

KOREA LAND & HOUSING CORPORATION AND ITS SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016**

ATTACHMENT: INDEPENDENT AUDITORS' REPORT

KOREA LAND & HOUSING CORPORATION

INDEPENDENT AUDITORS' REPORT

English Translation of Independent Auditors' Report Originally Issued in Korean on February 26, 2018.

**To the Shareholders and the Board of Directors of
Korea Land & Housing Corporation:**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Korea Land & Housing Corporation (the "Company") and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, respectively, and the consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows, for the years ended December 31, 2017 and 2016, and 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 Korean Government-Owned and Quasi-Government Accounting Regulations and Standards 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.

Auditors' Responsibility

Our responsibility is to express an audit opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing ("KSAs"). 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 auditors' 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 the Company and its subsidiaries as of December 31, 2017 and 2016, respectively, and their financial performance and their cash flows for the years ended December 31, 2017 and 2016, respectively, in accordance with Korean Government-Owned and Quasi-Government Accounting Regulations and Standards.

A handwritten signature in black ink that reads "Deloitte Anjin UE". The signature is written in a cursive, flowing style.

February 26, 2018

Notice to Readers

This report is effective as of February 26, 2018, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the consolidated financial statements and may result in modifications to the auditors' report.

**KOREA LAND & HOUSING CORPORATION
AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016**

The accompanying consolidated financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, Korea Land & Housing Corporation.

Sangwoo Park
Chief Executive Officer
Korea Land & Housing Corporation

KOREA LAND & HOUSING CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016

(In Korean won)

	Notes	December 31, 2017	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents	6, 26, 27, 44	₩ 2,663,651,959,357	₩ 1,497,161,754,624
Current financial assets	7, 8, 12, 13, 44, 45	4,849,281,978,826	3,020,151,892,995
Trade and other receivables	9, 20, 44	2,856,456,558,432	2,601,181,501,125
Inventories	15	70,031,829,941,835	74,860,122,051,540
Income tax assets		-	-
Current non-financial assets	16	3,858,316,503,569	4,566,410,376,473
Assets classified as held-for-sale	42	196,773,133,632	227,387,818,661
Subtotal		<u>84,456,310,075,651</u>	<u>86,772,415,395,418</u>
Non-current assets			
Non-current financial assets	8, 10, 11, 12, 13, 14, 44, 45	443,679,082,103	537,590,423,981
Long-term trade and other receivab	9, 44	1,134,147,880,020	1,281,257,342,581
Property, plant and equipment	18, 26	1,329,470,090,115	1,334,311,958,049
Investment properties	19, 26	85,540,422,677,884	81,998,964,768,560
Intangible assets excluding goodwill	21	58,741,719,609	60,545,537,266
Investments in associates	17	468,907,007,034	331,161,890,368
Deferred tax assets		245,833,814,519	
Non-current non-financial assets	16	5,355,143,353	5,485,673,692
Subtotal		<u>89,226,557,414,637</u>	<u>85,549,317,594,497</u>
Total assets		<u>₩ 173,682,867,490,288</u>	<u>₩ 172,321,732,989,915</u>

(Continued)

KOREA LAND & HOUSING CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
AS OF DECEMBER 31, 2017 AND 2016
(In Korean won)

	Notes	December 31, 2017	December 31, 2016
Current liabilities			
Trade and other payables	22, 44, 45	₩ 10,692,364,707,894	₩ 10,903,367,092,452
Current portion of financial liabilities	8, 23, 26, 44, 45	13,106,525,068,687	14,632,291,930,214
Income tax payable		658,149,094,994	525,000,218,673
Current non-financial liabilities	20, 29	13,849,770,042,778	13,386,726,407,298
Current portion of provisions	25	14,594,904,083,925	12,297,343,244,830
Subtotal		52,901,712,998,278	51,744,728,893,467
Non-current liabilities			
Long-term trade and other payable	22, 44, 45	13,571,941,093,671	11,625,302,621,736
Non-current financial liabilities	8, 23, 26, 44, 45	63,620,010,173,585	68,806,461,019,612
Non-current non-financial liabilities	28, 29	160,738,432,092	213,181,171,897
Net employee defined benefit liabilities	24	370,044,981,677	323,957,071,634
Deferred income tax liabilities	41	1,866,457,214	370,922,648,462
Non-current provisions	25	305,996,371,711	262,288,685,795
Subtotal		78,030,597,509,950	81,602,113,219,136
Total liabilities		130,932,310,508,228	133,346,842,112,603
Equity			
Issued capital	1, 30	29,388,728,205,665	28,037,365,270,665
Discount on stock issuance		-	-
Retained earnings	31, 32	13,360,592,970,559	11,019,541,193,177
Other components of equity	33	(1,863,728,470)	(85,581,214,047)
Equity attributable to the shareholders of the parent		42,747,457,447,754	38,971,325,249,795
Non-controlling interests		3,099,534,306	3,565,627,517
Total equity		42,750,556,982,060	38,974,890,877,312
Total equity and liabilities		₩ 173,682,867,490,288	₩ 172,321,732,989,915

(Concluded)

See accompanying notes.

KOREA LAND & HOUSING CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Korean won)

	Notes	2017	2016
Sales	34	₩ 23,559,413,323,511	₩ 22,967,747,894,973
Cost of sales	35, 36, 43	(19,938,848,539,167)	(19,229,021,189,648)
Gross profit		3,620,564,784,344	3,738,726,705,325
Selling and administrative expenses	35, 36, 37, 43	619,136,274,971	563,030,531,049
Operating profit		3,001,428,509,373	3,175,696,174,276
Other income	38	737,014,604,251	853,292,111,039
Other expenses	38	(515,827,510,391)	(432,056,857,512)
Others	38	(3,851,803,059)	(23,809,656,227)
Finance income	8, 39	229,289,706,540	349,904,760,178
Finance costs	8, 40	(469,963,015,867)	(1,037,096,608,793)
Share of income (loss) to associates and joint ventures		23,795,231,414	442,537,596
Profit for the period before tax		3,001,885,722,261	2,886,372,460,557
Income tax expense	41	(212,974,082,266)	(649,353,517,000)
Profit for the period		₩ 2,788,911,639,995	₩ 2,237,018,943,557
Other comprehensive income:			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit plans		(129,743,888)	1,059,715,282
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net gain on cash flow hedge accounting		70,255,212,645	(792,278,060)
Equity adjustments in equity method		14,134,087,441	(328,239,376)
Exchange differences on translation of foreign operations		(1,074,903,215)	286,335,129
Other comprehensive income for the period, net of tax		83,184,652,983	225,532,975
Total comprehensive income for the period, net of tax		₩ 2,872,096,292,978	₩ 2,237,244,476,532
Profit for the period attributable to:			
Equity holders of the parent		2,788,974,644,500	2,237,108,615,590
Non-controlling interests		(63,004,505)	(89,672,033)
		₩ 2,788,911,639,995	₩ 2,237,018,943,557
Total comprehensive income for the period attributable to:			
Equity holders of the parent		2,872,562,386,189	2,237,226,772,890
Non-controlling interests		(466,093,211)	17,703,642
		₩ 2,872,096,292,978	₩ 2,237,244,476,532

See accompanying notes.

KOREA LAND & HOUSING CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Korean won)

	Attributable to the equity holders of the parent				Non-controlling interests	Total equity
	Issued capital	Retained earnings	Other components of equity	Total		
Balance at January 1, 2016	₩ 26,843,156,703,705	₩ 8,938,920,628,255	₩ (84,639,656,065)	₩ 35,697,437,675,895	₩ 3,547,923,875	₩ 35,700,985,599,770
Profit for the period	-	2,237,108,615,590	-	2,237,108,615,590	(89,672,033)	2,237,018,943,557
Net gain on cash flow hedge accounting	-	-	(792,278,060)	(792,278,060)	-	(792,278,060)
Re-measurement gains on defined benefit plans	-	1,059,715,282	-	1,059,715,282	-	1,059,715,282
Equity adjustments in equity method	-	-	(328,239,376)	(328,239,376)	-	(328,239,376)
Exchange differences on foreign operations	-	-	178,959,454	178,959,454	107,375,675	286,335,129
Total comprehensive income	-	2,238,168,330,872	(941,557,982)	2,237,226,772,890	17,703,642	2,237,244,476,532
Increase in share capital	1,188,209,153,000	-	-	1,188,209,153,000	-	1,188,209,153,000
Discounts on stock issuance	5,999,413,960	(5,999,413,960)	-	-	-	-
Dividends	-	(151,548,351,990)	-	(151,548,351,990)	-	(151,548,351,990)
Balance at December 31, 2016	₩ 28,037,365,270,665	₩ 11,019,541,193,177	₩ (85,581,214,047)	₩ 38,971,325,249,795	₩ 3,565,627,517	₩ 38,974,890,877,312
Balance at January 1, 2017	₩ 28,037,365,270,665	₩ 11,019,541,193,177	₩ (85,581,214,047)	₩ 38,971,325,249,795	₩ 3,565,627,517	₩ 38,974,890,877,312
Profit for the period	-	2,788,974,644,500	-	2,788,974,644,500	(63,004,505)	2,788,911,639,995
Net loss on cash flow hedge accounting	-	-	70,255,212,645	70,255,212,645	-	70,255,212,645
Remeasurement of the net defined benefit liability	-	(129,743,888)	-	(129,743,888)	-	(129,743,888)
Equity adjustments in equity method	-	-	14,134,087,441	14,134,087,441	-	14,134,087,441
Exchange differences on foreign operations	-	-	(671,814,509)	(671,814,509)	(403,088,706)	(1,074,903,215)
Total comprehensive income	-	2,788,844,900,612	83,717,485,577	2,872,562,386,189	(466,093,211)	2,872,096,292,978
Increase in share capital	1,351,362,935,000	-	-	1,351,362,935,000	-	1,351,362,935,000
Discounts on stock issuance	-	-	-	-	-	-
Dividends	-	(447,793,123,230)	-	(447,793,123,230)	-	(447,793,123,230)
Balance at December 31, 2017	₩ 29,388,728,205,665	₩ 13,360,592,970,559	₩ (1,863,728,470)	₩ 42,747,457,447,754	₩ 3,099,534,306	₩ 42,750,556,982,060

See accompanying notes.

KOREA LAND & HOUSING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Korean won)

	2017	2016
Cash flows from operating activities		
Profit for the period	₩ 2,788,911,639,995	₩ 2,237,018,943,557
Non-cash adjustments to reconcile profit for the period to net cash flows		
Income tax expense	212,974,082,266	649,353,517,000
Finance costs	139,035,425,449	630,878,240,965
Depreciation and amortization	976,863,628,607	898,139,606,231
Adjustment in provisions	113,978,039,551	(5,489,532,122)
Loss (gain) on foreign currency translation	(150,554,770,999)	60,342,795,711
Equity in loss of equity method investment securities	(23,795,231,414)	(442,537,596)
Loss (gain) on disposal of non-current assets	(4,537,223,108)	(39,331,138,780)
Others	389,185,053,555	209,657,902,766
Total adjustments	1,653,149,003,907	2,403,108,854,175
Changes in operating assets and liabilities		
Inventories	6,911,338,944,807	4,310,248,155,797
Trade receivables	(315,773,777,068)	(1,635,990,042)
Other receivables	(1,108,460,858,916)	(1,274,613,093,188)
Trade payables	91,532,299,230	138,629,351,288
Other payables	4,766,482,078,723	6,143,128,793,613
Cash generated from operations	14,787,179,330,678	13,955,885,015,200
Dividends received	7,642,506,656	4,247,837,288
Interest paid	(2,866,842,780,856)	(3,182,673,569,774)
Interest received	348,991,156,574	304,206,889,594
Income tax received (paid)	(721,616,019,891)	(1,122,581,530,005)
Net cash flows provided by operating activities	11,555,354,193,161	9,959,084,642,303
Cash flows from investing activities:		
Disposal of investments in associates	-	-
Acquisition of investments in associates	(99,549,100,000)	(88,678,000,000)
Disposal of property, plant and equipment	-	50,522,861,434
Acquisition of property, plant and equipment	(13,689,118,466)	(19,742,497,357)
Disposal of intangible assets	(4,568,517,313,424)	-
Acquisition of intangible assets	32,743,315,717	(16,235,349,824)
Disposal of Available-for-sale financial instruments	5,506,616,616	7,986,838
Acquisition of Available-for-sale financial instruments	(44,305,053,962)	(7,518,807,704)
Acquisition of investment properties	(9,627,208,380)	(4,048,442,455,871)
Disposal of Assets classified as held-for-sale	15,269,818	46,888,407,890
Disposal of other financial assets	(21,430,000)	106,402,994
Disposal of held to maturity financial assets	-	35,500,000
Acquisition of held to maturity financial assets	(35,992,727,216)	(38,335,000)
Acquisition of other financial assets	25,920,000	(781,923,292)
Repayment of loans	655,810,027,875	309,836,090,708
Increase in loans	(725,745,528,107)	(1,110,442,964,743)
Net cash flows used in investing activities	₩ (4,803,346,329,529)	₩ (4,884,483,083,927)

(Continued)

KOREA LAND & HOUSING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Korean won)

	2017	2016
Cash flows from financing activities		
Increase in share capital	₩ 1,351,362,935,000	₩ 1,188,209,153,000
Dividends paid	(447,793,123,230)	(151,548,351,990)
Increase in borrowings	3,227,488,708,000	3,065,374,554,000
Redemption of borrowings	(3,402,271,073,013)	(3,593,697,199,866)
Issuance of bonds payable	1,519,273,525,756	3,207,338,518,992
Redemption of bonds payable	(7,808,347,751,000)	(8,730,653,661,718)
Net cash flows used in financing activities	(5,560,286,778,487)	(5,014,976,987,582)
Net effect of foreign exchange differences	114,945,258	(1,469,621)
Net increase (decrease) in cash and cash equivalents	1,191,836,030,403	59,623,101,173
Cash and cash equivalents at the beginning of the period	1,528,094,131,645	1,468,471,030,472
Cash and cash equivalents at the end of the period	2,719,930,162,048	1,528,094,131,645
Government subsidies	(35,193,392,526)	(6,036,690,879)
Entrusted business funds cash	(21,084,810,165)	(24,895,686,142)
Net of cash and cash equivalents at the end of the period as deducted by government subsidies and etc.	₩ 2,663,651,959,357	₩ 1,497,161,754,624

(Concluded)

See accompanying notes.

KOREA LAND & HOUSING CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. CORPORATE INFORMATION:

(1) The parent company

Korea Land & Housing Corporation (the “Company”) and its subsidiaries (the “Group”) were established in accordance with the Korea Land & Housing Corporation Act on October 1, 2009, to facilitate the efficient use of public land and contribute to the growth of the national economy through various development, renovation and management projects in the residential housing industry. As of December 31, 2017, the Company’s headquarters is located at 19, Chungui-ro, JinJu-si, Gyeongsangnam-do, Korea.

Furthermore, the Group, as governed by the Korea Land & Housing Corporation Act, participates in social welfare projects for the acquisition, development, storage and supply of land and construction; management of housing properties; and urban planning and provision for low-income housing.

As of December 31, 2017, the shareholders of the Company and their respective shareholdings are as follows (in millions of Korean won):

	<u>Issued capital</u>	<u>Ownership</u>
Korea Government - Ministry of Strategy and Finance	₩12,265,212	41.7%
Korea Government - Ministry of Land, Transport and Maritime Affairs	12,652,520	43.1%
Korea Development Bank	3,732,018	12.7%
Korea Exim Bank	<u>738,978</u>	<u>2.5%</u>
Total	<u>₩29,388,728</u>	<u>100%</u>

(2) Consolidated subsidiaries

Consolidated subsidiaries as of December 31, 2017, are as follows:

	Business	Share capital	Percentage of ownership		Location
			December 31, 2017	December 31, 2016	
Korea Housing Management Co., Ltd.	Facility maintenance and leasing	₩7,000	100.00%	100.00%	Jinju, Gyeongsangnam-do
Hanuri Co., Ltd.	Lodging, Energy Sales	12,000	62.50%	62.50%	Chunchon, Gangwon

Korea Housing Management Co., Ltd. was established to manage, operate, repair and maintain apartment buildings and to be entrusted with the lease of apartment buildings. Hanuri Corp., a subsidiary, wholly owns equity ownership in Hanuri Energy and Hanuri Hotel, which were established in July and August 2008, respectively, to operate gas service stations and hotels in the 1st business district of Gaesung Industrial Complex, Gaesung city, North Hwanghae Province. The business success of Hanuri Corp. will be largely influenced by domestic and foreign political situations, directly or indirectly. Therefore, the financial statements of the subsidiaries for the year ended December 31, 2017, were prepared on the basis of management's estimation of sociopolitical factors. However, the actual outcome may be different from management's estimation and such difference may be material.

Summarized financial information of consolidated subsidiaries as of and for the years ended December 31, 2017 and 2016, is as follows (in millions of Korean won):

	2017			
	Assets	Liabilities	Revenue	Profit or loss
Korea Housing Management Co., Ltd.	₩123,135	₩113,450	₩188,875	₩96
Hanuri Corporation	17,392	9,127	-	(168)

	2016			
	Assets	Liabilities	Revenue	Profit or loss
Korea Housing Management Co., Ltd.	₩118,282	₩106,267	₩173,925	₩50
Hanuri Corporation	18,794	9,286	-	(234)

The year-end reporting dates of the Company's subsidiaries are consistent with the year-end reporting date of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(1) Basis of preparation

The Group prepared consolidated financial statements in accordance with the Korean Government Owned and Quasi-Government Accounting Regulations and Standards. If there are no regulations other than Korean Government-Owned and Quasi-Government Accounting Regulations and Standards, accounting standards of the Group refer to the Korean International Financial Reporting Standards (“K-IFRS”).

Accounting policies the Group has adopted from Korean Government-owned and Quasi-Government Accounting Regulations and Standards are described below.

1) *Government grants* (Article 44)

Government grants used for the acquisition of certain assets are deducted from the acquisition cost of the acquired assets and such grants are offset against the depreciation expenses of the acquired assets during the useful lives of the assets. Government grants received for consignment management service provided by the Group are recognized as other income.

2) *Residual government grants and Revenue and Expenses Related to Consignment Management Services* (Article 44-2)

Government grants to be carried forward, related to essential business, were incurred, and are recognized as a reduction of cash and cash equivalent in accordance with Article 42-2 of the Korean Government Owned and Quasi-Government Accounting Regulations and Standards.

