as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>Creditor</b>	<b>Maturity date</b>	<b>Interest Rates (%) Dec 31, 2015</b>	<b>2015</b>	<b>2014</b>
<b>Short-term borrowings</b>					
Banker's usance	Korea Development Bank and others	Feb. 4, 2016 and others	0.63 - 0.92	₩ 1,582,458	₩ 2,319,152
<b>Current maturities of long-term borrowings</b>					
Loans for facilities from energy usage rationalization fund	KEB Hana Bank	Mar. 15, 2016 and others	1.50 - 1.75	4,716	3,803
Loans for facilities from energy usage rationalization fund	Korea Exchange Bank	-	-	-	633
Environment improvement supporting funds loans	KEB Hana Bank	Mar. 31, 2016	1.98	768	768
				<u>5,484</u>	<u>5,204</u>
<b>Long-term borrowings</b>					
Loans for facilities from energy usage rationalization fund	KEB Hana Bank	June 15, 2017 and others	1.75	8,840	12,607
Loans for facilities from energy usage rationalization fund	Korea Exchange Bank	-	-	-	950
Environment improvement supporting funds loans	KEB Hana Bank	Mar. 31, 2019	1.98	1,446	2,213
Loans for industry facilities fund	Korea Development Bank	July 31, 2024	2.10 - 2.64	75,000	75,000
Loans for industry facilities fund	Korea Development Bank and others	Dec. 31, 2025	2.98	300,000	-
				<u>385,286</u>	<u>90,770</u>
Total				<u>₩ 1,973,228</u>	<u>₩ 2,415,126</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

Details of debentures as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	Issuance date	Maturity date	Interest Rates (%) Dec 31, 2015	2015		2014	
				₩		₩	
Public bonds (45-1)	Aug. 28, 2012	Aug. 28, 2017	3.180	₩	350,000	₩	350,000
Public bonds (45-2)	Aug. 28, 2012	Aug. 28, 2019	3.330		100,000		100,000
Public bonds (45-3)	Aug. 28, 2012	Aug. 28, 2022	3.530		50,000		50,000
Public bonds (46-1)	June 26, 2014	June 26, 2019	3.092		180,000		180,000
Public bonds (46-2)	June 26, 2014	June 26, 2021	3.234		110,000		110,000
Public bonds (46-3)	June 26, 2014	June 26, 2024	3.468		70,000		70,000
Public bonds (47-1)	Nov. 27, 2014	Nov. 27, 2019	2.471		155,000		155,000
Public bonds (47-2)	Nov. 27, 2014	Nov. 27, 2021	2.706		80,000		80,000
Public bonds (47-3)	Nov. 27, 2014	Nov. 27, 2024	2.990		130,000		130,000
Public bonds (48-1)	Oct. 29, 2015	Oct. 29, 2020	2.297		230,000		-
Public bonds (48-2)	Oct. 29, 2015	Oct. 29, 2022	2.391		70,000		-
Public bonds (48-3)	Oct. 29, 2015	Oct. 29, 2025	2.657		100,000		-
					<u>1,625,000</u>		<u>1,225,000</u>
Less: Present value discount					(3,031)		(2,481)
Sub total					<u>1,621,969</u>		<u>1,222,519</u>
Less: Current maturities					-		-
Total					<u>₩ 1,621,969</u>		<u>₩ 1,222,519</u>

As of December 31, 2015 and 2014, a certain portion of property, plant and equipment is pledged as collateral for various borrowings (Note 16).

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

Changes in provisions for other liabilities and charges for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	Environmental Restoration		Others		Total
	2015	2014	2015	2014	2015
Beginning balance	₩ 4,885	₩ 4,216	₩ -	₩ -	₩ 4,885
Additional provisions adjustment	4,785	11,471	7,339	-	12,124
Used during the year	(6,448)	(10,802)	(5,883)	-	(12,331)
Ending balance	<u>₩ 3,222</u>	<u>₩ 4,885</u>	<u>₩ 1,456</u>	<u>₩ -</u>	<u>₩ 4,678</u>

**20. Net Defined Benefit Liabilities**

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.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

Details of net defined benefit liabilities recognized in the consolidated statements of financial position as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Present value of funded defined benefit obligations	₩ 268,444	₩ 212,935
Fair value of plan assets <sup>1</sup>	(263,921)	(180,212)
Liabilities in the consolidated statement of financial position	<u>₩ 4,523</u>	<u>₩ 32,723</u>

<sup>1</sup> The fair value of plan assets includes contributions to the National Pension Fund of ₩ 526 million as of December 31, 2015 (2014: ₩ 535 million).