3) *Recognition of Revenue and Expenses Related to Consignment Management Services* (Article 48)

The Group recognizes funds received from the Ministry of Land, Infrastructure and Transport for consignment management services as revenue and expenses or assets and liabilities as the associated project progresses. The Group does not offset the funds received.

4) *Contribution to the Employee Welfare Fund* (Article 49)

The Group contributes to the employee welfare fund and contributions are recognized as selling, general and administrative expenses in accordance with the Employee Welfare Fund Act.

5) *Reserve Fund for Essential Business* (Article 50)

The Group records appropriation for reserve fund for essential business or reversal of the appropriation as disposal in the statements of appropriation of retained earnings.

6) *Division Accounting* (Article 12)

In accordance with Korea Government-owned and Quasi-Government Accounting Regulation and Standards, the Group prepares journal entries by source of revenue or business purpose, eliminates transactions and unrealized gains or losses among divisions and discloses its performance and financial status by accounting unit in notes.

(2) Amendments to K-IFRS and new interpretations that are mandatorily effective for the current year

- Amendments to K-IFRS 1007 – Statement of Cash Flows

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

- Amendments to K-IFRS 1012 – Income Taxes

The amendments clarify that in evaluating the deferred tax assets arising from deductible temporary difference of debt instruments measured at fair value, the carrying amount of an asset does not limit the estimation of probable future taxable profits. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

- Annual Improvements to K-IFRS 2014-2016 Cycle

The Group has applied the amendments to K-IFRS 1112—Share-based Payment included in the annual improvements to K-IFRS 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective, and they have not been early adopted by the Group.

The amendments state that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements for K-IFRS 1112.

(3) New and revised K-IFRSs in issue, but not yet effective

- Amendments to K-IFRS 1109 – Financial Instruments

The amendments to K-IFRS 1109 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses and broadened types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting and the change of the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

- Amendments to K-IFRS 1115 – Revenue from Contracts with Customers

The core principle under K-IFRS 1115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduce a five-step approach to revenue recognition and measurement: 1) identify the contract with a customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract and 5) recognize revenue when (or as) the entity satisfies a performance obligation. This standard will supersede K-IFRS 1011 - Construction Contracts, K-IFRS 1018- Revenue, K-IFRS 2113 - Customer Loyalty Programs, K-IFRS 2115-Agreements for the Construction of Real Estate, K-IFRS 2118 - Transfers of Assets from Customers and K-IFRS 2031-Revenue-Barter Transactions Involving Advertising Services. The amendments are effective for annual periods beginning on or after January 1, 2018.

- Amendments to K-IFRS 1116 – Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. K-IFRS 16 will supersede the current lease guidance, including K-IFRS 1017 Leases and the related interpretations when it becomes effective. The amendments are effective for annual periods beginning on or after January 1, 2019.

K-IFRS 1116 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting and is replaced by a model where a right-of-use asset and corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low-value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, among others. Furthermore, the classification of cash flows will also be affected as operating lease payments under K-IFRS 1017 are presented as operating cash flows; whereas under the K-IFRS 1116 model, the lease payments will be split into a principal and an interest portion that will be presented as financing and operating cash flows, respectively.

In contrast to lessee accounting, K-IFRS 1116 substantially carries forward the lessor accounting requirements in K-IFRS 1017, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by K-IFRS 1116. The Group is currently assessing its potential impact.

- Amendments to K-IFRS 2122 – *Foreign Currency Transactions and Advance*

The interpretation addresses how to determine the ‘date of transaction’ for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income when consideration for that item has been paid or received in advance in a foreign currency that resulted in the recognition of a non-monetary asset or non-monetary liability (e.g., a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. Entities can apply the interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The Group does not anticipate that the application of the amendments in the future will have an impact on the Group’s consolidated financial statements because the Group already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

-Annual Improvements to K-IFRS 2014-2016 Cycle

The annual improvements include amendments to K-IFRS 1101 First-time Adoption and K-IFRS 1028 Investment in Associates and Joint Ventures. The amendments to K-IFRS 1028 clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at fair value through profit or loss (“FVTPL”) is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (“IE”) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to K-IFRS 1101 and K-IFRS 1028 are effective for annual periods beginning on or after January 1, 2018. The Group does not anticipate that the application of the amendments in the future will have any impact on the Group’s consolidated financial statements as the Group is neither a first-time adopter of K-IFRS nor a venture capital organization. Furthermore, the Group does not have any associate or joint venture that is an IE.

The Group does not anticipate that the above-mentioned enactments and amendments will have any significant effect on the Group's consolidated financial statements.

The significant accounting policies after the conversion of consolidated financial statements to K-IFRS are stated below and the consolidated financial statements as of December 31, 2017 and 2016, are prepared on the basis of the same accounting policies. The consolidated financial statements have been prepared on a historical cost basis, except for certain non-current assets and financial assets that are measured at fair value.

Historical cost is based on the fair values of the consideration given. Details of significant accounting policies are as follows:

(4) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Group and entities (including structured entities) controlled by the Group (and its subsidiaries). Control is achieved where the Group 1) has the power over the investee; 2) is exposed, or has rights, to variable returns from its involvement with the investee and 3) has the ability to use its power to affect its returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

- When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income ("OCI") are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-Group transactions and related assets, liabilities, income and expenses are eliminated in full in consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in OCI and accumulated in equity, the amounts previously recognized in OCI and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(5) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but having no control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed-upon sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and OCI of the associate or joint venture. When the Group's share of losses on an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture),

the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in OCI in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in OCI by that associate or joint venture would be reclassified to profit or loss on disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture, but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in OCI relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies K-IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036, *Impairment of Assets*, by comparing its recoverable amount (higher of value in use and fair value, less costs to sell) with its carrying amount; any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(6) Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value, less costs to sell.

(7) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognized.

1) Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Delivery of the goods occurs when:

- The goods are transferred to the specific places,
- The risk of the goods' impairments is transferred to the customers,
- The customers approve the receipt of the goods in accordance with the sales contracts or the approval period has expired or
- The Group has the objective evidence that the approval condition of the receipt of the goods has met the requirements on the contract.

2) Rendering of services

Revenue from the rendering of services is recognized by reference to the stage of completion of the contract activity at year-end (the percentage-of-completion method). In applying the percentage-of-completion method, the percentage can be estimated reliably when (i) the stage of work performed, (ii) the total contract revenue can be measured reliably and (iii) the costs to complete the contract and the stage of completion can be measured reliably.

3) Interest income

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available-for-sale (AFS), interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the consolidated statements of comprehensive income.

(8) Construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. Contract costs shall be recognized as an expense in the period in which they are incurred. When the outcome of a construction contract cannot be estimated reliably, revenue shall be recognized only to the extent of contract costs incurred that it is probable that they will be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that they will result in revenue, contract revenue is recognized as revenue in profit or loss in the accounting periods in which the work is performed. A variation, a claim and incentive payments are included in contract revenue when it is probable that the customer will approve the amount of revenue which can be reliably measured. Any expected excess of total contract costs over total contract revenue for the contract is recognized as an expense immediately. The Group adopted the percentage-of-completion method, under which contract revenue is recognized as revenue in profit or loss in the accounting periods in which the work is performed. The stage of completion of a contract is determined based on the proportion of the contract costs incurred for work performed to date on the estimated total contract costs by each contract. Contract costs that relate to future activity are excluded when determining the stage of completion of a contract. Such amount is presented as inventory, advance to suppliers or other asset depending on the nature of the contract. The gross amount due from customers for contract work, presented as asset, is the net amount of costs incurred, plus recognized profits, less the sum of recognized losses and progress billings for all contracts in progress for which costs incurred, plus recognized profits (less recognized losses) exceeds progress billings. The gross amount due to customers for contract work, presented as liability is the net amount of costs incurred, plus recognized profits, less the sum of recognized losses and progress billings for all contracts in progress for which progress billings exceed costs incurred, plus recognized profits (less recognized losses). The Group recognizes revenues from completed housing units for sale using the percentage-of-completion method in accordance with the KASB 2011-I-KQA. This accounting treatment is effective in K-IFRS according to Paragraph 1 of Article 13 of the Act on the Corporate External Audit Law.

(9) Foreign currency translation

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (“the functional currency”). The consolidated financial statements are presented in ‘Korean won,’ which is the Group’s presentation currency. 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 remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at each reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of comprehensive income, except for qualifying cash flow hedges that are recognized in OCI. Changes in fair value of AFS financial assets denominated in foreign currency are classified as either changes in amortization cost or other changes in book value of marketable securities. Translation differences due to changes in amortization cost are reflected in current operation, whereas those due to other changes in book value of marketable securities are recognized in other components of equity. Translation differences in financial assets at FVTPL are reflected in current operation, whereas those in AFS financial assets are recorded in equity.

(10) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

(11) Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. In case where the Group receives loans with interest rate lower than market rate, benefits from lower interest rate shall be recognized as government grants. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined by using market interest rate and the fair value of proceeds received. Where the grant relates to an asset, it is recognized as a deduction of such asset and released to income in equal amounts over the expected useful life of the related asset. When the grant relates to a revenue item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Compensation for expenses or losses incurred in a previous period or receiving immediate financial support to the Group rather than as an incentive to undertake specific expenditures are recognized in profit of the period in which it becomes receivable.

(12) Defined benefit liabilities

The Group operates a defined benefit plan, under which amount to be paid as retirement benefits is determined by reference to a formula based on employee's earning and years of service. The defined benefit asset or liability comprises the present value of the defined benefit obligation, less past-service costs and actuarial gains and losses not yet recognized, less the fair value of plan assets out of which the obligations are to be settled. The Group uses the projected-unit-credit method to determine the present value of its defined benefit obligations and the related current-service cost. The discount rate used in calculating the present value of defined benefit obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds of a term consistent with the term of the post-employment benefit obligations. The past-service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits have already vested immediately following the introduction of, or changes to, a defined benefit plan, past-service costs are recognized immediately. Actuarial gains and losses result from increases or decreases in either the present value of a defined benefit obligation or the fair value of plan assets. The Group recognizes the actuarial gains and losses in the period in which they occur in OCI. The actuarial gains and losses recognized in OCI are recognized immediately in retained earnings.

(13) Income tax

1) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income. Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized, except:
- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(14) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs include the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statements of comprehensive income as incurred.

The amount of the acquisition cost after deducting residual value of the property plant and equipment, except for land, is depreciated on a straight-line basis over the estimated useful life of the asset as follows:

Description	Useful lives	Description	Useful lives
Buildings	50 years	Vehicles	5 years
Structures	20 years	Tools and equipment	5 years
Machinery	20 years	Furniture and fixtures	5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of comprehensive income when the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate. The assets' residual values, useful lives and depreciation method are reviewed at each financial year-end and adjusted prospectively, if appropriate.

(15) Investment properties

The real estate to obtain rental income or capital appreciation is classified as investment properties. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. When significant parts of investment properties are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the investment properties as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statements of comprehensive income as incurred. Land is not depreciated. Investment properties, except for land, are depreciated on a straight-line basis over the estimated useful life of 50 years. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate. Such a change is accounted for as a change in an accounting estimate. An item of investment properties and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated statements of comprehensive income when the asset is derecognized.

(16) Intangible assets (except goodwill)

Intangible assets are carried at cost, less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of comprehensive income in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Intangible assets with indefinite useful lives such as membership are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit ("CGU") level. Other intangible assets with definite useful lives are amortized over 4–20 years using the straight-line method.

(17) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or a CGU's fair value, less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value, less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statements of comprehensive income in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to OCI. In this case, the impairment is also recognized in OCI up to the amount of any previous revaluation. For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior year. Such reversal is recognized in the consolidated statements of comprehensive income, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

(18) Inventories

Inventories are valued at the lower of cost or net realizable value with cost being determined using the identified cost method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The Group recorded valuation allowance on a periodic basis, when significant changes with an adverse effect (an oversupply, an obsolete or decline in the price of goods) on the entity have taken place during the period or will take place in the near future or when loss from inventory valuation is recognized as cost of sales.

(19) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a consolidated asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. A contingent liability is disclosed, but not recognized when it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

1) Onerous contracts

The Group measures current obligation from onerous contracts as provision. Onerous contract is defined as a contract when unavoidable cost is expected to exceed the amount which is expected from the contract.

2) Warranty provision

Warranty provision is the best estimation of necessary cost to perform obligation as of the selling date.

3) Performance incentive

The Group has calculated and paid the performance incentive based on the result of annual evaluation, which was performed by the Ministry of Strategy and Finance. This performance incentive is estimated in accordance with K-IFRS 1037 and is recorded in current employee benefit provision.

(20) Financial assets

1) Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at FVTPL, loans and receivables, held-to-maturity (“HTM”) investments, AFS financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value, plus, in the case of financial assets not recorded at FVTPL, transaction costs that are attributable to the acquisition of the financial asset.

2) Subsequent measurement

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held-for-trading and financial assets designated upon initial recognition at FVTPL. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including consolidated embedded derivatives, are also classified as held-for-trading, unless they are designated as effective hedging instruments as defined by K-IFRS 1039. The Group has not designated any financial assets at FVTPL. Financial assets at FVTPL are carried in the consolidated statements of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the consolidated statements of comprehensive income.

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statements of comprehensive income. The losses arising from impairment are recognized in the consolidated statements of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

HTM investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Group has the positive intention and ability to hold them to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance income in the consolidated statements of comprehensive income. The losses arising from impairment are recognized in the consolidated statements of comprehensive income as finance costs.

AFS financial assets

AFS financial investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held-for-trading nor designated at FVTPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, AFS financial investments are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the consolidated statements of comprehensive income in finance costs. Interest earned while holding AFS financial investments is reported as interest income using the EIR method. The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity. For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statements of comprehensive income.

3) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- The rights to receive cash flows from the asset have expired or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

4) Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the consolidated statements of comprehensive income. Interest income (recorded as finance income in the consolidated statements of comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statements of comprehensive income.

AFS financial investments

For AFS financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is an evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statements of comprehensive income – is removed from OCI and recognized in the consolidated statements of comprehensive income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statements of comprehensive income. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of comprehensive income, the impairment loss is reversed through the consolidated statements of comprehensive income.

(21) Financial liabilities

1) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

2) Subsequent measurement

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

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as of FVTPL. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by K-IFRS 1039. Consolidated embedded derivatives are also classified as held for trading, unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the consolidated statements of comprehensive income. Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition and, only if, the criteria in K-IFRS 1039 are satisfied. The Group has not designated any financial liability as at FVTPL.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statements of comprehensive income. This category generally applies to interest-bearing loans and borrowings.

3) Derecognition

A financial liability is derecognized when the obligation under the liability is discharged canceled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of comprehensive income.

(22) Derivative financial instruments and hedge accounting

1) Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The purchase contracts that meet the definition of a derivative under K-IFRS 1039 are recognized in the consolidated statements of comprehensive income as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment,
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment and
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

Fair value hedges

The change in the fair value of a hedging derivative is recognized in the consolidated statements of comprehensive income as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the consolidated statements of comprehensive income as finance costs. For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss. When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit and loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the consolidated statements of comprehensive income as other operating expenses. Amounts recognized as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. When the hedged item is the cost of a nonfinancial asset or non-financial liability, the amounts recognized as OCI are transferred to the initial carrying amount of the non-financial asset or liability. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), if its designation as a hedge is revoked or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in OCI remains consolidated in equity, until the forecast transaction occurs or the foreign currency firm commitment is met.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized as OCI, while any gains or losses relating to the ineffective portion are recognized in the consolidated statements of comprehensive income. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the consolidated statements of comprehensive income.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS:

The Group makes assumptions and estimations concerning the future. Assumptions and estimations are verified continuously based on the past experience and reasonably expected future event. This accounting estimation, however, could be different from actual result. Assumptions and estimations for significant risks, which may cause adjustment to the carrying amounts of assets and liabilities, are as follows.

(1) Taxes

The Group recognized the effect of income tax expected to be burdened in the future in consequence of the business operation as current tax and deferred tax through the best estimation process. However, there could be the difference in actual tax to be burdened in the future and the related asset and liability recognized and this difference could affect the current tax and deferred tax asset and liability at the point when the final effect of income tax is settled.

(2) Fair value of financial instruments

The fair value of financial instruments that does not trade in active market is principally decided using valuation method. The Group selects various valuation methods and makes a judgment about assumption based on key market circumstances as of December 31, 2017.

(3) Provisions

End of the reporting period, the Group currently has reserves on returned goods, estimated amount and quality warranty repair. These provisions are determined based on the estimation that is based on past experience.

(4) Pension benefits

The present value of the defined benefit pension can change depending on various factors determined using actuarial valuations. Assumptions to determine pension cost (profit) include discount rate where changes in assumptions will lead changes in present value of the defined benefit pension. The Group has determined discount rate at every year-end, which is defined as interest rate used to decide present value of expected future cash outflow. The Group determines discount rate considering discount rate of outstanding corporate bond, which has similar maturity as that of pension obligation. Other assumptions related with pension obligation are based on market circumstance.

4. SEGMENT INFORMATION:

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

The strategic steering executive is the Group's chief operating decision maker. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessments. Segment performance is evaluated based on operating profit or loss. The Group has one reportable operating segment.

(2) The reportable segment revenue and operating profit for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	<u>Total segment revenue</u>	<u>Revenue for external customers</u>	<u>Total segment operating profit</u>	<u>Depreciation and amortization</u>
2017	₩23,559,413	₩23,559,413	₩3,001,429	₩976,864
2016	22,967,748	22,967,748	3,175,696	898,140

(3) Reportable segment assets and liabilities as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	<u>Reportable segment asset (*1)</u>	<u>Investments in associates</u>	<u>Additions to non- current assets (*2)</u>	<u>Reportable segment liabilities (*1)</u>
December 31, 2017	₩173,682,867	₩468,907	₩86,933,990	₩130,932,311
December 31, 2016	172,321,733	331,162	83,399,308	133,346,842

(*1) The reportable segment assets and liabilities reported to the strategic steering executive are measured in a manner consistent with that in the consolidated financial statements.

(*2) Additions to non-current assets exclude amounts arising from financial instruments, trade and other receivables, equity investments and deferred income tax asset.

(4) Major customers

The Group has no single customer where sales represent 10% or more of the Group's total sales for the years ended December 31, 2017 and 2016.

5. DIVISION ACCOUNTING:

(1) Details of divisional performance for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017							Total
	Public housing	Industrial development complex	Public housing management business (*1)	Multifunctional administrative city	Urban development	Land bank	Others	
Revenue	₩9,357,929	₩878,761	₩1,236,230	₩1,051,530	₩506,536	₩277,671	₩10,250,756	₩23,559,413
Cost of sales	7,423,477	609,764	2,111,109	201,884	247,107	263,841	9,081,667	19,938,849
Gross profit (loss)	1,934,453	268,997	(874,880)	849,647	259,429	13,830	1,169,088	3,620,564
Selling and administrative expenses	181,273	33,489	131,175	9,908	1,623	5,644	256,024	619,136
Operating profit (loss)	1,753,180	235,508	(1,006,054)	839,739	257,805	8,186	913,064	3,001,428
Other income	34,420	6,703	10,316	15,476	4,157	-	665,943	737,015
Other expenses	4,598	1,035	65	216	257	5	509,652	515,828
Others	(2,473)	(307)	-	-	(218)	-	(853)	(3,851)
Finance income	13,662	792	43	10,805	2,688	223	201,077	229,290
Finance costs	554,546	97,952	638,591	120,276	1,755	3,943	(947,100)	469,963
Share of profit to associates	-	-	-	-	-	-	23,795	23,795
Profit (loss) before income tax expense (benefit)	1,239,644	143,709	(1,634,352)	745,529	262,420	4,462	2,240,474	3,001,886
Income tax expense (benefit)	88,023	10,203	(116,047)	52,932	18,632	317	158,914	212,974
Profit (loss) from continuing operations	1,151,621	133,506	(1,518,305)	692,596	243,788	4,146	2,081,560	2,788,912
Profit (loss) for the year	1,151,621	133,506	(1,518,305)	692,596	243,788	4,146	2,081,560	2,788,912
Other comprehensive loss for the year	-	-	-	-	-	-	83,184	83,184
Total comprehensive income (loss) for the year	₩1,151,621	₩133,506	₩(1,518,305)	₩692,596	₩243,788	₩4,145	₩2,164,745	₩2,872,096

(*1) The title was changed from "Rental housing business" to "Public housing management business," pursuant to Article 28-2 of the revised Korea Land & Housing Corporation Act's implementing ordinances.

2016								
	Public housing	Industrial development complex	Public housing management business (*1)	Multifunctional administrative city	Urban development	Land bank	Others	Total
Revenue	₩7,841,549	₩386,766	₩1,141,893	₩1,697,971	₩702,395	₩198,023	₩10,999,151	₩22,967,748
Cost of sales	6,621,475	499,193	1,853,909	712,622	519,202	176,210	8,846,410	19,229,021
Gross profit (loss)	1,220,074	(112,427)	(712,016)	985,350	183,193	21,813	2,152,740	3,738,727
Selling and administrative expenses	176,254	16,768	132,010	9,999	3,963	1,325	222,711	563,031
Operating profit (loss)	1,043,820	(129,195)	(844,026)	975,350	179,230	20,488	1,930,029	3,175,696
Other income	20,880	3,858	10,191	7,931	2,286	-	808,146	853,292
Other expenses	87	453	53	52	358	-	431,054	432,057
Others	(26,344)	(88)	-	(2,289)	-	-	4,911	(23,810)
Finance income	25,327	(47)	134	12,539	3,914	3,206	304,831	349,905
Finance costs	(29,227)	36,596	676,659	23,994	9,969	4,080	315,026	1,037,097
Share of profit to associates	-	-	-	-	-	-	443	443
Profit (loss) before income tax expense (benefit)	1,092,823	(162,520)	(1,510,413)	969,486	175,102	19,614	2,302,280	2,886,372
Income tax expense (benefit)	245,885	(36,567)	(339,843)	218,134	39,398	4,413	517,933	649,353
Profit (loss) from continuing operations	846,938	(125,953)	(1,170,570)	751,351	135,705	15,201	1,784,347	2,237,019
Profit (loss) for the year	846,938	(125,953)	(1,170,570)	751,351	135,705	15,201	1,784,347	2,237,019
Other comprehensive loss for the year	-	-	-	-	-	-	226	226
Total comprehensive income (loss) for the year	₩846,938	₩(125,953)	₩(1,170,570)	₩751,351	₩135,705	₩15,201	₩1,784,573	₩2,237,245

(*1) The title was changed from "Rental housing business" to "Public housing management business," pursuant to Article 28-2 of the revised Korea Land & Housing Corporation Act's implementing ordinances.

(2) Details of divisional assets and liabilities as of December 31, 2017 and 2016, are as follows
(in millions of Korean won):

	December 31, 2017							Total
	Public housing	Industrial development complex	Public housing management business (*1)	Multifunctional administrative city	Urban development	Land bank	Others	
Current assets	₩16,751,964	₩3,438,024	₩142,406	₩3,808,020	₩1,133,687	₩102,007	₩59,080,202	₩84,456,310
Cash and cash equivalents	-	-	507	-	-	-	2,663,145	2,663,652
Current financial assets	71	-	-	-	-	-	4,849,211	4,849,282
Trade and other receivables	1,962,309	11,440	118,503	172,087	6,883	1,371	583,863	2,856,456
Inventories	14,399,562	3,408,768	-	3,627,266	1,126,771	100,636	47,368,827	70,031,830
Current non-financial assets	390,022	17,816	23,396	8,667	33	-	3,418,383	3,858,317
Assets classified as held for sale	-	-	-	-	-	-	196,773	196,773
Non-current assets	9,878,554	1,238,579	74,903,092	98,853	1,559	646	3,105,274	89,226,557
Non-current financial assets	243,257	-	1,138,271	59	-	-	(937,908)	443,679
Trade and other receivables	395,692	694	-	98,794	1,559	646	636,763	1,134,148
Property, plant and equipment	-	-	-	-	-	-	1,329,470	1,329,470
Investment properties	9,239,605	1,237,885	73,764,821	-	-	-	1,298,111	85,540,423
Intangible assets, except goodwill	-	-	-	-	-	-	58,742	58,742
Investments in associates	-	-	-	-	-	-	468,907	468,907
Deferred income tax asset	-	-	-	-	-	-	245,834	245,834
Non-current non-financial assets	-	-	-	-	-	-	5,355	5,355
Total assets	₩26,630,518	₩4,676,603	₩75,045,498	₩3,906,873	₩1,135,246	₩102,653	₩62,185,476	₩173,682,867
Current liabilities	₩6,924,839	₩1,174,809	₩9,213,982	₩407,066	₩886,249	₩33,409	₩34,261,359	₩52,901,713
Trade and other payables	383,677	50,954	7,802,375	4,001	629	28,391	2,422,338	10,692,365
Current financial liabilities	450,032	25,075	125,859	1,078	-	-	12,504,481	13,106,525
Current income tax liabilities	-	-	-	-	-	-	658,149	658,149
Current non-financial liabilities	3,104,108	558,648	41,913	388,972	346,671	4,977	9,404,481	13,849,770
Current portion of provisions	2,987,022	540,131	1,243,835	13,015	538,950	41	9,271,910	14,594,904
Non-current liabilities	9,036,115	2,335,679	52,630,041	2,507,200	(120,557)	53,060	11,589,060	78,030,598
Trade and other payables	223,868	13,048	13,271,034	1,639	-	-	62,352	13,571,941
Non-current financial liabilities	8,706,829	2,319,032	39,316,678	2,501,437	(121,588)	49,425	10,848,197	63,620,010
Non-current non-financial liabilities	59,153	-	39,517	-	-	-	62,068	160,738
Defined benefit liabilities	-	-	-	-	-	2,274	367,771	370,045
Deferred income tax liabilities	-	-	-	-	-	-	1,866	1,866
Non-current provisions	46,265	3,599	2,811	4,124	1,030	1,361	246,806	305,996
Total liabilities	₩15,960,954	₩3,510,488	₩61,844,023	₩2,914,266	₩765,692	₩86,468	₩45,850,419	₩130,932,311
Issued capital	₩5,610,716	₩996,908	₩13,000,520	₩(41,729)	₩(15,508)	₩-	₩9,837,821	₩29,388,728
Retained earnings	5,058,848	169,207	200,956	1,034,336	385,062	16,184	6,496,000	13,360,593
Other components of equity	-	-	-	-	-	-	(1,864)	(1,864)
Equity attributable to the shareholders of the parent	10,669,564	1,166,115	13,201,475	992,607	369,554	16,184	16,331,957	42,747,457
Non-controlling interests	-	-	-	-	-	-	3,100	3,100
Total equity	₩10,669,564	₩1,166,115	₩13,201,475	₩992,607	₩369,554	₩16,184	₩16,335,057	₩42,750,557

(*1) The title was changed from "Rental housing business" to "Public housing management business" pursuant to Article 28-2 of the revised Korea Land & Housing Corporation Act's implementing ordinances.

December 31, 2016								
	Public housing	Industrial development complex	Public housing management business (*1)	Multifunctional administrative city	Urban development	Land bank	Others	Total
Current assets	₩15,445,710	₩3,162,548	₩142,408	₩3,641,227	₩1,623,433	₩20,923	₩62,736,166	₩86,772,415
Cash and cash equivalents	222	7	7,942	-	-	-	1,488,991	1,497,162
Current financial assets	72	-	11	-	-	-	3,020,069	3,020,152
Trade and other receivables	864,740	4,331	97,258	208,169	52,678	8,054	1,365,951	2,601,181
Inventories	14,163,889	3,147,867	-	3,425,420	1,568,403	12,869	52,541,674	74,860,122
Current non-financial assets	391,023	10,342	37,197	7,638	2,352	-	4,117,858	4,566,410
Assets classified as held for sale	25,764	-	-	-	-	-	201,624	227,388
Non-current assets	10,269,180	1,037,955	70,676,904	117,914	4,760	978	3,441,627	85,549,318
Non-current financial assets	198,156	-	975,421	172	-	-	(636,159)	537,590
Trade and other receivables	84,259	1,333	2	117,742	4,760	978	1,072,183	1,281,257
Property, plant and equipment	-	-	-	-	-	-	1,334,312	1,334,312
Investment properties	9,986,765	1,036,622	69,701,481	-	-	-	1,274,097	81,998,965
Intangible assets, except goodwill	-	-	-	-	-	-	60,546	60,546
Investments in associates	-	-	-	-	-	-	331,162	331,162
Non-current non-financial assets	-	-	-	-	-	-	5,486	5,486
Total assets	₩25,714,890	₩4,200,503	₩70,819,312	₩3,759,141	₩1,628,193	₩21,901	₩66,177,793	₩172,321,733
Current liabilities	₩6,492,775	₩1,363,864	₩9,247,996	₩481,919	₩1,121,297	₩2,370	₩33,034,508	₩51,744,729
Trade and other payables	606,713	32,152	7,966,674	29,440	2,206	1,511	2,264,671	10,903,367
Current financial liabilities	1,142,360	1,993	122,011	1,078	449	-	13,364,401	14,632,292
Current income tax liabilities	-	-	-	-	-	-	525,000	525,000
Current non-financial liabilities	2,696,045	822,760	32,010	392,359	469,153	820	8,973,579	13,386,726
Current portion of provisions	2,047,657	506,959	1,127,300	59,042	649,489	40	7,906,856	12,297,343
Non-current liabilities	11,492,685	1,826,738	48,696,698	2,734,892	241,902	4,451	16,604,747	81,602,113
Trade and other payables	223,634	15,229	11,296,543	2,802	-	-	87,095	11,625,303
Non-current financial liabilities	11,233,478	1,811,502	37,358,109	2,728,657	240,411	2,216	15,432,088	68,806,461
Non-current non-financial liabilities	10,660	-	40,273	-	-	-	162,248	213,181
Defined benefit liabilities	-	-	-	-	-	2,235	321,722	323,957
Deferred income tax liabilities	-	-	-	-	-	-	370,923	370,923
Non-current provisions	24,914	7	1,772	3,434	1,491	-	230,671	262,289
Total liabilities	₩17,985,461	₩3,190,602	₩57,944,694	₩3,216,812	₩1,363,198	₩6,821	₩49,639,254	₩133,346,842
Issued capital	₩4,775,840	₩996,908	₩11,522,642	₩(41,728)	₩(15,508)	₩-	₩10,799,211	₩28,037,365
Retained earnings	2,953,589	12,993	1,351,977	584,057	280,503	15,079	5,821,343	11,019,541
Other components of equity	-	-	-	-	-	-	(85,581)	(85,581)
Equity attributable to the shareholders of the parent	7,729,429	1,009,901	12,874,618	542,330	264,995	15,079	16,534,973	38,971,325
Non-controlling interests	-	-	-	-	-	-	3,566	3,566
Total equity	₩7,729,429	₩1,009,901	₩12,874,618	₩542,330	₩264,995	₩15,080	₩16,538,538	₩38,974,891

(*1) The title was changed from "Rental housing business" to "Public housing management business" pursuant to Article 28-2 of the revised Korea Land & Housing Corporation Act's implementing ordinances.

6. CASH AND CASH EQUIVALENTS:

Details of cash and cash equivalents as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash	₩-	₩-
Other demand deposits	998,990	903,744
Less: Government grants	(35,193)	(6,037)
Less: Entrusted business funds - cash	(21,085)	(24,895)
Investments qualifying as a cash equivalents	<u>1,720,940</u>	<u>624,350</u>
Total	<u>₩2,663,652</u>	<u>₩1,497,162</u>

7. RESTRICTED FINANCIAL ASSETS:

Restricted financial assets as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	
Short-term financial instruments	₩-	₩36,124	Restricted withdrawal
Long-term financial instruments	<u>₩36,698</u>	<u>₩-</u>	Restricted withdrawal

8. DERIVATIVES:

(1) Details of derivatives as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Derivative assets:				
Currency swaps	₩1,090	₩-	₩78,159	₩19,661
Interest swaps	123	33,208	5,469	22,210
Total	₩1,213	₩33,208	₩83,628	₩41,871
Derivative liabilities:				
Currency swaps	₩27,134	₩81,908	₩25,965	₩23,533
Interest swaps	583	55,856	13,010	66,379
Total	₩27,717	₩137,764	₩38,975	₩89,912

(2) Details of currency swaps as of December 31, 2017, are as follows (Korean won in millions and foreign currencies in thousands, except exchange rate expressed in Korean won in units):

	Counterparty	Contract terms		Contract amount			Contract interest rate (%)		Contract exchange rate
		Beginning	Ending	Unit	Sell	Purchase	Sell	Purchase	
Cash flow hedge	Nomura	2012.01.18	2022.01.18	HKD	600,000	90,000	4.06%	4.20%	150/HKD
Cash flow hedge	Nomura	2012.11.29	2022.11.29	HKD	400,000	56,000	3.10%	3.05%	140/HKD
Cash flow hedge	Nomura	2013.10.07	2018.10.07	EUR	75,000	108,717	3.27%	2.00%	1,450/EUR
Cash flow hedge	Credit Agricole	2015.11.10	2025.11.10	USD	100,000	113,400	2.15%	2.83%	1134/USD
Cash flow hedge	HSBC	2016.02.16	2018.02.14	HKD	780,000	120,900	1.56%	1.83%	155/HKD
Cash flow hedge	KDB	2016.06.23	2028.06.23	USD	200,000	234,400	1.66%	2.47%	1,172/USD
Cash flow hedge	Nomura	2016.10.28	2031.10.28	USD	70,000	78,750	1.72%	2.62%	1,125/USD
Cash flow hedge	Nomura	2016.11.16	2031.11.16	USD	30,000	34,200	1.86%	2.81%	1,140/USD
Cash flow hedge	Nomura	2016.11.16	2031.11.16	USD	40,000	46,000	1.84%	2.80%	1,150/USD
Cash flow hedge	KEB HANA	2016.11.08	2019.11.08	USD	100,000	114,400	1.48%	Three-month (3M) London InterBank Offered Rate (LIBOR)+0.73%	1,144/USD
Cash flow hedge	KDB	2016.11.14	2019.11.14	USD	100,000	114,400	1.42%	3M LIBOR+0.73%	1,144/USD
Cash flow hedge	Nomura	2016.12.05	2018.12.05	EUR	55,000	69,135	1.65%	3M Euribor+0.35%	1,257/EUR
Cash flow hedge	Standard Chartered	2017.06.12	2020.06.12	USD	100,000	112,150	1.77%	3M LIBOR+0.73%	1,122/USD
Cash flow hedge	KDB	2017.07.24	2020.07.24	USD	50,000	56,500	1.82%	3M LIBOR+0.73%	1,130/USD
Cash flow hedge	KEB HANA	2017.08.03	2020.08.03	USD	100,000	112,250	1.77%	3M LIBOR+0.73%	1,123/USD
Cash flow hedge	KDB	2017.08.04	2020.08.04	USD	100,000	112,200	1.77%	3M LIBOR+0.73%	1,122/USD
Cash flow hedge	IBK	2017.08.10	2020.08.10	USD	50,000	56,295	1.75%	3M LIBOR+0.73%	1,126/USD
Cash flow hedge	IBK	2017.08.22	2020.08.22	USD	50,000	57,235	1.79%	3M LIBOR+0.73%	1,145/USD
Cash flow hedge	KB KOOKMIN BANK	2017.09.08	2020.09.08	USD	30,000	33,852	1.79%	3M LIBOR+0.78%	1,128/USD
Cash flow hedge	WOORI BANK	2017.09.08	2020.09.08	USD	20,000	22,568	1.79%	3M LIBOR+0.78%	1,128/USD
Cash flow hedge	KB KOOKMIN BANK	2017.09.28	2024.09.28	HKD	470,000	68,150	2.21%	2.43%	145/HKD

(3) Details of interest rate swaps as of December 31, 2017, are as follows (in millions of Korean won):

	Counterparty	Contract terms		Principal amount	Contract interest rate (%)	
		Beginning	Ending		Sell	Purchase
Cash flow hedge	Korea Development Bank	2013.05.02	2018.05.02	60,000	2.70%	3M CD+0.17%
Cash flow hedge	Deutsche Bank	2013.06.11	2018.06.11	50,000	3.10%	3M CD+0.23%
Cash flow hedge	Deutsche Bank	2010.03.15	2020.03.15	50,000	4.93%	Index floating rate
Cash flow hedge	Nomura	2012.05.09	2022.05.09	20,000	3.69%	Index floating rate
Cash flow hedge	Societe Generale	2012.10.18	2022.10.18	50,000	3.00%	Index floating rate
Cash flow hedge	NH investment & securities	2013.03.18	2020.03.18	20,000	2.81%	Index floating rate
Cash flow hedge	Societe Generale	2013.03.19	2019.09.19	40,000	2.79%	Index floating rate
Cash flow hedge	Credit Suisse	2014.02.19	2029.02.19	50,000	3.65%	Index floating rate
Cash flow hedge	Credit Suisse	2014.05.02	2029.05.02	100,000	3.64%	Index floating rate
Cash flow hedge	Morgan Stanley	2014.05.26	2024.05.26	50,000	3.44%	Index floating rate
Cash flow hedge	Credit Suisse	2015.08.31	2035.08.31	110,000	2.53%	National treasury bond Interest rate Swap interlocking
Cash flow hedge	Nomura	2015.11.12	2030.11.12	50,000	2.28%	Interest rate Swap interlocking
Cash flow hedge	Societe Generale	2016.04.29	2031.04.29	30,000	1.84%	Interest rate National treasury bond
Cash flow hedge	Credit Suisse	2017.04.27	2032.04.27	100,000	2.26%	Interest rate
Cash flow hedge	HSBC	2015.11.27	2018.11.27	100,000	1.86%	3M CD+0.12%
Cash flow hedge	Societe Generale	2015.11.27	2018.11.27	100,000	1.86%	3M CD+0.12%
Cash flow hedge	KEB Hana Bank	2016.07.20	2021.07.20	150,000	1.32%	3M CD+0.09%
Cash flow hedge	KEB Hana Bank	2016.07.21	2021.07.20	150,000	1.32%	3M CD+0.07%
Cash flow hedge	Korea Development Bank	2016.09.27	2019.09.26	100,000	1.40%	3M CD+0.13%
Cash flow hedge	Korea Development Bank	2016.09.27	2019.09.26	100,000	1.40%	3M CD+0.13%
Cash flow hedge	Korea Development Bank	2016.10.26	2021.10.26	200,000	1.62%	3M CD+0.20%
Cash flow hedge	Korea Development Bank	2017.05.30	2019.05.30	200,000	1.67%	3M CD+0.12%

(4) Details of gain and loss on valuation and settlement of derivative financial instruments for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	Gain or loss on valuation		Gain or loss on settlement		OCI (*1)	
	2017	2016	2017	2016	2017	2016
Currency swaps	₩(150,699)	₩60,461	₩(46,429)	₩(14,117)	₩58,209	₩(34,139)
Interest rate swaps	(2,561)	2,712	(419)	(485)	33,514	33,094
Total	<u>₩(153,260)</u>	<u>₩63,173</u>	<u>₩(46,848)</u>	<u>₩(14,602)</u>	<u>₩91,723</u>	<u>₩(1,045)</u>

(*1) Represents gross amounts before reflecting income tax effect.