Changes in defined benefit obligations for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Beginning balance	₩ 212,935	₩ 175,493
Current service cost	26,894	23,451
Interest expense	8,176	8,287
Remeasurements :		
Actuarial losses arising from changes in demographic assumptions	949	-
Actuarial losses arising from changes in financial assumption	16,635	18,319
Actuarial losses (gains) arising from changes in experience adjustments	9,615	(4,738)
Benefits payments	(6,760)	(7,877)
Ending Balance	<u>₩ 268,444</u>	<u>₩ 212,935</u>

Changes in the fair value of plan assets for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Beginning balance	₩ 180,212	₩ 166,466
Interest income	6,575	8,435
Remeasurements :		
Return on plan assets	(2,378)	(3,001)
Contributions	85,000	15,000
Benefits payments	(5,488)	(6,688)
Ending balance	<u>₩ 263,921</u>	<u>₩ 180,212</u>

The total amount of plan assets as of December 31, 2015 and 2014, consist of financial assets including deposits.

The principal actuarial assumptions as of December 31, 2015 and 2014, are as follows:

	<b>2015</b>	<b>2014</b>
Discount rate	3.40%	3.90%
Salary growth rate	5.34%	5.24%

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

The sensitivity of the defined benefit obligations as of December 31, 2015 and 2014, to changes in the principal actuarial assumptions is as follows:

	Changes in principal assumption	Effect on defined benefit obligations	
		December 31, 2015	December, 31 2014
Salary growth rate	1% increase	11.03% increase	10.76% increase
	1% decrease	9.65% decrease	9.46% decrease
Discount rate	1% increase	9.73% decrease	9.49% decrease
	1% decrease	11.37% increase	11.03% increase

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on 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 Group reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund.

The weighted average duration of the defined benefit obligations is 10.55 years and there is no expected contributions to post-employment benefit plans for the year ending December 31, 2016.

Recognized expense related to the defined contribution plan for the year ended December 31, 2015, is ₩ 3,821 million (2014: ₩ 146 million).

## **21. Contingencies**

As of December 31, 2015, the Group has overdraft agreements of up to ₩ 23,000 million with Shinhan Bank and another bank, and general loan agreements of up to ₩ 14,750 million and USD 432 million with Shinhan Bank and other two banks.

As of December 31, 2015, the Group has banker's usance agreements, imported credit and factoring agreements of up to a maximum of USD 5,300 million with Korea Development Bank and 18 other banks.

As of December 31, 2015, KEB Hana Bank has provided guarantees of up to ₩ 30,000 million for the Group's repayment of remaining bonus points.

As of December 31, 2015, KEB Hana Bank has provided guarantees of up to ₩ 3,583 million for the restoration responsibilities of Onsan National Industrial Complex.

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

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

#### **December 31, 2015 and 2014**

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As of December 31, 2015, the Group offered two blank checks to Korea National Oil Corporation (“KNOC”) as payment guarantee.

As of December 31, 2015, discounted trade receivables amount to USD 66 million (2014: USD 85 million). As of December 31, 2015, the Group derecognized from the consolidated financial statements the trade receivables transferred to Shinhan Bank and four other financial institutions by transferring substantially all the risks and rewards (Note 8).

As of December 31, 2015, the Group has stand-by credit line agreements with Korea Development Bank and 11 other banks for up to USD 100 million and ₩ 1,100,000 million.

As of December 31, 2015, the Group has agreements with Korea Development Bank and seven other banks in relation to industry facilities fund of up to ₩ 1,500,000 million, and the outstanding amount is ₩ 300,000 million.

As of December 31, 2015, the Group has insurance policies with Samsung Fire & Marine Insurance and three other Insurance companies in relation to its plant equipment construction. The insurance benefit of up to 2,520,000 million is pledged as collateral to Korea Development Bank and eight other financial institutions.

As of December 31, 2015, 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 Fair Trade Commission (“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.

(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.



**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

(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. The Seoul High Court ruled in the Company's favor in May 2015.

(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, 2015 and 2014, 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, 2014</b>	112,582,792	4,021,927	₩281,457	₩ 10,055	₩ 379,190	₩ 670,702
<b>December 31, 2015</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, 2015, 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, 2015, there is no outstanding convertible stock issued by the Group.