9. TRADE AND OTHER RECEIVABLES:

(1) Details of trade and other receivables as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017			
	Gross amounts	Allowance for doubtful accounts	Present value of discounts	Carrying amounts
Current assets:				
Trade receivables	₩1,559,375	₩(1,168)	₩(6,071)	₩1,552,136
Due from customers for construction contracts	1,021,016	-	-	1,021,016
Other receivables	288,984	(111,369)	-	177,615
Accrued income	<u>105,690</u>	<u>-</u>	<u>-</u>	<u>105,690</u>
Subtotal	<u>2,975,065</u>	<u>(112,537)</u>	<u>(6,071)</u>	<u>2,856,456</u>
Non-current assets:				
Trade receivables	860,866	(3,830)	(30,648)	826,388
Other receivables	<u>309,572</u>	<u>-</u>	<u>(1,812)</u>	<u>307,761</u>
Subtotal	<u>1,170,438</u>	<u>(3,830)</u>	<u>(32,460)</u>	<u>1,134,148</u>
Total	<u>₩4,145,503</u>	<u>₩(116,367)</u>	<u>₩(38,531)</u>	<u>₩3,990,605</u>

	December 31, 2016			
	Gross amounts	Allowance for doubtful accounts	Present value of discounts	Carrying amounts
Current assets:				
Trade receivables	₩1,523,639	₩(979)	₩(9,459)	₩1,513,201
Due from customers for construction contracts	760,051	-	-	760,051
Other receivables	166,331	(55,652)	-	110,679
Accrued income	217,251	-	-	217,251
Subtotal	<u>2,667,272</u>	<u>(56,631)</u>	<u>(9,459)</u>	<u>2,601,182</u>
Non-current assets:				
Trade receivables	1,047,764	-	(55,289)	992,475
Other receivables	<u>290,628</u>	<u>-</u>	<u>(1,846)</u>	<u>288,782</u>
Subtotal	<u>1,338,392</u>	<u>-</u>	<u>(57,135)</u>	<u>1,281,257</u>
Total	<u>₩4,005,664</u>	<u>₩(56,631)</u>	<u>₩(66,594)</u>	<u>₩3,882,439</u>

(2) Credit risk and allowance for doubtful accounts

- 1) An aging analysis of trade receivables as of December 31, 2017 and 2016, is as follows (in millions of Korean won):

	December 31, 2017	December 31, 2016
Neither overdue nor impaired	₩2,206,836	₩2,133,325
Overdue, but not impaired receivables	213,404	438,078
- Within 60 days	142,888	303,492
- 60–90 days	6,168	14,605
- 90–120 days	13,216	5,507
- More than 120 days	<u>51,132</u>	<u>114,474</u>
Subtotal	<u>2,420,240</u>	<u>2,571,403</u>
Less: Allowance for doubtful accounts	(4,999)	(979)
Less: Present value of discounts	<u>(36,719)</u>	<u>(64,748)</u>
Total	<u>₩2,378,523</u>	<u>₩2,505,676</u>

- 2) An aging analysis of current other receivables as of December 31, 2017 and 2016, is as follows (in millions of Korean won):

	December 31, 2017	December 31, 2016
Neither overdue nor impaired	₩48,035	₩14,323
Overdue, but not impaired receivables	230,423	144,251
- within 60 days	44,773	13,615
- 60–90 days	16,685	4,615
- 90–120 days	23,751	786
- More than 120 days	145,214	125,235
Impaired receivables	10,526	7,757
- within 60 days	52	109
- 60–90 days	42	45
- 90–120 days	29	2
- More than 120 days	10,403	7,601
Subtotal	288,984	166,331
Less: Allowance for doubtful accounts	(111,369)	(55,652)
Total	₩177,615	₩110,679

- (3) Changes in the allowance for doubtful accounts for trade and other receivables for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017		2016	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Beginning	₩979	₩55,652	₩563	₩24,349
Allowance for impairment	29,251	59,989	630	33,972
Write-off	(25,232)	(4,272)	(214)	(2,669)
Ending	₩4,998	₩111,369	₩979	₩55,652

10. AFS FINANCIAL ASSETS:

(1) Changes in AFS financial assets for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017			
	Beginning	Acquisitions	Disposals	Ending
Unmarketable equity securities	₩47,504	₩9,627	₩(15)	₩57,116

	2016			
	Beginning	Acquisitions	Disposals	Ending
Unmarketable equity securities	₩31,276	₩16,236	₩(8)	₩47,504

(2) Details of AFS financial assets as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017	December 31, 2016
Equity securities:		
Korea Housing Guarantee	₩26,775	₩26,775
STX	1	1
K-realty Rental Housing Reit 1	4,900	4,900
Keangnam Enterprises, Ltd.	52	52
SAMBU Construction Co. LTD.	33	25
Dong Yang engineering & construction group	-	-
Beneficiary certificate	24,973	15,373
Other equity investments	381	378
Total	₩57,115	₩47,504

11. HTM FINANCIAL ASSETS:

Changes in HTM financial assets for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

		2017			
		Beginning	Acquisitions	Disposals	Ending
Government and public bonds		₩42	₩21	₩(26)	₩37
Short term		22	4	(22)	4
Long term		20	17	(4)	33
		2016			
		Beginning	Acquisitions	Disposals	Ending
Government and public bonds		₩39	₩38	₩(36)	₩41
Short term		4	22	(4)	22
Long term		35	16	(32)	19

12. LOANS:

Details of loans as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017		
	Acquisition value	Present value of discount	Carrying amount
Student loans (*1)	₩41,639	₩-	₩41,639
Housing fund loans (*2)	173	-	173
Long-term loans for lot sales	199,547	-	199,547
Urban development reallocation loans	11,774	(27)	11,747
Underage head of household loans	325	-	325
Other long-term loans	196	-	196
Housing loans	1,220	-	1,220
Loans for urban renewal project	55,963	-	55,963
Alternative to long-term loans	26	-	26
Total	₩310,863	₩(27)	₩310,836

	December 31, 2016		
	Acquisition value	Present value of discount	Carrying amount
Student loans (*1)	₩39,638	₩-	₩39,638
Housing fund loans (*2)	184	-	184
Long-term loans for lot sales	198,185	-	198,185
Urban development reallocation loans	16,258	(16)	16,242
Underage head of household loans	1,822	-	1,822
Other long-term loans	7,556	-	7,556
Housing loans	119,909	-	119,909
Loans for urban renewal project	30,092	-	30,092
Alternative to long-term loans	84	-	84
Total	₩413,728	₩(16)	₩413,712

(*1) The Group provides student loans at market interest rates to the dependents of employees who have been in employment for at least one year. Repayment of loans are made in installments and deducted from the employee's monthly salaries.

(*2) In connection with the relocation of the Group, housing loans are provided to eligible employees at market rate. The loans are to be repaid fully within three years.

13. FINANCIAL ASSETS:

Details of financial assets as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Short-term financial instruments	₩2,037,140	₩-	₩2,156,629	₩-
Special deposits	24,940	36,874	67,580	881
Total	<u>₩2,062,080</u>	<u>₩36,874</u>	<u>₩2,224,209</u>	<u>₩881</u>

14. OTHER FINANCIAL ASSETS:

Details of other financial assets as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Business rights for trust	₩-	₩5,639	₩-	₩33,686

15. INVENTORIES:

Details of inventories as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017		
	Acquisition costs	Valuation allowance	Carrying amounts
Goods	₩889,451	₩(43,680)	₩845,771
Finished goods	16,528,930	(2,831,946)	13,696,984
Work in progress	57,375,393	(1,887,164)	55,488,229
Supplies	846	-	846
Total	<u>₩74,794,620</u>	<u>₩(4,762,790)</u>	<u>₩70,031,830</u>

	December 31, 2016		
	Acquisition costs	Valuation allowance	Carrying amounts
Goods	₩877,665	₩(63,627)	₩814,038
Finished goods	17,190,354	(2,999,412)	14,190,942
Work in progress	61,045,806	(1,191,534)	59,854,272
Supplies	870	-	870
Total	₩79,114,695	₩(4,254,573)	₩74,860,122

The Group recognized acquisition costs of ₩17,435,277 million and ₩17,031,576 million in cost of sales for the years ended December 31, 2017 and 2016, respectively. Also, the Group recognized a loss on valuation of inventories amounting to ₩1,301,694 million and ₩1,887,079 million for the years ended December 31, 2017 and 2016, respectively, and reversal of provision amounting to ₩793,477 million and ₩1,093,778 million for the years ended December 31, 2017 and 2016, respectively.

16. NON-FINANCIAL ASSETS:

Details of non-financial assets as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Advance payments	₩775,900	₩-	₩860,487	₩-
Prepaid expenses	8,949	123	3,259	96
Payment on behalf of others for contract work	2,829,115	-	3,530,373	-
Other prepaid expenses	1,839	-	1,863	-
Others	242,514	5,232	170,428	5,390
Total	₩3,858,317	₩5,355	₩4,566,410	₩5,486

17. INVESTMENTS IN ASSOCIATES:

(1) Details of investments in associates as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	Percentage of ownership	Location	December 31, 2017			December 31, 2016
			Closing date	Acquisition cost	Carrying amounts	Carrying amounts
Korea Construction Management Corporation	38.57%	Korea	12.31	₩8,000	₩12,314	₩13,309
Pentaport Development Co., Ltd.	19.90%	Korea	12.31	11,940	-	-
M cieta Development Co., Ltd.	19.90%	Korea	12.31	14,925	-	-
Chungju Enterprise City Development Co., Ltd.	23.41%	Korea	12.31	7,960	6,581	2,849
Pentaport Co., Ltd.	19.90%	Korea	12.31	60	-	-
M cieta Co., Ltd.	19.90%	Korea	12.31	60	58	61
Jun wave Co., Ltd.	44.00%	Korea	12.31	6,260	-	-
Metapolis Co., Ltd.	19.90%	Korea	12.31	10,507	-	-
Smart City Co., Ltd.	19.90%	Korea	12.31	9,413	756	-
Smart City Asset Management Co., Ltd.	19.90%	Korea	12.31	60	50	51
Alpha Dome City Co., Ltd.	28.34%	Korea	12.31	93,423	-	-
Alpha Dome City Asset Management Co., Ltd.	35.50%	Korea	12.31	95	-	-
Morning Bridge Co., Ltd.	19.90%	Korea	12.31	2,337	-	-
Bichae-nuri Development Co., Ltd.	16.70%	Korea	12.31	4,776	66	71
Bichae-nuri Co., Ltd. and Megablaacity Co., Ltd.	16.70%	Korea	12.31	84	26	44
Megabowlcity Co., Ltd.	14.00%	Korea	12.31	8,400	2,504	2,613
Megabowlcity Asset Management Co., Ltd.	14.00%	Korea	12.31	70	-	5
Sinkyungju Development Co., Ltd.	15.00%	Korea	12.31	750	-	347
Sinkyungju Development Management Co., Ltd.	15.00%	Korea	12.31	45	45	39
NHF No. 1 Third-Party Managed REIT for Development of Public Rental Housing	19.84%	Korea	12.31	30,400	37,691	37,473
NHF No. 2 Third-Party Managed REIT for Development of Public Rental Housing	19.86%	Korea	12.31	13,800	11,496	10,456
NHF No. 3 Third-Party Managed REIT for Development of Public Rental Housing	19.89%	Korea	12.31	30,000	38,034	38,828
NHF No. 4 Third-Party Managed REIT for Development of Public Rental Housing	19.83%	Korea	12.31	27,800	37,614	38,201
NHF No. 5 Third-Party Managed REIT for Development of Public Rental Housing	19.93%	Korea	12.31	22,900	24,984	25,424
NHF No. 6 Third-Party Managed REIT for Development of Public Rental Housing	19.87%	Korea	12.31	21,900	27,135	27,640
NHF No. 7 Third-Party Managed REIT for Development of Public Rental Housing	19.93%	Korea	12.31	27,300	35,448	36,189
NHF No. 8 Third-Party Managed REIT for Development of Public Rental Housing	19.92%	Korea	12.31	24,500	22,345	23,004
NHF No. 9 Third-Party Managed REIT for Development of Public Rental Housing	19.86%	Korea	12.31	14,200	15,472	15,980
NHF No. 10 Third-Party Managed REIT for Development of Public Rental Housing	19.90%	Korea	12.31	24,900	37,147	38,000
NHF No. 11 Third-Party Managed REIT for Development of Public Rental Housing	19.88%	Korea	12.31	20,700	26,550	20,578
NHF No. 12 Third-Party Managed REIT for Development of Public Rental Housing	19.91%	Korea	12.31	17,800	22,331	-
NHF No. 13 Third-Party Managed REIT for Development of Public Rental Housing	19.90%	Korea	12.31	20,500	37,490	-
NHF No. 14 Third-Party Managed REIT for Development of Public Rental Housing	19.90%	Korea	12.31	15,800	21,434	-

	December 31, 2017					December 31, 2016
	Percentage of ownership	Location	Closing date	Acquisition cost	Carrying amounts	Carrying amounts
NHF No. 15 Third-Party Managed REIT for Development of Public Rental Housing	19.91%	Korea	12.31	18,100	18,002	-
National Happy Housing REIT Co., Ltd.	20.00%	Korea	12.31	3,434	3,207	-
Passive House Circulation Housing REIT Co., Ltd	15.00%	Korea	12.31	3,300	5,609	-
National Happy Housing 2 REIT Co., Ltd.	24.57%	Korea	12.31	4,925	4,909	-
Cheongju Culture Factory Real Estate Investment Trust	5.66%	Korea	12.31	300	292	-
Land Assistance Reit No. 1 Third-Party Managed REIT	12.56%	Korea	12.31	15,390	19,317	-
Total				₩537,112	₩468,906	₩331,162

(2) Changes in investments in associates for the years ended December 31, 2017 and 2016,
are as follows (in millions of Korean won):

	2017						Ending
	Beginning	Acquisitions	Disposals	Dividends	Share of profit (loss)	Equity adjustments in equity method	
Korea Construction Management Corporation	₩13,309	₩-	₩-	₩-	₩(1,025)	₩30	₩12,314
Pentaport Development Co., Ltd.	-	-	-	-	-	-	-
M cieta Development Co., Ltd.	-	-	-	-	-	-	-
Chungju Enterprise City Development Co., Ltd.	2,848	-	-	-	3,733	-	6,581
Pentaport Co., Ltd.	-	-	-	-	-	-	-
M cieta Co., Ltd.	61	-	-	-	(3)	-	58
Jun wave Co., Ltd.	-	-	-	-	-	-	-
Metapolis Co., Ltd.	-	-	-	-	-	-	-
Smart City Co., Ltd.	-	-	-	(4,246)	5,002	-	756
Smart City Asset Management Co., Ltd.	51	-	-	-	(1)	-	50
Alpha Dome City Co., Ltd.	-	-	-	-	(15,054)	15,054	-
Alpha Dome City Asset Management Co., Ltd.	-	-	-	-	-	-	-
Morning Bridge Co., Ltd.	-	-	-	-	-	-	-
Bichae-nuri Development Co., Ltd.	71	-	-	-	(5)	-	66
Bichae-nuri Co., Ltd.	44	-	-	-	(18)	-	26
Megabowlcity Co., Ltd.	2,613	-	-	-	(109)	-	2,504
Megabowlcity Asset Management Co., Ltd.	5	-	-	-	(5)	-	-
Sinkyungju Development Co., Ltd.	347	-	-	-	(347)	-	-
Sinkyungju Development Management Co., Ltd.	39	-	-	-	6	-	45
NHF No. 1 Third-Party Managed REIT for Development of Public Rental Housing	37,474	-	-	-	217	-	37,691
NHF No. 2 Third-Party Managed REIT for Development of Public Rental Housing	10,456	-	-	-	1,040	-	11,496
NHF No. 3 Third-Party Managed REIT for Development of Public Rental Housing	38,828	-	-	-	(794)	-	38,034
NHF No. 4 Third-Party Managed REIT for Development of Public Rental Housing	38,201	-	-	-	(587)	-	37,614
NHF No. 5 Third-Party Managed REIT for Development of Public Rental Housing	25,424	-	-	-	(440)	-	24,984
NHF No. 6 Third-Party Managed REIT for Development of Public Rental Housing	27,640	-	-	-	(505)	-	27,135
NHF No. 7 Third-Party Managed REIT for Development of Public Rental Housing	36,189	-	-	-	(741)	-	35,448
NHF No. 8 Third-Party Managed REIT for Development of Public Rental Housing	23,004	-	-	-	(665)	6	22,345
NHF No. 9 Third-Party Managed REIT for Development of Public Rental Housing	15,980	-	-	-	(513)	5	15,472
NHF No. 10 Third-Party Managed REIT for Development of Public Rental Housing	38,000	-	-	-	(853)	-	37,147
NHF No. 11 Third-Party Managed REIT for Development of Public Rental Housing	20,578	-	-	-	5,972	-	26,550
NHF No. 12 Third-Party Managed REIT for Development of Public Rental Housing	-	17,800	-	-	4,618	(87)	22,331
NHF No. 13 Third-Party Managed REIT for Development of Public Rental Housing	-	20,500	-	-	17,091	(101)	37,490
NHF No. 14 Third-Party Managed REIT for Development of Public Rental Housing	-	15,800	-	-	5,709	(75)	21,434
NHF No. 15 Third-Party Managed REIT for Development of Public Rental Housing	-	18,100	-	-	(10)	(88)	18,002
National Happy Housing REIT Co., Ltd.	-	3,434	-	-	(225)	(2)	3,207

2017							
	Beginning	Acquisitions	Disposals	Dividends	Share of profit (loss)	Equity adjustments in equity method	Ending
Passive House Circulation Housing REIT Co., Ltd	-	3,300	-	-	2,326	(17)	5,609
National Happy Housing 2 REIT Co., Ltd.	-	4,925	-	-	(16)	-	4,909
Cheongju Culture Factory Real Estate Investment Trust	-	300	-	-	(1)	(7)	292
Land Assistance Reit No. 1 Third-Party Managed REIT	-	15,390	-	-	(2)	3,929	19,317
Total	₩331,162	₩99,549	₩-	₩(4,246)	₩23,795	₩18,647	₩468,907

2016							
	Beginning	Acquisitions	Disposals	Dividends	Share of profit (loss)	Equity adjustments in equity method	Ending
Smart City	₩-	₩-	₩-	₩(2,560)	₩2,560	₩-	₩-
Smart City Asset Management Co., Ltd.	53	-	-	-	(1)	-	52
Alpha Dome City Co., Ltd.	-	-	-	-	1	(1)	-
Alpha Dome City Asset Management Co., Ltd.	-	-	-	-	7	(7)	-
Bichae-nuri Development Co., Ltd.	137	-	-	-	(66)	-	71
Bichae-nuri Co., Ltd.	68	-	-	-	(24)	-	44
Megabowlcity Co., Ltd.	2,541	-	-	-	72	-	2,613
Megabowlcity Asset Management Co., Ltd.	46	-	-	-	(41)	-	5
Sinkyungju Development Co., Ltd.	434	-	-	-	(87)	-	347
Sinkyungju Development Management Co., Ltd.	39	-	-	-	-	-	39
Korea Construction Management Corporation	12,742	-	-	(263)	803	28	13,310
M cieta Development Co., Ltd.	6,929	4,378	-	-	(11,283)	(24)	-
Chungju Enterprise City Development Co., Ltd.	3,774	-	-	-	(926)	-	2,848
M cieta Co., Ltd.	63	-	-	-	(3)	-	60
NHF No. 1 Third-Party Managed REIT for Development of Public Rental Housing	37,986	-	-	-	(513)	-	37,473
NHF No. 2 Third-Party Managed REIT for Development of Public Rental Housing	10,764	-	-	-	(308)	-	10,456
NHF No. 3 Third-Party Managed REIT for Development of Public Rental Housing	39,396	-	-	-	(568)	-	38,828
NHF No. 4 Third-Party Managed REIT for Development of Public Rental Housing	38,799	-	-	-	(601)	3	38,201
NHF No. 5 Third-Party Managed REIT for Development of Public Rental Housing	26,061	-	-	-	(637)	-	25,424
NHF No. 6 Third-Party Managed REIT for Development of Public Rental Housing	28,419	-	-	-	(779)	-	27,640
NHF No. 7 Third-Party Managed REIT for Development of Public Rental Housing	37,047	-	-	-	(858)	-	36,189
NHF No. 8 Third-Party Managed REIT for Development of Public Rental Housing	-	24,500	-	-	(1,372)	(124)	23,004
NHF No. 9 Third-Party Managed REIT for Development of Public Rental Housing	-	14,200	-	-	1,855	(75)	15,980
NHF No. 10 Third-Party Managed REIT for Development of Public Rental Housing	-	24,900	-	-	13,229	(129)	38,000
NHF No. 11 Third-Party Managed REIT for Development of Public Rental Housing	-	20,700	-	-	(18)	(104)	20,578
Total	₩245,298	₩88,678	₩-	₩(2,823)	₩442	₩(433)	₩331,162

(3) Details of financial information of associates as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017			
	Assets	Liabilities	Revenue	Profit (loss)
Korea Construction Management Corporation	₩35,776	₩3,638	₩41,075	₩ (2,045)
Pentaport Development Co., Ltd.	231,205	464,023	7,032	(5,859)
M cieta Development Co., Ltd.	406,008	352,515	174,063	13,768
Chungju Enterprise City Development Co., Ltd.	76,205	48,093	77,093	15,944
Pentaport Co., Ltd.	165	487	577	6
M cieta Co., Ltd.	604	313	1,840	(14)
Jun wave Co., Ltd.	2,561	73,322	11,492	(23,466)
Metapolis Co., Ltd.	17,904	74,902	-	-
Smart City Co., Ltd.	3,997	23	-	(24)
Smart City Asset Management Co., Ltd.	254	3	12	-
Alpha Dome City Co., Ltd.	1,299,413	1,423,367	760,439	81,428
Alpha Dome City Asset Management Co., Ltd.	1,199	1,541	3,973	(6)
Morning Bridge Co., Ltd.	55	38,878	-	-
Bichae-nuri Development Co., Ltd.	3,474	3,077	-	(26)
Bichae-nuri Co., Ltd.	1,813	1,658	44	-
Megabowlcity Co., Ltd.	17,898	12	-	(779)
Megabowlcity Asset Management Co., Ltd.	93	204	116	(146)
Sinkyungju Development Co., Ltd.	73,256	74,560	-	(3,614)
Sinkyungju Development Management Co., Ltd.	331	29	655	40
NHF No. 1 Third-Party Managed REIT for Development of Public Rental Housing	1,218,592	1,071,092	21,649	1,095
NHF No. 2 Third-Party Managed REIT for Development of Public Rental Housing	972,400	902,209	13,337	5,246
NHF No. 3 Third-Party Managed REIT for Development of Public Rental Housing	1,123,035	984,630	-	(3,991)
NHF No. 4 Third-Party Managed REIT for Development of Public Rental Housing	1,015,280	885,686	-	(3,045)
NHF No. 5 Third-Party Managed REIT for Development of Public Rental Housing	645,235	537,067	-	(2,205)
NHF No. 6 Third-Party Managed REIT for Development of Public Rental Housing	630,379	527,971	-	(2,543)
NHF No. 7 Third-Party Managed REIT for Development of Public Rental Housing	611,865	484,024	-	(3,718)
NHF No. 8 Third-Party Managed REIT for Development of Public Rental Housing	697,698	582,101	-	(3,340)
NHF No. 9 Third-Party Managed REIT for Development of Public Rental Housing	388,468	322,484	-	(2,583)
NHF No. 10 Third-Party Managed REIT for Development of Public Rental Housing	582,453	463,061	-	(4,247)
NHF No. 11 Third-Party Managed REIT for Development of Public Rental Housing	316,336	218,492	-	(5,659)
NHF No. 12 Third-Party Managed REIT for Development of Public Rental Housing	318,113	230,927	-	(1,777)
NHF No. 13 Third-Party Managed REIT for Development of Public Rental Housing	287,506	185,421	-	(422)
NHF No. 14 Third-Party Managed REIT for Development of Public Rental Housing	254,019	175,399	-	(400)
NHF No. 15 Third-Party Managed REIT for Development of Public Rental Housing	90,470	53	-	(48)
National Happy Housing REIT Co., Ltd.	25,298	9,261	-	(1,052)
Passive House Circulation Housing REIT Co., Ltd	52,700	31,091	-	(278)
National Happy Housing 2 REIT Co., Ltd.	20,054	76	-	(67)
Cheongju Culture Factory Real Estate Investment Trust	5,789	632	-	(19)
Land Assistance Reit No. 1 Third-Party Managed REIT	474,905	321,110	-	(23)

	December 31, 2016			
	Assets	Liabilities	Revenue	Profit (loss)
Jun wave Co., Ltd.	₩111,565	₩156,693	₩1,950	₩(1,341)
Metapolis Co., Ltd.	23,216	72,815	-	(3,441)
Smart City Co., Ltd.	31,104	21,545	13,062	(936)
Smart City Asset Management Co., Ltd.	286	27	197	-
Alpha Dome City Co., Ltd.	1,272,605	1,510,083	127,687	(62,959)
Alpha Dome City Asset Management Co., Ltd.	1,165	1,508	5,168	64
Morning Bridge Co., Ltd.	55	38,878	-	(6)
Bichae-nuri Development Co., Ltd.	3,487	3,064	-	(395)
Bichae-nuri Co., Ltd.	1,824	1,561	380	-
Megabowlcity Co., Ltd.	18,757	91	-	(517)
Megabowlcity Asset Management Co., Ltd.	124	89	-	(295)
Sinkyungju Development Co., Ltd.	4,352	2,042	-	(583)
Sinkyungju Development Management Co., Ltd.	287	26	473	1
Korea Construction Management Corporation	38,304	3,656	43,852	154
Pentaport Development Co., Ltd.	313,546	512,585	14,199	5,807
M cieta Development Co., Ltd.	382,835	343,177	74,088	(17,441)
Chungju Enterprise City Development Co., Ltd.	136,857	124,690	19,028	799
Pentaport Co., Ltd.	170	499	670	-
M cieta Co., Ltd.	642	338	2,517	(1)
NHF No. 1 Third-Party Managed REIT for Development of Public Rental Housing	888,589	742,184	-	(2,453)
NHF No. 2 Third-Party Managed REIT for Development of Public Rental Housing	411,842	346,892	-	(1,410)
NHF No. 3 Third-Party Managed REIT for Development of Public Rental Housing	703,167	560,771	-	(2,755)
NHF No. 4 Third-Party Managed REIT for Development of Public Rental Housing	590,228	457,669	-	(2,801)
NHF No. 5 Third-Party Managed REIT for Development of Public Rental Housing	348,516	238,142	-	(3,196)
NHF No. 6 Third-Party Managed REIT for Development of Public Rental Housing	339,329	234,379	-	(3,762)
NHF No. 7 Third-Party Managed REIT for Development of Public Rental Housing	323,705	192,146	-	(4,260)
NHF No. 8 Third-Party Managed REIT for Development of Public Rental Housing	418,550	299,645	-	(3,465)
NHF No. 9 Third-Party Managed REIT for Development of Public Rental Housing	184,646	116,103	-	(2,581)
NHF No. 10 Third-Party Managed REIT for Development of Public Rental Housing	434,007	310,330	-	(800)
NHF No. 11 Third-Party Managed REIT for Development of Public Rental Housing	103,612	99	-	(89)

18. PROPERTY, PLANT AND EQUIPMENT:

(1) Composition of property, plant and equipment as of December 31, 2017 and 2016, is as follows (in millions of Korean won):

	December 31, 2017			
	Acquisition cost	Government grants	Accumulated depreciation	Carrying amounts
Land	₩335,548	₩-	₩-	₩335,548
Buildings	855,855	(7,054)	(131,282)	717,519
Structures	71,527	-	(25,666)	45,861
Machinery	248,538	-	(91,210)	157,328
Vehicles	6,461	(200)	(4,714)	1,547
Tools and equipment	142,366	-	(108,625)	33,741
Furniture and fixtures	15,499	-	(13,521)	1,978
Construction in progress	35,948	-	-	35,948
Total	₩1,711,742	₩(7,254)	₩(375,018)	₩1,329,470

	December 31, 2016			
	Acquisition cost	Government grants	Accumulated depreciation	Carrying amounts
Land	₩336,226	₩-	₩-	₩336,226
Buildings	858,940	(7,203)	(114,478)	737,259
Structures	71,099	-	(21,877)	49,222
Machinery	248,544	-	(78,783)	169,761
Vehicles	5,889	(251)	(4,176)	1,462
Tools and equipment	134,958	-	(102,082)	32,876
Furniture and fixtures	14,854	-	(12,910)	1,944
Construction in progress	5,562	-	-	5,562
Total	₩1,676,072	₩(7,454)	₩(334,306)	₩1,334,312

(2) Changes in property, plant and equipment for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017					
	Beginning	Additions (*1)	Disposals	Depreciation	Transfers (*2)	Ending
Land	₩336,226	₩-	₩ (678)	₩-	₩-	₩335,548
Buildings	744,463	1	(1,555)	(17,536)	(799)	724,573
Less: Government grants	(7,203)	-	-	150	-	(7,054)
Structures	49,341	113	-	(3,581)	(12)	45,861
Machinery	169,761	-	-	(12,427)	(6)	157,328
Vehicles	1,713	760	(15)	(712)	-	1,747
Less: Government grants	(251)	-	-	51	-	(200)
Tools and equipment	32,756	13,021	(4)	(12,017)	(16)	33,741
Furniture and fixtures	1,944	700	-	(666)	-	1,978
Construction in progress	5,562	30,386	-	-	-	35,948
Total	₩1,334,312	₩44,981	₩(2,252)	₩(46,738)	₩(833)	₩1,329,470

	2016					
	Beginning	Additions (*1)	Disposals	Depreciation	Transfers (*2)	Ending
Land	₩336,799	₩2,851	₩(3,559)	₩-	₩135	₩336,226
Buildings	762,500	1,093	(7,754)	(17,717)	6,340	744,462
Less: Government grants	(7,478)	-	-	274	-	(7,204)
Structures	51,905	1,004	-	(3,571)	3	49,341
Machinery	204,198	53	(21,553)	(12,937)	-	169,761
Vehicles	1,796	644	-	(727)	-	1,713
Less: Government grants	-	(255)	-	4	-	(251)
Tools and equipment	36,360	8,266	(4)	(11,848)	(18)	32,756
Furniture and fixtures	1,602	913	-	(571)	-	1,944
Construction in progress	359	5,173	-	-	30	5,562
Total	₩1,388,041	₩19,742	₩(32,870)	₩(47,093)	₩6,490	₩1,334,312

(*1) Additions incorporate the amount of the capitalization of borrowing costs.

(*2) Transfers incorporate the amounts that are transferred to investment property, assets classified as held for sale, etc.

19. INVESTMENT PROPERTIES:

(1) Acquisition cost and net book value of investment properties as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017				
	Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩1,042,080	₩-	₩-	₩-	₩1,042,080
Buildings (*1)	81,742,375	(163,271)	(6,798,213)	(400,573)	74,380,318
Construction in progress	10,123,033	(5,008)	-	-	10,118,025
Total	<u>₩92,907,488</u>	<u>₩(168,279)</u>	<u>₩(6,798,213)</u>	<u>₩(400,573)</u>	<u>₩85,540,423</u>

	December 31, 2016				
	Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩1,242,475	₩-	₩-	₩-	₩1,242,475
Buildings (*1)	76,622,729	(150,009)	(5,896,180)	(400,573)	70,175,967
Construction in progress	10,598,925	(18,402)	-	-	10,580,523
Total	<u>₩88,464,129</u>	<u>₩(168,411)</u>	<u>₩(5,896,180)</u>	<u>₩(400,573)</u>	<u>₩81,998,965</u>

(*1) The amount of building incorporates land, which is part of the rental housing that is collective buildings.

(2) Changes in the net book value of investment properties for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017					
	Beginning	Additions	Disposals	Depreciation	Others (*1)	Ending
Land	₩1,242,475	₩134	₩-	₩-	₩(200,529)	₩1,042,080
Buildings	70,325,976	142,347	-	(920,617)	4,995,883	74,543,589
Less: Government grants	(150,009)	(19,375)	-	5,857	256	(163,271)
Construction in progress	10,598,925	4,768,994	-	-	(5,244,886)	10,123,033
Less: Government grants	(18,402)	(3,005)	-	-	16,400	(5,008)
Total	<u>₩81,998,965</u>	<u>₩4,889,095</u>	<u>₩-</u>	<u>₩(914,760)</u>	<u>₩(432,876)</u>	<u>₩85,540,423</u>

(*1) Others include amounts transferred from property, plant and equipment and inventories.

	2016					
	Beginning	Additions	Disposals	Depreciation	Others (*1)	Ending
Land	₩1,283,847	₩-	₩-	₩-	₩(41,372)	₩1,242,475
Buildings	63,496,691	50,308	-	(843,849)	7,622,826	70,325,976
Less: Government grants	(155,283)	(529)	-	5,804	-	(150,008)
Construction in progress	14,653,656	4,017,066	-	-	(8,071,797)	10,598,925
Less: Government grants	-	(18,403)	-	-	-	(18,403)
Total	₩79,278,911	₩4,048,442	₩-	₩(838,045)	₩(490,343)	₩81,998,965

(*1) Others include amounts transferred to property, plant and equipment and inventories.

(3) Details of rental income and expense for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017	2016
Rental income	₩1,300,516	₩1,194,037
Rental expenses	(2,156,327)	(1,891,054)
Total	₩(855,813)	₩(697,017)

(4) Fair values of investment properties as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017		December 31, 2016	
	Book value	Fair value	Book value	Fair value
Land	₩1,042,080	₩1,042,080	₩1,242,475	₩1,266,352
Buildings	74,380,318	74,380,318	70,175,967	90,955,393
Construction in progress	10,118,025	10,118,025	10,580,523	10,580,522
Total	₩85,540,423	₩85,540,423	₩81,998,965	₩102,802,267

The fair values of investment properties are measured using the assumptions that market participants would use when pricing the investment properties, assuming that market participants act in their economic best interest. A fair value measurement of investment properties takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable (Level 3).