The Group may grant options to purchase the Group's common stock to key employees or directors. The grant limit of the options is 15% of outstanding shares and the options may be granted with the special resolution of the shareholders. As of December 31, 2015, 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.

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**23. Treasury Stock**

As of December 31, 2015, 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, 2015 and 2014, consist of:

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</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	2,286,198
	<u>2,445,043</u>	<u>2,445,043</u>
<b>Revaluation reserve</b>	984,648	984,648
<b>Unappropriated retained earnings (accumulated deficit)</b>	167,676	(313,068)
	<u>₩ 3,743,123</u>	<u>₩ 3,262,379</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 2014 amounting to ₩ 96 million for preferred stock were paid out in April 2015 (Dividends paid in 2014: ₩ 99,073 million for common stock and ₩ 3,473 million for preferred stock).

In accordance with the Articles of Incorporation, on July 9, 2015, the Board of Directors declared interim cash dividends of ₩ 1,100 per share on June 30, 2015.

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

	<b>Number of shares Issued</b>	<b>Amount</b>	<b>Dividend rate</b>	<b>Cash Dividends</b>
Common stock	112,582,792	₩ 281,457	44%	₩ 123,841
Preferred stock	3,837,847 <sup>1</sup>	9,595	44%	4,222
	<u>116,420,639</u>	<u>₩ 291,052</u>		<u>₩ 128,063</u>

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

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**25. Reserves**

Changes in reserves for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	Gain on disposal of treasury stocks	Changes in value of available-for-sale financial instruments	Share of other comprehensive income of jointly controlled entity	Unrealized translation gains (losses) on foreign operation	Total
Balance at January 1, 2015	₩ 952,311	₩ 17,322	₩ 24	₩ 8,155	₩ 977,812
Available-for-sale assets	-	116	-	-	116
Currency translation difference	-	-	-	61	61
Share of other comprehensive income of jointly controlled entity	-	-	(21)	-	(21)
Balance at December 31, 2015	<u>₩ 952,311</u>	<u>₩ 17,438</u>	<u>₩ 3</u>	<u>₩ 8,216</u>	<u>₩ 977,968</u>
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 entity	-	-	24	-	24
Balance at December 31, 2014	<u>₩ 952,311</u>	<u>₩ 17,322</u>	<u>₩ 24</u>	<u>₩ 8,155</u>	<u>₩ 977,812</u>

**26. Cost of Sales**

Cost of sales for the years ended December 31, 2015 and 2014, consists of:

<i>(In millions of Korean won)</i>	2015	2014
Beginning balance	₩ 628,263	₩ 894,657
Purchases of merchandise	966,408	1,244,984
Manufacturing cost for the year	16,734,475	29,111,117
Transfer to other accounts	(875,516)	(1,438,741)
Ending balance	(333,667)	(628,263)
Adjustments	(681,190)	(901,538)
Cost of sales	<u>₩ 16,438,773</u>	<u>₩ 28,282,216</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**27. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2015 and 2014, are as follows:

*(In millions of Korean won)*

	<b>Selling expenses</b>		<b>Administrative expenses</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Salaries	₩ 56,012	₩ 52,323	₩ 29,753	₩ 26,516
Post-employment Benefits	7,698	5,660	4,164	2,991
Employee Benefits	39,416	14,006	18,885	7,462
Training Expenses	59	55	2,310	1,874
Travel Expenses	2,509	2,712	1,444	1,339
Miscellaneous Administrative Expenses	823	700	432	459
Communication Expenses	1,500	1,371	1,137	1,941
Vehicles Maintenance Expenses	421	450	362	452
Utility Expenses	1,050	1,304	774	894
Rental Expenses	6,992	6,560	1,689	1,686
Service expenses for oil storages	21,680	15,632	-	-
Service Fees	13,126	12,327	2,283	2,735
Entertainment Expenses	1,419	1,265	2,161	1,946
Export Expenses	158,413	165,197	-	-
Repairs and Maintenance Expenses	8,352	4,570	2,393	1,813
Supplies Expenses	64	71	2	2
Chemicals Expenses	272	295	-	-
Outsourcing Fees	13,578	9,390	8,979	11,499
Promotional and Advertising Expenses	24,365	20,413	6,941	6,298
Freight Expenses	150,457	141,790	-	-
Insurance Premium	3,109	3,832	112	116
Taxes and Dues	2,822	3,000	7,474	6,332
Depreciation Expenses	17,618	15,519	2,762	3,667
Amortization Expenses	1,002	1,015	5,392	4,764
Reversal of allowance for bad debts	(174)	(604)	-	-
Others	262	249	1,601	1,162
<b>Total</b>	<b>₩ 532,845</b>	<b>₩ 479,102</b>	<b>₩ 101,050</b>	<b>₩ 85,948</b>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**28. Other Income and Expenses**