20. CONSTRUCTION CONTRACTS:

(1) Changes in balances of construction contracts for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017			
	Beginning	Increase	Revenue recognized	Ending
Housing construction	₩3,193,021	₩3,664,661	₩(4,033,199)	₩2,824,483
	2016			
	Beginning	Increase	Revenue recognized	Ending
Housing construction	₩3,716,965	₩3,359,910	₩(3,883,854)	₩3,193,021

(2) Details of construction contracts in progress as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	Accumulated amounts of contract revenue	Accumulated amounts of contract cost	Accumulated amounts of net income	Advance from customers (including due to customer)
December 31, 2017	₩2,174,560	₩1,970,543	₩204,017	₩1,709,123
December 31, 2016	₩2,062,066	₩1,843,704	₩218,362	₩1,759,666

(3) Details of due from customers and due to customer as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017		December 31, 2016	
	Due from customer	Due to customer	Due from customer	Due to customer
Housing construction	₩1,021,016	₩110,344	₩760,051	₩195,044

21. INTANGIBLE ASSETS:

(1) Acquisition cost and net book value of intangible assets as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017			
	Acquisition cost	Government grants	Accumulated depreciation	Book value
Brand	₩75	₩-	₩(75)	₩-
Software	44,420	-	(31,196)	13,224
Copyright, patent and industrial property rights	434	-	(332)	102
Development costs	108,523	(376)	(74,826)	33,321
Intangible assets in development	4,261	(100)	-	4,161
Land-use right	2,260	-	(413)	1,847
Others	6,087	-	-	6,087
Total	₩166,060	₩(476)	₩(106,842)	₩58,742

	December 31, 2016			
	Acquisition cost	Government grants	Accumulated depreciation	Book value
Brand	₩75	₩-	₩(73)	₩2
Software	39,646	-	(26,252)	13,394
Copyright, patent and industrial property rights	401	-	(263)	138
Development costs	100,879	(369)	(64,907)	35,603
Intangible assets in development	4,581	(150)	-	4,431
Land-use right	2,549	-	(409)	2,140
Others	4,837	-	-	4,837
Total	₩152,968	₩(519)	₩(91,904)	₩60,546

(2) Changes in the net book value of intangible assets, except goodwill, for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017					
	Beginning	Additions	Disposals	Amortization	Others	Ending
Brand name	₩2	₩-	₩-	₩(2)	₩-	₩-
Software	13,394	4,774	-	(4,944)	-	13,224
Copyright, patent and industrial property rights	138	33	-	(68)	(1)	102
Development costs	35,972	1,646	-	(10,441)	6,451	33,628
Development costs, less government grants	(369)	-	-	143	(150)	(376)
Intangible assets in development	4,581	6,227	-	-	(6,478)	4,330
Intangible assets in development, less government grants	(150)	-	-	-	50	(100)
Land-use right	2,140	-	-	(54)	(240)	1,846
Others	4,838	1,249	-	-	-	6,087
Total	₩60,546	₩13,929	₩-	₩(15,366)	₩(368)	₩58,742

	2016					
	Beginning	Additions	Disposals	Amortization	Others	Ending
Brand name	₩5	₩-	₩-	₩(3)	₩-	₩2
Software	13,400	4,783	-	(4,788)	-	13,395
Copyright, patent and industrial property rights	121	35	-	(17)	-	139
Development costs	5,148	-	-	(8,359)	39,183	35,972
Development costs, less government grants	-	(300)	-	221	(290)	(369)
Intangible assets in development	40,274	3,291	-	-	(38,984)	4,581
Intangible assets in development, less government grants	(440)	-	-	-	290	(150)
Land-use right	2,131	-	-	(56)	65	2,140
Others	4,836	-	-	-	-	4,836
Total	₩65,475	₩7,809	₩-	₩(13,002)	₩264	₩60,546

22. TRADE AND OTHER PAYABLES:

Details of trade and other payables as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Trade payables	₩799,968	₩-	₩708,436	₩-
Other payables	135,399	-	127,651	-
Accrued expenses	1,937,126	90,385	2,093,982	100,667
Deposits	7,757,762	13,481,556	7,918,005	11,524,636
Other	62,109	-	55,293	-
Total	₩10,692,364	₩13,571,941	₩10,903,367	₩11,625,303

23. BORROWINGS AND BONDS PAYABLE:

(1) Details of borrowings and bonds payable as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

Description	December 31, 2017	December 31, 2016
Current liabilities:		
Short-term borrowings	₩1,100,000	₩1,600,000
Current portion of long-term borrowings	819,397	1,235,733
Current portion of bonds	10,924,411	11,557,726
Addition: Government grants	1,958	1,632
Less: Present value of discount	(2,038)	(1,718)
Less: Bond issuance discount	(159,455)	(214,744)
Addition: Bond issuance premium(*)	394,535	414,688
Subtotal	13,078,808	14,593,317
Non-current liabilities:		
Long-term borrowings	31,743,990	31,175,248
Bonds	31,749,796	37,554,698
Addition: Government grants	9,182,707	9,300,703
Less: Present value of discount	(9,184,492)	(9,303,411)
Less: Bond issuance discount	(9,755)	(10,688)
Subtotal	63,482,246	68,716,550
Total	₩76,561,054	₩83,309,867

(*) When the Group issued bonds, the Group recognized bond premium to guarantee yield to maturity of bonds related to land and the balance of bond premium is unamortized.

(2) Details of short-term borrowings as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

Financial institution	Annual interest rate (%)	December 31, 2017	December 31, 2016
KEB Hana Bank	1.45–1.78	₩1,000,000	₩1,500,000
Hana Financial Investment Co., Ltd.	1.51	100,000	100,000
Total		₩1,100,000	₩1,600,000

(3) Details of long-term borrowings as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	Creditors	Annual interest rate (%)	December 31, 2017	December 31, 2016
Public Rental ABS 1 st (*)	LH My Home SPC 1 st	4.73–5.04	₩880,000	₩880,000
Public Rental ABS 2 nd (*)	LH My Home SPC 2 nd	4.89–5.27	160,000	300,000
Public Rental ABS 3 rd (*)	LH My Home SPC 3 rd	4.84–5.28	420,000	520,000
Public Rental ABS 4 th (*)	LH My Home SPC 4 th	4.20–4.52	620,000	740,000
Public Rental ABS 5 th (*)	LH My Home SPC 5 th	2.99–3.36	390,000	450,000
National Housing Fund	KB Kookmin Bank, NH NongHyup Bank, Woori Bank	0–5.0	29,624,857	28,724,095
Second Public Preservation	Woori Bank	3.6–4.0	464,964	692,684
Energy Complex Fund	Korea Energy Agency, Woori Bank	3.00	2,527	2,830
Financial facility loans	Korea Development Bank	1.76	1,039	1,372
Industrial facility loans	Korea Finance Corporation	-	-	100,000
Subtotal			32,563,387	32,410,981
Addition: Government grants			9,182,707	9,300,701
Less: Present value of discount			(9,186,530)	(9,305,128)
Subtotal			32,559,564	32,406,554
Less: Current portion			(819,397)	(1,235,733)
Less: Present value of discount on current portion			2,038	1,718
Total			₩31,742,205	₩31,172,539

(*) In accordance with an asset transfer agreement entered into with a special-purpose entity, the Group has securitized its dues from construction contracts and other assets up to ₩2,470,000 million and ₩2,890,000 million as of December 31, 2017 and 2016, respectively.

(4) Details of bonds payable as of December 31, 2017 and 2016, are as follows (in millions of Korean won and in thousands of foreign currencies):

	Annual interest rate (%)	December 31, 2017		December 31, 2016	
		Foreign currencies	Korean won equivalent	Foreign currencies	Korean won equivalent
Bonds denominated in Korean won (*1)	1.573–7.19	-	₩35,580,000	-	₩41,010,000
Bonds denominated in US dollars (*2)	3M LIBOR+ 0.73 etc.	USD 1,140,000	1,221,396	USD 1,140,000	1,377,690
Bonds denominated in HKD	1.83–4.20	HKD 2,250,000	308,408	HKD 1,780,000	277,377
Bonds denominated in JPY	0.81	-	-	JPY 5,000,000	51,840
Bonds denominated in EUR (*3)	3M Euribor + 0.35 etc.	EUR 130,000	166,303	EUR 130,000	164,788
Bonds related to the land (*4)	4.01–4.72	-	3,749,378	-	3,908,063
Bonds related to land compensation	1.25–3.30	-	1,648,722	-	2,322,666
Subtotal			42,674,207		49,112,424
Less: Discount on bonds			(169,210)		(225,431)
Addition: Bond issuance premium(*5)			394,535		414,688
Subtotal			42,899,532		49,301,681
Less: Current portion			(10,924,411)		(11,557,726)
Less: Discount on bonds' current portion			159,455		214,743
Addition: Bond issuance premium on current portion (*5)			(394,535)		(414,688)
Total			₩31,740,041		₩37,544,010

(*1) The bonds are guaranteed by the Korea Government in accordance with Paragraph 3 of Article 10 of the Korea Land & Housing Corporation Act.

(*2) Various bonds amounting to \$500,000 thousand are listed on the Singapore Stock Exchange.

(*3) The bonds are listed on the Singapore Stock Exchange.

(*4) There are bonds related to the land that the Group holds as inventory. Additional interest may be paid from the gain on disposal of the related land. These carry coupon rates of 3.00%–3.50% and yield-to-maturity rates of 4.01%–4.72%.

(*5) When the Group issued bonds, the Group recognized bond premium to guarantee yield to maturity of bonds related to land and the balance of bond premium is unamortized.

(5) Redemption plans of borrowings and bonds payable as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

December 31, 2017			
	Borrowings	Bonds payable	Total
Less than 1 year	₩1,891,401	₩10,924,411	₩12,815,812
1 year–5 years	2,791,036	13,262,396	16,053,432
More than 5 years	28,980,950	18,487,400	47,468,350
Total	₩33,663,387	₩42,674,207	₩76,337,594

December 31, 2016			
	Borrowings	Bonds payable	Total
Less than 1 year	₩2,835,733	₩11,557,726	₩14,393,459
1 year–5 years	2,479,933	18,857,128	21,337,061
More than 5 years	28,695,315	18,697,571	47,392,886
Total	₩34,010,981	₩49,112,425	₩83,123,406

24. EMPLOYEE BENEFITS:

- (1) Details of costs related with the defined contribution plan recognized in the statements of profit or loss for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cost of sales	₩1,255	₩1,173
Selling and administrative expenses	<u>57</u>	<u>88</u>
Net	<u><u>1,312</u></u>	<u><u>₩1,261</u></u>

- (2) Details of the defined benefit liability as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligation	₩374,879	₩324,169
Fair value of plan assets	(4,754)	(131)
National pension fund	<u>(81)</u>	<u>(81)</u>
Net	<u><u>₩370,044</u></u>	<u><u>₩323,957</u></u>

- (3) Changes in defined benefit liability for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	<u>2017</u>	<u>2016</u>
Beginning	₩324,169	₩302,439
Service costs	41,949	42,164
Interest costs	8,262	7,586
New entry / transfer effect	10,659	-
Remeasurements of defined benefit liabilities	80	(1,456)
Payments	<u>(10,240)</u>	<u>(26,564)</u>
Ending	<u><u>₩374,879</u></u>	<u><u>₩324,169</u></u>

- (4) Changes in the fair value of plan assets for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017	2016
Beginning	₩132	₩195
User contributions	4,626	-
Expected return on plan assets	3	3
Remeasurements of defined benefit liabilities	(1)	(1)
Payments	(6)	(65)
Ending	<u>₩4,754</u>	<u>₩132</u>

- (5) Details of costs related with the defined benefit plan recognized in income and loss for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017	2016
Service costs	₩41,949	₩42,164
Interest costs	8,262	7,587
New entry / transfer effect	10,659	-
Expected return on plan assets	(3)	(3)
Total	<u>₩60,867</u>	<u>₩49,748</u>

The above income and expenses were recognized in the consolidated statement of comprehensive income as follows (in millions of Korean won):

	2017	2016
Selling and administrative expenses	₩28,445	₩18,017
Cost of sales	32,422	31,731
Total	<u>₩60,867</u>	<u>₩49,748</u>

- (6) Remeasurements of defined benefit liabilities recognized in the consolidated statement of comprehensive income and loss for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017	2016
Actuarial gain	₩(80)	₩1,456
Return on plan assets	(1)	(1)
Total	<u>₩(81)</u>	<u>₩1,455</u>

(7) The principal assumptions used in actuarial valuation as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017	December 31, 2016
Discount rate	2.89%	2.59%
Expected Future salary increase rate(*1)	2.96%, 7.16%	3.04%

(*1) Estimated wage growth rate for regular workers was 2.96%. As non-regular workers recognized the defined benefit obligation at the beginning of the period, the expected wage increase rate was 7.16% as an average of the five-year minimum wage increase rate.

(8) A sensitivity analysis on actuarial assumptions as of December 31, 2017, is as follows (in millions of Korean won):

	1% point change	Changes in liabilities	Change rate
Discount rate	(1.00%)	₩32,004	9.34%
	1.00%	(37,650)	(10.99%)
Salary increase rate	(1.00%)	(37,059)	(10.82%)
	1.00%	₩32,079	9.37%

25. PROVISIONS:

(1) Details of provisions as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017			December 31, 2016		
	Current	Non-current	Total	Current	Non-current	Total
Employee benefit provision						
(*1)	₩111,474	₩-	₩111,474	₩-	₩-	₩-
Warranty provision (*2)	-	42,661	42,661	-	41,207	41,207
Provision for litigation	-	263,335	263,335	-	221,082	221,082
Cost provision (*3)	14,459,506	-	14,459,506	12,268,496	-	12,268,496
Sale convertible provision (*4)	23,924	-	23,924	28,847	-	28,847
Total	₩14,594,904	₩305,996	₩14,900,900	₩12,297,343	₩262,289	₩12,559,632

(*1) The Group has estimated performance bonuses based on current business performance and management evaluation standards. These estimates are subject to change.

(*2) The Group recognizes the estimated liability to repair or replace products sold with warranties at the date of the consolidated statements of financial position. The provision is determined based on past experience on warranty claims on the level of repairs and returns.

(*3) Expected future costs to be incurred in relation to revenue arising from construction contracts are recognized as cost variance, when the construction cost is complete, and the estimates could be changed.

(*4) Expected future costs to be incurred in relation to the conversion of public rental housing to housing for sale are recognized as Sale convertible provisions, and the estimates could be changed.

(2) Changes in provisions as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

		2017			
	Beginning	Transfer	Use	Reversal	Ending
Employee benefit provision	₩-	₩111,474	₩-	₩-	₩111,474
Warranty provision	41,207	2,286	(31)	(801)	42,661
Provision for litigation	221,082	260,920	(156,439)	(62,227)	263,336
Cost provision	12,268,496	3,125,877	(923,841)	(11,026)	14,459,506
Sale convertible provision	28,847	258	(2,592)	(2,589)	23,924
Total	₩12,559,632	₩3,500,815	₩(1,082,903)	₩(76,643)	₩14,900,901

		2016			
	Beginning	Transfer	Use	Reversal	Ending
Warranty provision	₩39,738	₩3,025	₩(103)	₩(1,453)	₩41,207
Provision for litigation	203,721	182,130	(58,333)	(106,436)	221,082
Cost provision	10,635,081	3,077,677	(1,436,835)	(7,427)	12,268,496
Sale convertible provision	65,924	702	(10,345)	(27,434)	28,847
Total	₩10,944,464	₩3,263,534	₩(1,505,616)	₩(142,750)	₩12,559,632

26. GOVERNMENTS GRANTS:

(1) The Group recognizes the grant related to an asset as a deduction of the acquisition cost of such asset when it is acquired in accordance with Korean Government-Owned and Quasi-Government Accounting Regulations and Standards.

(2) Details of government grants as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

Description	December 31, 2017	December 31, 2016
Cash and cash equivalents	₩ 35,193	₩6,037
Buildings (property, plant and equipment)	7,054	7,204
Vehicles (property, plant and equipment)	200	251
Buildings (investment property)	163,271	150,009
Construction in progress (investment property)	5,008	18,403
Development costs (intangible asset)	376	369
Intangible assets in development (intangible asset)	100	150
Current portion of long-term borrowings	1,958	1,630
Long-term borrowings	9,182,707	9,300,701
Total	₩9,395,867	₩9,484,754

(3) Changes in government grants for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017						
	Beginning	Receipt	Acquisition	Amortization	Revenue	Others	Ending
Cash and cash equivalents	₩6,036	₩117,713	₩(6,080)	₩-	₩(82,839)	₩363	₩35,193
Buildings (property, plant and equipment)	7,203	-	-	(149)	-	-	7,054
Vehicles (property, plant and equipment)	251	-	-	(51)	-	-	200
Buildings (investment property)	150,009	-	2,975	(5,857)	(256)	16,400	163,271
Construction in progress (investment property)	18,402	-	3,005	-	-	(16,400)	5,008
Development costs (intangible asset)	369	-	-	(143)	-	150	376
Intangible assets in development (intangible asset)	150	-	100	-	-	(150)	100
Current portion of long-term borrowings	1,632	-	-	-	-	327	1,958
Long-term borrowings	9,300,702	-	-	-	-	(117,995)	9,182,707
Total	₩9,484,754	₩117,713	₩-	₩(6,200)	₩(83,095)	₩(117,305)	₩9,395,867

	2016						
	Beginning	Receipt	Acquisition	Amortization	Revenue	Others	Ending
Cash and cash equivalents	₩9,339	₩102,655	₩(19,487)	₩-	₩(83,902)	₩(2,568)	₩6,037
Buildings (property, plant and equipment)	7,478	-	-	(274)	-	-	7,204
Vehicles (property, plant and equipment)	-	-	255	(4)	-	-	251
Buildings (investment property)	155,283	-	529	(5,804)	-	-	150,008
Construction in progress (investment property)	-	-	18,403	-	-	-	18,403
Development costs (intangible asset)	-	-	300	(221)	-	290	369
Intangible assets in development (intangible asset)	440	-	-	-	-	(290)	150
Current portion of long-term borrowings	1,694	-	-	-	-	(64)	1,630
Long-term borrowings	8,008,086	-	-	-	-	1,292,616	9,300,702
Total	₩8,182,320	₩102,655	₩-	₩(6,303)	₩(83,902)	₩1,289,984	₩9,484,754

(4) Details of government grants recognized for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

Description	2017	2016
Sales	₩83,096	₩83,902
Depreciation offset	6,200	6,304
Total	₩89,296	₩90,206

(5) Details of government grants of specified business for the years ended December 31, 2017 and 2016, are as follows (in millions of Korea won):

Department	Business detail	Period	Budget	2017						Carried over to Subsequent Year
				Carried over from Prior Year	Grant, Payment	Interest	Execution	Return	Others	
Ministry of Land Transport and Maritime Affairs	Grant for housing loans	2017.1.1–2017.12.31	₩64,751	₩1,302	₩64,751	₩2,704	₩(59,624)	₩(9,135)	₩2	₩-
Ministry of Land Transport and Maritime Affairs	Residence benefit	2017.1.1–2017.12.31	17,255	-	17,255	-	(17,255)	-	-	-
Ministry of Land Transport and Maritime Affairs	Support for residence benefit (self-improvement additional expense)	2017.1.1–2017.12.31	2,527	-	2,527	1	(2,527)	(1)	-	-
Ministry of Land Transport and Maritime Affairs	Develop overseas infrastructure market	2017.1.1–2017.12.31	1,800	616	1,800	6	(1,579)	(6)	-	837
Ministry of Land Transport and Maritime Affairs	Activate Green remodeling	2017.1.1–2017.12.31	1,096	-	1,096	1	(1,096)	(1)	-	-
Ministry of Land Transport and Maritime Affairs	Install solar light equipment for rent house(*1)	2017.1.1–2017.12.31	1,873	-	1,637	-	(1,637)	-	-	-

(*1) It has self-contribution amount to ₩ 818 million for grant payment and execution

Specified business grant may have some differences because of the differences between closing date (12.31) and settlement date (the end of February of next year).