Other income and expenses for the years ended December 31, 2015 and 2014, are as follows:

**Other income**

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Gain from disposal of property, plant and equipment	₩ 1,036	₩ 197
Dividend income	-	1,555
Reversal of allowance for bad debts	1	76
Others	77,935	18,522
Gain on foreign currency transactions	270,351	366,407
Gain on foreign currency translation	6,463	7,545
Gain on derivative transactions	112,628	50,102
Gain on valuation of derivatives	17,302	816
Gain from disposal of available-for-sale financial instruments	-	29,960
Total	<u>₩ 485,716</u>	<u>₩ 475,180</u>

**Other expenses**

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Loss on disposal of property, plant and equipment	₩ 2,157	₩ 7,310
Donations	5,070	8,458
Others	5,779	7,963
Loss on foreign currency transactions	294,766	389,018
Loss on foreign currency translation	4,065	7,901
Loss on derivative transactions	63,874	46,858
Loss on valuation of derivatives	11,081	341
Other bad debt expenses	-	31
Loss on disposal of available-for-sale financial instruments	6,079	144
Total	<u>₩ 392,871</u>	<u>₩ 468,024</u>

**29. Finance Income and expenses**

Finance income and expenses for the years ended December 31, 2015 and 2014, consist of the following:

**Finance income**

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Interest income	₩ 34,962	₩ 28,344
Gain on foreign currency transactions	106,866	188,740
Gain on foreign currency translation	4,135	3,149
Total	<u>₩ 145,963</u>	<u>₩ 220,233</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Finance expenses**

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Interest expenses <sup>1</sup>	₩ 35,822	₩ 42,648
Loss on foreign currency transactions	200,559	184,764
Loss on foreign currency translation	17,099	101,846
Total	<u>₩ 253,480</u>	<u>₩ 329,258</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, 2015 and 2014, consists of:

<i>(in millions Korean won)</i>	<b>2015</b>	<b>2014</b>
Current tax		
Current tax on profit for the year	₩ (52,113)	₩ -
Adjustments in respect of prior years	<u>34</u>	<u>328</u>
Total current tax	<u>(52,079)</u>	<u>328</u>
Deferred tax		
Origination and reversal of temporary differences	<u>(129,330)</u>	<u>97,376</u>
Income tax benefit (expense)	<u>₩ (181,409)</u>	<u>₩ 97,704</u>

Reconciliation between profit before income taxes and income tax expense for the years ended December 31, 2015 and 2014, is as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Profit (loss) before income tax (benefit)	<u>₩ 812,731</u>	<u>₩ (385,532)</u>
Income tax benefit (expense) based on statutory rate	₩ (196,322)	₩ 93,298
Income not subject to tax	10,163	8,178
Expenses not deductible for tax purposes	(1,915)	(4,567)
Adjustments in respect of prior years	34	328
Tax credit and others	6,631	467
Income tax benefit (expense)	<u>₩ (181,409)</u>	<u>₩ 97,704</u>

The weighted average applicable tax rate was 22.3 % in 2015 (2014: 24.2 %).

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

Income tax effects related to components of other comprehensive income (expenses) for the years ended December 31, 2015 and 2014, are as follows:

*(in millions Korean won)*

	<b>2015</b>		
	<b>Before tax</b>	<b>Tax effect</b>	<b>After tax</b>
Change in value of available-for-sale financial assets	₩ 153	₩ (37)	₩ 116
Share of other comprehensive income of jointly controlled entity	(27)	6	(21)
Currency translation differences	81	(20)	61
Remeasurements of net defined benefit liabilities	(29,578)	7,159	(22,419)
Total	<u>₩ (29,371)</u>	<u>₩ 7,108</u>	<u>₩ (22,263)</u>

*(in millions Korean won)*

	<b>2014</b>		
	<b>Before tax</b>	<b>Tax effect</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 entity	32	(8)	24
Currency translation differences	48	(11)	37
Remeasurements of net defined benefit liabilities	(16,582)	4,013	(12,569)
Total	<u>₩ (49,015)</u>	<u>₩ 11,862</u>	<u>₩ (37,153)</u>