Department	Business detail	Period	Budget	2016						Carried over to Subsequent Year
				Carried over from Prior Year	Grant, Payment	Interest	Execution	Return	Others	
Ministry of Land Transport and Maritime Affairs	Grant for housing loans	2016.1.1–2016.12.31	₩57,496	₩2,667	₩57,496	₩-	₩(56,770)	₩-	₩(2,091)	₩ 1,302
Ministry of Land Transport and Maritime Affairs	Residence benefit	2016.1.1–2016.12.31	15,521	-	15,521	1	(15,521)	(1)	-	-
Ministry of Land Transport and Maritime Affairs	Support for residence benefit (self-improvement additional expense)	2016.1.1–2016.12.31	2,206	-	2,206	-	(2,206)	-	-	-
Ministry of Land Transport and Maritime Affairs	Develop overseas infrastructure market	2016.1.1–2016.12.31	1,500	218	1,500	2	(1,102)	(2)	-	616
Ministry of Land Transport and Maritime Affairs	Activate Green remodeling	2016.1.1–2016.12.31	955	-	955	1	(955)	(1)	-	-
Ministry of Land Transport and Maritime Affairs	Install solar light equipment for rent house(*1)	2016.1.1–2016.12.31	1,476	-	1,246	-	(1,246)	-	-	-

(*1) It has self-contribution amount of ₩379 million for grant payment and execution

Specified business grant may have some differences because of the differences between closing date (12.31) and settlement date (the end of February of next year).

27. CONSIGNMENT BUSINESS:

As a quasi-government agency specialized in compensation for land, the Group complies with the New Land Expropriation Act and pays to land owners compensation consigned by public project promoters. In accordance with Article 44, section 3 of Korean Government-owned and Quasi-Government Accounting Regulations and Standards, the Group records unappropriated funds from consignment revenue as short-term financial instruments.

(1) Details of unappropriated funds from consignment revenue as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

Description	December 31, 2017	December 31, 2016
Cash and cash equivalents	₩21,085	₩24,896

(2) Changes in unappropriated funds from consignment revenue for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

		2017				
	Counterpart	Beginning	Receipt	Execution(*)	Others	Ending
Cash and cash equivalents	Government	₩24,896	₩27,166	₩(30,977)	₩-	₩21,085

		2016				
	Counterpart	Beginning	Receipt	Execution(*)	Others	Ending
Cash and cash equivalents	Government	₩38,917	₩66,467	₩(80,488)	₩-	₩24,896

(*) Represents assets deducted as the Group carries out the related service. Of the compensation consigned by public project promoters in 2017 and 2016, the compensation that were paid and written off are ₩30,977 million and ₩80,488 million, respectively.

(3) Details of the revenue and expense from consignment business for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017		2016	
	Consignment business revenue	Consignment business expense	Consignment business revenue	Consignment business expense
Consignment of compensation for land	₩1,030	₩119	₩219	₩141

28. CONTRIBUTIONS OF CONSTRUCTION:

Details of contributions of construction for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017	2016
Beginning	₩55,144	₩64,736
Increase	6,351	19,620
Offset	(3,410)	(29,212)
Ending	₩58,085	₩55,144

29. NON-FINANCIAL LIABILITIES:

Details of non-financial liabilities as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Advance receipts	₩19,525	₩37,005	₩25,213	₩38,087
Advances from housing sales	11,884,200	-	11,534,466	-
Advances from construction contracts	-	58,085	-	55,144
Withholdings	987,163	-	793,867	-
Other unearned revenues	393,718	-	349,178	-
Due to customers for construction contracts	110,344	-	195,044	-
Others	454,820	65,648	488,958	119,950
Total	₩13,849,770	₩160,738	₩13,386,726	₩213,181

30. ISSUED CAPITAL:

(1) Details of issued capital as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017			December 31, 2016		
	Government	Non-government	Total	Government	Non-government	Total
Common shares	₩24,917,732	₩4,470,996	₩29,388,728	₩23,566,369	₩4,470,996	₩28,037,365

31. RETAINED EARNINGS (SEPARATE BASIS):

(1) Details of the retained earnings as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017	December 31, 2016
Legal reserve (*)	₩2,979,641	₩2,531,848
Other legal reserve	7,538,460	6,192,495
Unappropriated retained earnings	2,763,005	2,241,552
Total	₩13,281,106	₩10,965,895

(*) According to the Korea Land & Housing Corporation Act, an amount equal to at least 20% of net income is required to be appropriated as a legal reserve, until the reserve equals 50% of issued capital. The legal reserve may not be utilized for cash dividends, but may only be used to offset a deficit, if any, or be transferred to capital.

(2) Details of other legal reserve as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017	December 31, 2016
Reserve for business extension	₩5,184,831	₩4,734,452
Reserve for bank of land	2,353,629	1,458,043
Total	₩7,538,460	₩6,192,495

(3) Changes in retained earnings for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017	2016
Beginning	₩10,965,895	₩8,881,891
Net profit	2,760,708	2,238,966
Dividends	(447,793)	(151,548)
Remeasurements of defined benefit liabilities	2,296	2,585
Amortization of discounts on stock issuance	-	(5,999)
Ending	₩13,281,106	₩10,965,895

32. STATEMENT OF APPROPRIATION OF RETAINED EARNINGS (SEPARATE BASIS):

Statement of appropriation of retained earnings as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017	December 31, 2016
Beginning of the year	₩-	₩-
Net income for the year	2,760,709	2,238,966
Remeasurements of defined benefit liabilities	2,296	2,585
I . Unappropriated retained earnings	2,763,005	2,241,551
II. Transfers	-	-
Earned surplus reserve	552,142	447,793
Reserve for business extension	554,438	450,379
Reserve for bank of land	1,104,283	895,586
Amortization of discounts on stock issuance	-	-
Dividends	552,142	447,793
III. Appropriation	2,763,005	2,241,551
IV. Unappropriated retained earnings to be carried forward to following year	₩-	₩-

33. OTHER COMPONENTS OF EQUITY:

(1) Other components of equity as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
OCI	₩(1,864)	₩(85,581)

(2) Other components of equity, included in OCI, as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unrealized loss from cash flow hedges	₩(16,019)	₩(86,274)
OCI of equity method investees	14,751	617
Exchange losses from foreign operation	<u>(596)</u>	<u>76</u>
Total	<u>₩(1,864)</u>	<u>₩(85,581)</u>

34. REVENUE:

Profit from continuing operations of the Group for the years ended December 31, 2017 and 2016, except other income and expenses, financial income and expenses are as follows (in millions of Korean won):

	<u>2017</u>	<u>2016</u>
Sales of goods:		
Revenue from sales of land	₩17,532,513	₩16,898,815
Revenue from sales of housing units	<u>4,382,019</u>	<u>4,574,273</u>
Subtotal	<u>21,914,532</u>	<u>21,473,088</u>
Rendering of services:		
Revenue from rental real estate	1,300,516	1,194,037
Revenue from government grants	83,095	83,902
Revenue from consignment business	1,030	219
Other revenue	<u>260,240</u>	<u>216,502</u>
Subtotal	<u>1,644,881</u>	<u>1,494,660</u>
Total	<u>₩23,559,413</u>	<u>₩22,967,748</u>

35. EMPLOYMENT EXPENSES (SEPARATE BASIS):

(1) Details of salaries, pension benefits and welfare benefits for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

2017			
	Selling and administrative expenses (maintenance and operation expenses)	Manufacturing costs (direct business costs)	Total
Salaries	₩209,451	₩311,036	₩520,487
Pension benefits	28,290	27,251	55,541
Severance pay	6,293	-	6,293
Welfare benefits	₩35,530	₩32,138	₩67,668

2016			
	Selling and administrative expenses (maintenance and operation expenses)	Manufacturing costs (direct business costs)	Total
Salaries	₩196,364	₩310,027	₩506,391
Pension benefits	17,936	26,933	44,869
Severance pay	6,532	-	6,532
Welfare benefits	₩32,512	₩27,027	₩59,539

Salaries incorporated in inventory amounted to ₩311,036 million and ₩310,207 million, and pension benefits incorporated in inventory amounted to ₩27,251 million and ₩26,933 million for the years ended December 31, 2017 and 2016, respectively.

(2) Details of salaries, pension benefits and welfare benefits not involving cash outflows for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

Type		2017	2016
Salaries	Expenses involving cash outflows	₩502,169	₩496,387
	Expenses not involving cash outflows	18,318	10,004
	Total	<u>₩520,487</u>	<u>₩506,391</u>
Pension benefits	Expenses involving cash outflows	-	-
	Expenses not involving cash outflows	55,541	44,869
	Total	<u>55,541</u>	<u>44,869</u>
Welfare benefits	Expenses involving cash outflows	67,668	59,539
	Expenses not involving cash outflows	-	-
	Total	<u>₩67,668</u>	<u>₩59,539</u>

36. EMPLOYEE WELFARE BENEFITS (SEPARATE BASIS):

Details of employee welfare benefits for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017		2016	
	Selling and administrative expenses	Manufacturing costs	Selling and administrative expenses	Manufacturing costs
Employee benefits (included in salaries):				
Education expenses for dependents	₩715	₩797	₩757	₩911
Others	131	-	30	4
Employee benefits (not included in salaries):				
Medical examinations	871	582	1,635	-
Unemployment insurance	3,723	4,345	3,109	3,754
National Pension Fund	6,903	7,990	5,646	6,568
Expenses for homecoming vehicle	53	-	41	-
Other employee benefits	1	-	-	-
Night shift pay	362	49	340	70
Operating expenses for nursery facilities	1,361	-	1,448	-
Occupational health and safety insurance fee	1,516	1,638	1,653	1,615
Operating expenses for restaurant	2,295	1,297	2,155	1,297
Medical insurance	8,113	9,756	6,738	8,158
Operating expenses for medical facilities	144	54	153	45
Workers' compensation	102	-	827	-
Operating expenses for fitness center	2,470	-	2,398	-
Sports event expenses	294	298	297	284
Childbirth bonus	164	40	203	35
Overtime meal expenses	1,557	1,160	1,368	1,271
Special event expenses	157	1	144	2
Others	4,598	4,131	3,570	3,013
Total	₩35,530	₩32,138	₩32,512	₩27,027

37. SELLING AND ADMINISTRATIVE EXPENSES:

(1) Selling and administrative expenses for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017	2016
Salaries	₩212,738	₩198,966
Retirement benefits	28,502	18,105
Severance benefits	6,293	6,532
Employee welfare benefits	35,836	32,769
Insurance premium	718	831
Depreciation	28,134	28,236
Amortization	15,341	12,982
Bad debt expense (reversal)	29,251	630
Commissions	21,914	18,838
Advertising	19,399	18,333
Training	11,700	10,318
Vehicle maintenance	777	660
Publications	760	861
Business expenses	250	262
Rent	3,473	3,808
Communication	941	902
Freight	35	53
Taxes and dues	77,684	86,912
Supplies	1,417	1,260
Utilities	3,014	2,550
Repairs and maintenance	2,611	2,073
Ordinary development expense	26,099	22,451
Travel expenses	7,099	7,977
Clothing expenses	1,035	900
Investigation and analysis	12,807	9,385
Membership dues	161	135
Sales promotion	34,768	33,545
Sales commissions	15,301	22,170
Expense for reward	472	687
Registration and litigation costs	8,621	9,171
Research expenses	7,776	7,314
Others	4,208	3,415
Total	₩619,135	₩563,031

38. OTHER INCOME AND EXPENSES:

(1) Details of other income for the years ended December 31, 2017 and 2016, are as follows
(in millions of Korean won):

	<u>2017</u>	<u>2016</u>
Reversal of other provisions	₩8,966	₩49,771
Gains on assets contributed	-	104
Compensation for cancellation of contracts	86,747	111,811
Customers' contribution to construction costs	3,410	3,411
Other rental income	2,462	2,538
Other income (present valuation on financial instruments)	503,827	491,124
Other miscellaneous income	131,602	194,533
Total	<u>₩737,014</u>	<u>₩853,292</u>

(2) Details of other expenses for the years ended December 31, 2017 and 2016, are as follows
(in millions of Korean won):

	<u>2017</u>	<u>2016</u>
Transfer of other allowance	₩122,944	₩44,281
Other bad debt expenses	59,989	33,972
Compensation for cancellation of contracts	17,643	46,383
Donations	14,712	9,446
Other expenses (present valuation on financial instruments)	₩175,059	₩166,027
Loss on cancellation of sales	2,057	24,082
Loss on sale of inventories	49,992	-
Loss on renovations	337	52
Loss on settlement of price	69	-
Other miscellaneous loss	<u>73,026</u>	<u>107,814</u>
Total	<u>₩515,828</u>	<u>₩432,057</u>

(3) Details of others for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	<u>2017</u>	<u>2016</u>
Gains on disposal of property, plant and equipment	₩5,783	₩39,335
Losses on disposal of property, plant and equipment	(1,246)	(4)
Other miscellaneous loss	<u>(8,389)</u>	<u>(63,141)</u>
Total	<u>₩(3,852)</u>	<u>₩(23,810)</u>

39. FINANCE INCOME:

(1) Details of finance income for the years ended December 31, 2017 and 2016, are as follows
(in millions of Korean won):

	2017	2016
Interest income	₩223,819	₩265,017
Dividend	3,397	1,425
Gain on valuation of derivatives	-	64,143
Gain from transactions of derivatives	-	990
Gain on foreign currency translation	156	1,009
Gain on foreign currency transactions	38	15,108
Other finance income	1,880	2,213
Total	₩229,290	₩349,905

(2) Details of interest income recognized as finance income for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017	2016
Cash and cash equivalents	₩2,921	₩13,015
Loans and receivables	631	2,006
Short-term financial instruments	65,618	50,194
Other financial instruments	24,500	15,998
Trade and other receivables	130,149	183,804
Total	₩223,819	₩265,017

40. FINANCE COSTS:

(1) Details of finance costs for the years ended December 31, 2017 and 2016, are as follows
(in millions of Korean won):

	<u>2017</u>	<u>2016</u>
Interest expense	₩139,035	₩630,878
Loss on disposal of financial instruments	3	1
Loss on valuation of derivatives	-	970
Loss from transactions of derivatives	-	15,592
Loss on foreign currency translation	171	61,352
Loss on foreign currency transaction	106	995
Other finance costs	<u>330,648</u>	<u>327,309</u>
Total	<u>₩469,963</u>	<u>₩1,037,097</u>

(2) Details of interest expense recognized as finance costs for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	<u>2017</u>	<u>2016</u>
Short-term borrowings	₩28,845	₩33,862
Long-term borrowings	912,582	993,667
Bonds payable	1,868,587	2,198,598
Other financial liabilities	<u>4,478</u>	<u>7,228</u>
Subtotal	<u>2,814,492</u>	<u>3,233,355</u>
Less: Capitalized borrowing costs	(2,067,647)	(2,053,841)
Less: Transferred to other costs	<u>(607,810)</u>	<u>(548,636)</u>
Total	<u>₩139,035</u>	<u>₩630,878</u>

41. INCOME TAXES:

(1) The major components of the income tax expense for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	<u>2017</u>	<u>2016</u>
Current income tax	₩992,519	₩1,137,946
Adjustments from prior years	(138,626)	-
Items charged directly to equity	(26,029)	(37)
Deferred income tax by temporary differences	<u>(614,890)</u>	<u>(488,555)</u>
Income tax expense	<u>₩212,974</u>	<u>₩649,354</u>

(2) Reconciliations of income tax expense and accounting income before income tax expense for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	<u>2017</u>	<u>2016</u>
Income before income tax expense	₩3,001,886	₩2,886,372
Tax charge at the tax rate	725,994	698,040
Adjustments:		
Non-deductible income	(225,081)	(18,377)
Non-deductible expenses	351	19,067
Others	<u>(149,664)</u>	<u>(49,378)</u>
Subtotal	<u>351,600</u>	<u>649,354</u>
Adjustments from prior years	<u>(138,626)</u>	<u>-</u>
Income tax expense	<u>₩212,974</u>	<u>₩649,354</u>
Effective tax rate	<u>7.09%</u>	<u>22.50%</u>

(3) Details of income taxes recognized in OCI for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017	2016
Net gain on cash flow hedges	₩(21,468)	₩253
Remeasurements of defined benefit liabilities	(49)	(395)
Equity adjustments under equity method	(4,512)	105
Total	<u>₩(26,029)</u>	<u>₩(37)</u>

(4) Changes in deferred tax assets and liabilities for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017			
	Beginning	Income tax expenses	OCI	Ending
Deferred income taxes on temporary differences:				
Cash flow hedges	₩27,544	₩-	₩(21,468)	₩6,076
Investments in associates	23,600	(4,731)	(4,512)	14,357
Property, plant and equipment	753,425	(601,539)	-	151,886
Deferred revenue	(24,720)	(11,307)	-	(36,027)
Provisions	157,270	72,071	(49)	229,292
Other financial liabilities	26,049	(19,335)	-	6,714
Non-financial liabilities	2,276,566	782,070	-	3,058,636
Inventories	(2,279,717)	615,066	-	(1,664,651)
Investment properties	(1,366,576)	(208,520)	-	(1,575,096)
Others	35,636	17,144	-	52,780
Total	<u>₩(370,923)</u>	<u>₩640,919</u>	<u>₩(26,029)</u>	<u>₩243,967</u>

	2016			
	Beginning	Income tax expenses	OCI	Ending
Deferred income taxes on temporary differences:				
Cash flow hedges	₩27,291	₩-	₩253	₩27,544
Investments in associates	28,577	(5,082)	105	23,600
Property, plant and equipment	133,646	619,779	-	753,425
Deferred revenue	(21,505)	(3,215)	-	(24,720)
Provisions	150,467	7,199	(395)	157,271
Other financial liabilities	23,929	2,120	-	26,049
Non-financial liabilities	1,952,379	324,187	-	2,276,566
Inventories	(1,796,618)	(483,099)	-	(2,279,717)
Investment properties	(1,385,579)	19,002	-	(1,366,577)
Others	27,936	7,700	-	35,636
Total	₩(859,477)	₩488,591	₩(37)	₩(370,923)

(5) Details of deferred income tax asset and liabilities as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	December 31, 2017	December 31, 2016
Deferred income tax assets	₩3,519,741	₩3,300,091
Deferred income tax liabilities	<u>(3,275,774)</u>	<u>(3,671,014)</u>
Total	<u>₩243,967</u>	<u>₩(370,923)</u>

42. ASSETS CLASSIFIED AS HELD-FOR-SALE:

Details of assets classified as held-for-sale as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Land (*1)	₩75,993	₩76,622
Buildings (*1)	<u>120,780</u>	<u>150,766</u>
Total	<u>₩196,773</u>	<u>₩227,388</u>

(*1) The Group has a plan to dispose of its regional headquarters (including land, buildings and rental housing) and is actively engaged in locating a potential purchaser.