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2015 and 2014, is as follows:

*(In millions of Korean won)*

	<b>2015</b>	<b>2014</b>
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 37,195	₩ 107,046
Deferred tax asset to be recovered within 12 months	32,743	95,781
	<u>69,938</u>	<u>202,827</u>
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(202,326)	(199,711)
Deferred tax liability to be recovered within 12 months	(15,705)	(28,987)
	<u>(218,031)</u>	<u>(228,698)</u>
Deferred tax liabilities, net	<u>₩ (148,093)</u>	<u>₩ (25,871)</u>

The gross movements on the deferred income tax account for the years ended December 31, 2015 and 2014, are as follows:

*(In millions of Korean won)*

	<b>2015</b>	<b>2014</b>
Beginning balance	₩ (25,871)	₩ (135,109)
Tax charged to income	(129,330)	97,376
Tax charged to equity	7,108	11,862
Ending balance	<u>₩ (148,093)</u>	<u>₩ (25,871)</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

Changes in the deferred income taxes assets and liabilities for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	<b>2015</b>			
	<b>Beginning Balance</b>	<b>Income</b>	<b>Other comprehensive income</b>	<b>Ending Balance</b>
Depreciation	₩ 11,188	₩ (1,607)	₩ -	₩ 9,581
Loss on impairment of investments	446	-	-	446
Salaries and wages payable	-	14,449	-	14,449
Accrued liabilities	8,128	138	-	8,266
Subsidiary and jointly controlled entities	(914)	(1,016)	-	(1,930)
Available-for-sale financial assets	63,104	(63,104)	-	-
Gain (loss) on valuation of derivative instruments	82	(3,475)	-	(3,393)
Loss on impairment of property, plant and equipment	1,444	(49)	-	1,395
Customs duties receivable	(26,904)	18,675	-	(8,229)
Accrued interest income	(593)	(1,062)	-	(1,655)
Net defined benefit liabilities	691	(3,276)	-	(2,585)
Employee benefits	6,802	(446)	-	6,356
Revaluation of lands	(189,723)	144	-	(189,579)
Others	2,599	(542)	-	2,057
Change in value of available-for-sale assets	(5,531)	-	(37)	(5,568)
Currency translation differences and share of other comprehensive income of jointly controlled entity	(2,538)	-	(14)	(2,552)
Remeasurements of net defined benefit liabilities	17,689	-	7,159	24,848
Tax loss carryforwards	87,692	(87,692)	-	-
Tax credit carryforwards	467	(467)	-	-
Total	<u>₩ (25,871)</u>	<u>₩ (129,330)</u>	<u>₩ 7,108</u>	<u>₩ (148,093)</u>



**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

	<b>2014</b>			
	<b>Beginning Balance</b>	<b>Income</b>	<b>Other comprehensive income</b>	<b>Ending Balance</b>
<i>(In millions of Korean won)</i>				
Depreciation	₩ 11,687	₩ (499)	₩ -	₩ 11,188
Loss on impairment of investments	3,084	(2,638)	-	446
Salaries and wages payable	6,263	(6,263)	-	-
Accrued liabilities	8,381	(253)	-	8,128
Subsidiary and jointly controlled entities	(806)	(108)	-	(914)
Available-for-sale financial assets	63,104	-	-	63,104
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)
Net defined benefit liabilities	(4,800)	5,491	-	691
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 entity	(2,519)	-	(19)	(2,538)
Remeasurements of net defined benefit liabilities	13,676	-	4,013	17,689
Tax loss carryforwards	-	87,692	-	87,692
Tax credit carryforwards	-	467	-	467
Total	<u>₩ (135,109)</u>	<u>₩ 97,376</u>	<u>₩ 11,862</u>	<u>₩ (25,871)</u>

**31. Expenses by Nature**

Expenses by nature for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Raw materials used	₩ 14,365,993	₩ 25,550,420
Changes in inventories of finished goods, work in-progress and merchandise	320,291	444,615
Employee benefit expense	280,761	254,343
Utility expenses	1,072,250	1,628,604
Depreciation and amortization	273,191	339,703
Freight expenses	150,457	141,790
Advertising costs	18,115	11,252
Other expenses	591,610	476,539
Total cost of sales, selling and administrative expenses	<u>₩ 17,072,668</u>	<u>₩ 28,847,266</u>

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**32. Employee Benefit Expense**

Details of employee benefit expense for the years ended December 31, 2015 and 2014, consist of:

<i>(In millions of Korean won)</i>	<b>2015</b>	<b>2014</b>
Wages and salaries	₩ 237,669	₩ 213,934
Social security costs	20,352	21,112
Post-employment benefits – Pension costs for defined benefit plans	28,495	23,303
Post-employment benefits – Pension costs for defined contribution plans	3,821	146
Total	<u>₩ 290,337</u>	<u>₩ 258,495</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 (loss) per common share for the years ended December 31, 2015 and 2014, is calculated as follows:

<i>(In millions of Korean won, except per share data and number of shares)</i>	<b>2015</b>	<b>2014</b>
Profit (loss) for the year	₩ 631,322	₩ (287,828)
Adjustments:		
Dividends for preferred stock	(96)	(96)
Additional dividends for preferred stock	(20,808)	9,491
Profit (loss) attributable to common stock shareholders	610,418	(278,433)
Weighted average number of shares of common stock	112,582,792	112,582,792
Basic earnings (loss) per common share	<u>₩ 5,422</u>	<u>₩ (2,473)</u>

Basic earnings (loss) per preferred share for the years ended December 31, 2015 and 2014, is calculated as follows:

<i>(In millions of Korean won, except per share data and number of shares)</i>	<b>2015</b>	<b>2014</b>
Profit (loss) attributable to preferred stock shareholders	₩ 20,904	₩ (9,395)
Weighted average number of shares of preferred stock <sup>1</sup>	3,837,847	3,837,847
Basic earnings (loss) per preferred share	<u>₩ 5,447</u>	<u>₩ (2,448)</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.

**34. Related Party Transactions**

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

Details of related parties as of December 31, 2015 and 2014, are as follows:

	2015	2014
Ultimate parent company	Saudi Arabian Oil Company <sup>1</sup>	-
Parent company	Aramco Overseas Co., B.V.	-
The investors which have significant influence	-	Aramco Overseas Co., B.V., Hanjin Energy Co., Ltd.
Jointly controlled entity	S-OIL TOTAL Lubricants Co., Ltd.	S-OIL TOTAL Lubricants Co., Ltd.
Associate	Korea Oil Terminal Co., Ltd.	Korea Oil Terminal Co., Ltd.
Other related parties who have transactions with the Group	Saudi Aramco Products Trading Company <sup>2</sup> Aramco Asia Japan <sup>2</sup>	Saudi Arabian Oil Company <sup>1</sup> , Korean Air Lines Co., Ltd <sup>3</sup>

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

<sup>2</sup> Subsidiary of Saudi Arabian Oil Company

<sup>3</sup> The ultimate parent of Hanjin Energy Co., Ltd.

As Hanjin Energy Co., Ltd. sold all of its equity shares to Aramco Overseas Co., B.V. on January 19, 2015, Hanjin Energy Co., Ltd. and Korean Air Lines Co., Ltd. are excluded as related parties as of December 31, 2015. As a result of this transaction, Aramco Overseas Co., B.V. and Saudi Arabian Oil Company became the parent company and the ultimate parent company, respectively.

Significant transactions with related parties for the years ended December 31, 2015 and 2014, and the related receivables and payables as of December 31, 2015 and 2014, are as follows:

	Sales		Purchases	
	2015	2014	2015	2014
<i>(In millions of Korean won)</i>				
<b>Ultimate parent company</b>				
Saudi Arabian Oil Company	₩ -	₩ -	₩ 11,396,568	₩ 20,462,075
<b>Jointly controlled entity</b>				
S-OIL TOTAL Lubricant Co., Ltd.	90,490	117,088	15,281	10,782
<b>Other related parties</b>				
Saudi Aramco Products Trading Company	1,898,713	-	484,085	-
Aramco Asia Japan	1	-	-	-
Korean Air Lines Co., Ltd.(*)	14,757	554,283	-	1,641
Total	₩ 2,003,961	₩ 671,371	₩ 11,895,934	₩ 20,474,498

	Receivables		Payables	
	2015	2014	2015	2014
<i>(In millions of Korean won)</i>				
<b>Ultimate parent company</b>				
Saudi Arabian Oil Company	₩ -	₩ -	₩ 440,859	₩ 682,264
<b>Jointly controlled entity</b>				
S-OIL TOTAL Lubricant Co., Ltd.	318	2,210	2,020	971
<b>Other related parties</b>				
Saudi Aramco Products Trading Company	147,607	-	29,620	-
Korean Air Lines Co., Ltd.(*)	-	32,020	-	178
Total	₩ 147,925	₩ 34,230	₩ 472,499	₩ 683,413

**S-OIL Corporation and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

The Group has allowance of bad debts on receivables from related parties of ₩ 1 million and ₩ 4 million as of December 31, 2015 and 2014, respectively. The Group recognized the reversal of bad debts allowance of ₩ 3 million for the year ended December 31, 2015, and bad debt expense of ₩ 2 million for the year ended December 31, 2014.

(\*) Transactions with Korean Air Lines Co., Ltd. were included up to January 19, 2015, and the receivables and payables are not presented as it was excluded as a related party as of December 31, 2015.

Financial transactions with related parties for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>Amount of investment in cash</b>		<b>Dividends received</b>		<b>Dividends payments</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Parent company</b>						
Aramco Overseas Co., B.V.	₩ -	₩ -	₩ -	₩ -	₩ 78,526	₩ 40,586
<b>The investors which have significant influence</b>						
Hanjin Energy Co., Ltd.	-	-	-	-	-	32,943
<b>Jointly controlled entity</b>						
S-OIL TOTAL Lubricant Co., Ltd.	-	-	5,600	5,600	-	-
<b>Associate</b>						
Korea Oil Terminal Co., Ltd.	399	264	-	-	-	-
Total	<u>₩ 399</u>	<u>₩ 264</u>	<u>₩ 5,600</u>	<u>₩ 5,600</u>	<u>₩ 78,526</u>	<u>₩ 73,529</u>

The compensation paid or payable to key management for employee services for the years ended December 31, 2015 and 2014, consists of:

<i>(In millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Short-term employee benefits	₩	908	₩	1,066
Post-employment benefits		173		159
Total	<u>₩</u>	<u>1,081</u>	<u>₩</u>	<u>1,225</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, 2015 and 2014**

**35. Cash Generated From Operations**

Cash generated from operations for the years ended December 31, 2015 and 2014, is as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Profit (loss) for the year	₩	631,322	₩	(287,828)
Adjustments :				
Income tax expense (benefit)		181,409		(97,704)
Depreciation expense		264,227		331,566
Amortization expense		8,964		8,137
Post-employment benefits		28,495		23,303
Reversal of allowance for bad debts		(174)		(604)
Interest expense		35,822		42,648
Loss on foreign currency translation		21,165		109,747
Loss on derivative transactions		63,874		46,858
Loss on valuation of derivatives		11,081		341
Loss on disposal of property, plant and equipment		2,157		7,310
Loss on disposal of available-for-sale financial assets		6,079		144
Loss on valuation of inventories		45,838		58,048
Share of loss of associate		232		246
Share of profit of jointly controlled entity		(10,031)		(6,287)
Interest income		(34,962)		(28,344)
Gain on foreign currency translation		(10,598)		(10,695)
Gain on disposal of property, plant and equipment		(1,036)		(197)
Gain on derivative transactions		(112,628)		(50,102)
Gain on valuation of derivatives		(17,302)		(816)
Reversal of allowance for bad debts		(1)		(76)
Dividend income		-		(1,555)
Gain on disposal of available-for-sale financial assets		-		(29,960)
Others		354		492
Changes in net working capital :				
Trade receivables		493,338		633,081
Other receivables		330,370		(20,220)
Other current assets		(19,132)		(1,875)
Inventories		770,899		1,764,419
Trade payables		(249,106)		(1,485,019)
Other payables		261,984		(63,656)
Other liabilities		(30,326)		17,184
Net defined benefit liabilities		(86,272)		(16,190)
Provisions for other liabilities and charges		(208)		668
Deferred revenues		353		(424)
<b>Cash generated from operations</b>	<b>₩</b>	<b>2,586,187</b>	<b>₩</b>	<b>942,640</b>

Significant transactions not affecting cash flows for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<b>2015</b>		<b>2014</b>	
Reclassification of construction in-progress to property, plant and equipment and intangible assets	₩	71,056	₩	212,463
Current portion of long-term borrowings and debentures		5,484		5,204
Current portion of long-term loans receivable		24,149		17,933
Increase (decrease) in other payables related to acquisition of property, plant and equipment		4,440		(6,928)