43. CLASSIFICATION BASED ON THE NATURE OF EXPENSE:

Details of classification based on the nature of expense for cost of sales and selling and administrative expenses for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017			
	Changes in inventories	Selling and administrative expenses	Cost of sales	Total
Changes in finished goods and work in process	₩939,488	₩-	₩-	₩939,488
Use of raw materials and supplies	16,169,798	-	996	16,170,794
Salaries	-	212,739	391,791	604,530
Retirement benefits	-	28,502	33,677	62,179
Severance benefits	-	6,293	456	6,749
Employee welfare benefits	-	35,836	44,271	80,107
Insurance premium	-	718	16,260	16,978
Depreciation	-	28,134	933,364	961,498
Amortization	-	15,341	24	15,365
Bad debts expense	-	29,251	-	29,251
Commissions	-	21,914	101,651	123,565
Advertising	-	19,399	3,507	22,906
Training	-	11,700	173	11,873
Vehicle maintenance	-	777	1,423	2,200
Publications	-	760	2,350	3,110
Business expenses	-	250	203	453
Rent	-	3,473	23,555	27,028
Communication	-	941	3,596	4,537
Freighting	-	35	59	94
Taxes and dues	-	77,684	62,598	140,282
Supplies	-	1,417	2,480	3,897
Utilities	-	3,014	45,719	48,733
Repairs and maintenance	-	2,611	430,356	432,967
Ordinary development expense	-	26,099	433	26,532
Travel expenses	-	7,099	18,805	25,904
Clothing expenses	-	1,035	1,116	2,151
Investigation and analysis	-	12,807	6,641	19,448
Membership dues	-	161	11	172
Sales promotion	-	34,768	-	34,768
Sales commissions	-	15,301	-	15,301
Interest expenses	-	-	607,810	607,810
Others	-	21,077	96,237	117,314
Total	₩17,109,286	₩619,136	₩2,829,563	₩20,557,985

	2016			
	Changes in inventories	Selling and administrative expenses	Cost of sales	Total
Changes in finished goods and work in process	₩(1,408,343)	₩-	₩-	₩(1,408,343)
Use of raw materials and supplies	18,122,204	-	735	18,122,939
Salaries	-	198,966	385,528	584,494
Retirement benefits	-	18,105	32,904	51,009
Severance benefits	-	6,532	-	6,532
Employee welfare benefits	-	32,769	38,180	70,949
Insurance premium	-	831	4,293	5,124
Depreciation	-	28,236	856,902	885,138
Amortization	-	12,982	19	13,001
Bad debts expense	-	630	-	630
Commissions	-	18,837	78,727	97,564
Advertising	-	18,333	2,082	20,415
Training	-	10,318	178	10,496
Vehicle maintenance	-	660	1,452	2,112
Publications	-	861	1,921	2,782
Business expenses	-	262	147	409
Rent	-	3,808	22,313	26,121
Communication	-	902	3,804	4,706
Freighting	-	53	5	58
Taxes and dues	-	86,911	49,358	136,269
Supplies	-	1,260	2,384	3,644
Utilities	-	2,552	36,818	39,370
Repairs and maintenance	-	2,074	327,317	329,391
Ordinary development expense	-	22,451	285	22,736
Travel expenses	-	7,977	15,525	23,502
Clothing expenses	-	900	806	1,706
Investigation and analysis	-	9,385	4,312	13,697
Membership dues	-	135	10	145
Sales promotion	-	33,544	-	33,544
Sales commissions	-	22,170	-	22,170
Interest expenses	-	-	548,636	548,636
Others	-	20,587	100,519	121,106
Total	₩16,713,861	₩563,031	₩2,515,160	₩19,792,052

44. FINANCIAL INSTRUMENTS:

- (1) The Group uses the following hierarchy for determining and disclosing the fair value of consolidated financial statements by valuation technique:

Level 1:	Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2:	Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3:	Techniques that use inputs and have a significant effect on the recorded fair value that are not based on observable market data

- (2) Details of the financial instruments carried at fair value as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

December 31, 2017				
	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative assets	₩-	₩34,421	₩-	₩34,421
Total	₩-	₩34,421	₩-	₩34,421
Financial liabilities:				
Derivative liabilities	₩-	₩165,481	₩-	₩165,481
Total	₩-	₩165,481	₩-	₩165,481
December 31, 2016				
	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative assets	₩-	₩125,499	₩-	₩125,499
Total	₩-	₩125,499	₩-	₩125,499
Financial liabilities:				
Derivative liabilities	₩-	₩128,886	₩-	₩128,886
Total	₩-	₩128,886	₩-	₩128,886

(3) Details of financial assets by category as of December 31, 2017 and 2016, are as follows
(in millions of Korean won):

	December 31, 2017					Total
	Fair value of financial assets	Loans and receivables	AFS financial instruments	HTM financial instruments	Derivatives designated as hedge	
Current:						
Cash and cash equivalents	₩-	₩2,663,652	₩-	₩-	₩-	₩2,663,652
Financial assets at FVTPL	2,785,959	-	-	-	-	2,785,959
HTM assets	-	-	-	4	-	4
Short-term loans	-	26	-	-	-	26
Long-term financial instruments	-	2,062,080	-	-	-	2,062,080
Derivative assets	-	-	-	-	1,213	1,213
Trade and other receivables	-	2,856,456	-	-	-	2,856,456
Subtotal	2,785,959	7,582,214	-	4	1,213	10,369,390
Non-current:						
AFS assets	-	-	57,116	-	-	57,116
HTM assets	-	-	-	33	-	33
Long-term loans	-	310,810	-	-	-	310,810
Long-term financial instruments	-	36,874	-	-	-	36,874
Derivative assets	-	-	-	-	33,208	33,208
Other financial assets	-	5,639	-	-	-	5,639
Trade and other receivables	-	1,134,147	-	-	-	1,134,147
Subtotal	-	1,487,470	57,116	33	33,208	1,577,827
Total	₩2,785,959	₩9,069,684	₩57,116	₩37	₩34,421	₩11,947,217

December 31, 2016						
	Fair value of financial assets	Loans and receivables	AFS financial instruments	HTM financial instruments	Derivatives designated as hedge	Total
Current:						
Cash and cash equivalents	₩-	₩1,497,162	₩-	₩-	₩-	₩1,497,162
Financial assets at FVTPL	712,210	-	-	-	-	712,210
HTM assets	-	-	-	22	-	22
Short-term loans	-	83	-	-	-	83
Short-term financial instruments	-	2,224,208	-	-	-	2,224,208
Derivative assets	-	-	-	-	83,628	83,628
Trade and other receivables	-	2,601,182	-	-	-	2,601,182
Subtotal	712,210	6,322,635	-	22	83,628	7,118,495
Non-current:						
AFS assets	-	-	47,504	-	-	47,504
HTM assets	-	-	-	20	-	20
Long-term loans	-	413,629	-	-	-	413,629
Long-term financial instruments	-	881	-	-	-	881
Derivative assets	-	-	-	-	41,871	41,871
Other financial assets	-	33,686	-	-	-	33,686
Trade and other receivables	-	1,281,257	-	-	-	1,281,257
Subtotal	-	1,729,453	47,504	20	41,871	1,818,848
Total	₩712,210	₩8,052,088	₩47,504	₩42	₩125,499	₩8,937,343

(4) Details of financial liabilities by category as of December 31, 2017 and 2016, are as follows
(in millions of Korean won):

	December 31, 2017		
	Financial liabilities measured by amortized cost	Derivatives designated as hedge	Total
Current:			
Trade and other payables	₩10,692,364	₩-	₩10,692,364
Short-term borrowings	1,100,000	-	1,100,000
Long-term borrowings	819,317	-	819,317
Bonds	11,159,491	-	11,159,491
Derivative liabilities	-	27,717	27,717
Subtotal	23,771,172	27,717	23,798,889
Non-current:			
Trade and other payables	13,571,942	-	13,571,942
Long-term borrowings	31,742,205	-	31,742,205
Bonds	31,740,041	-	31,740,041
Derivative liabilities	-	137,764	137,764
Subtotal	77,054,188	137,764	77,191,952
Total	₩100,825,360	₩165,481	₩100,990,841
	December 31, 2016		
	Financial liabilities measured by amortized cost	Derivatives designated as hedge	Total
Current:			
Trade and other payables	₩10,903,367	₩-	₩10,903,367
Short-term borrowings	1,600,000	-	1,600,000
Long-term borrowings	1,235,647	-	1,235,647
Bonds	11,757,670	-	11,757,670
Derivative liabilities	-	38,975	38,975
Subtotal	25,496,684	38,975	25,535,659
Non-current:			
Trade and other payables	11,625,303	-	11,625,303
Long-term borrowings	31,172,539	-	31,172,539
Bonds	37,544,010	-	37,544,010
Derivative liabilities	-	89,912	89,912
Subtotal	80,341,852	89,912	80,431,764
Total	₩105,838,536	₩128,886	₩105,967,423

(5) Net gains and losses by financial instruments for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017	2016
Cash and cash equivalents:		
Interest income	₩68,539	₩63,209
Gain (loss) on foreign currency transactions	(68)	(4)
Gain (loss) on foreign currency translation	(15)	(1)
Loans and receivables:		
Interest income	155,280	201,808
Gain (loss) on disposal	-	-
Gain (loss) on valuation	(60,170)	(34,604)
Other financial income	1,880	2,213
AFS financial instruments:		
Dividends	3,397	1,425
Gain (loss) on disposal	(3)	-
HTM financial instruments:		
Interest income	-	-
Derivative instruments for hedging activities:		
Gain (loss) on transaction of derivatives	-	(14,602)
Gain (loss) on translation of derivatives	-	63,173
Changes in OCI	70,255	(792)
Financial liabilities measured at amortized cost:		
Interest expense	(2,814,492)	(3,233,355)
Gain (loss) on foreign currency transactions	-	14,117
Gain (loss) on foreign currency translation	-	(60,341)
Capitalization of qualifying assets	2,067,647	2,053,841
Other cost of sales	607,810	548,636
Other financial costs	(330,648)	(327,310)
Total	<u>₩(230,588)</u>	<u>₩(722,587)</u>

45. RISK MANAGEMENT:

(1) Policy of risk management

The Group manages various risks that can occur in each business area. Main subjects are credit risk, market risk, interest risk and liquidity risk. These risks are recognized, measured, controlled and reported under the basic policy of risk management set by the Group.

(2) Capital risk management

The Group performs capital risk management to maintain the ability to continuously provide profits to shareholders and interested parties and to maintain optimum capital structure to reduce capital expenses.

In order to maintain such optimum structure, the Group may adjust dividend payments, redeem paid-up capital to shareholders, issue stocks to reduce liability or sell assets, etc.

The Group manages its capital structure by debt-equity ratio, which related companies in the industry uses. The Group's debt-equity ratio is calculated by dividing net liability, which is total liabilities less cash and cash equivalents, by equity. The equity is calculated by total equity plus net liabilities (in millions of Korean won).

	December 31, 2017	December 31, 2016
Total borrowings (A)	₩76,337,594	₩83,123,406
Deduction: Cash and cash equivalents (B)	2,663,652	1,497,162
Net liabilities (A-B=C)	73,673,942	81,626,244
Total equity (D)	42,750,557	38,974,891
Total net liabilities and equity (C+D=E)	₩116,424,499	₩120,601,135
Capital finance ratio (C/E)	63.30%	67.70%

(3) Liquidity risk

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

Details of the maturity profiles of the Group's financial liabilities as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

December 31, 2017						
	Book value	Less than 6 months	6—12 months	1—2 years	2—5 years	More than 5 years
Trade and other payables	₩24,264,306	₩-	₩10,692,365	₩13,571,941	₩-	₩-
Borrowings and bond payables	76,337,594	5,040,044	7,775,768	8,158,785	7,894,647	47,468,350
Total	<u>₩100,601,900</u>	<u>₩5,040,044</u>	<u>₩18,468,133</u>	<u>₩21,730,726</u>	<u>₩7,894,647</u>	<u>₩47,468,350</u>

December 31, 2016						
	Book value	Less than 6 months	6—12 months	1—2 years	2—5 years	More than 5 years
Trade and other payables	₩22,528,670	₩-	₩10,903,367	₩11,625,302	₩-	₩-
Borrowings and bond payables	83,123,405	7,182,699	7,210,760	7,614,719	13,722,342	47,392,886
Total	<u>₩105,652,075</u>	<u>₩7,182,699</u>	<u>₩18,114,127</u>	<u>₩19,240,021</u>	<u>₩13,722,342</u>	<u>₩47,392,886</u>

(4) Market risk

1) Foreign exchange risk

The Group manages the exchange rate risk through currency countermeasures and derivatives, such as forwards, under the exchange risk management regulation. The management of the Group has established policies for managing the foreign exchange risk about the functional currency. The Group has exposure to the exchange rate risk when the future forecast transition and recognized assets and liabilities are accounted in the currency other than the functional currency.

As of December 31, 2017 and 2016, financial assets and liabilities exposed to foreign exchange risk are as follows (in millions of Korean won):

	December 31, 2017	December 31, 2016
Financial assets in foreign currency	₩566	₩254
Financial liabilities in foreign currency	1,696,106	1,871,696

As of December 31, 2017 and 2016, should exchange rates fluctuate by 10% with all other variables held constant, the effects on profit or loss before income tax are as follows (in millions of Korean won):

	December 31, 2017		December 31, 2016	
	Increase by 10%	Decrease by 10%	Increase by 10%	Decrease by 10%
Financial assets in foreign currency	₩57	₩(57)	₩25	₩(25)
Financial liabilities in foreign currency(*)	-	-	-	-
Net effect on profit or loss before income tax	₩57	₩(57)	₩25	₩(25)

(*) As of December 31, 2017, the Group enters into currency derivatives contract to avoid the risk of volatility in foreign exchange rates on its foreign currency financial liabilities.

2) Interest rate risk

Interest rate risk is the risk that the interest incomes and expenses from deposits or borrowings vary because of changes in future market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's deposits and borrowings with floating interest rates. The Group aims to minimize the unpredictability and the variation of the profit or loss caused by interest risk fluctuation. To mitigate interest rate risk, the Group manages interest rate risk proactively by improving the periodic debt structure, keeping the optimal debt ratio and preparing the countermeasures through monitoring the interest trends in domestic and international markets.

As of December 31, 2017 and 2016, there are no financial assets exposed to floating interest rate risk. Financial liabilities exposed to interest rate risk are as follows (in millions of Korean won):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Financial liabilities	₩100,000	₩50,000

As of December 31, 2017 and 2016, under the assumption above, should interest rates of financial liabilities with variable interest rates fluctuate by 100 bp, with all other variables held constant, the effects on profit or loss before income tax are as follows (in millions of Korean won):

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Increase by 100 bp</u>	<u>Decrease by 100 bp</u>	<u>Increase by 100 bp</u>	<u>Decrease by 100 bp</u>
Net effect on profit or loss before income tax	₩(1,000)	₩1,000	₩(500)	₩500

3) Equity price risk

The Group's equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The equity instruments are held for strategic purposes and not for selling or trading purposes. The Group does not deal or trade its equity instruments frequently.

46. RELATED PARTY TRANSACTIONS:

(1) The Group's major related parties as of December 31, 2017, are as follows:

Relationship	Related party
Ultimate parent entity	Government of the Republic of Korea
Associates	Smart City Co., Ltd., etc.

(2) Significant transactions with related parties for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

Related party	Revenue and others		Purchase and others	
	2017	2016	2017	2016
Associates:				
Korea Construction Management Corporation	₩-	₩-	₩3,727	₩2,265
NHF No. 8 Third-Party Managed REIT for Development of Public Rental Housing	-	314,547	-	-
NHF No. 9 Third-Party Managed REIT for Development of Public Rental Housing	-	136,173	-	-
NHF No. 10 Third-Party Managed REIT for Development of Public Rental Housing	-	390,262	-	-
NHF No. 11 Third-Party Managed REIT for Development of Public Rental Housing	219,086	-	-	-
NHF No. 12 Third-Party Managed REIT for Development of Public Rental Housing	233,761	-	-	-
NHF No. 13 Third-Party Managed REIT for Development of Public Rental Housing	225,883	-	-	-
NHF No. 14 Third-Party Managed REIT for Development of Public Rental Housing	134,705	-	-	-
Passive House Circulation Housing REIT Co., Ltd	43,320	-	-	-
Total	₩856,755	₩840,982	₩3,727	₩2,265

(3) Outstanding receivables and payables with related parties as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

Related party	Receivables		Payables	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Associates:				
Alpha Dome City Co., Ltd.	₩-	₩265,234	₩307,168	₩552,655
Junwave Co., Ltd.	-	82,115	-	-
Land Assistance Reit No.1 Third-Party Managed REIT	-	-	478,040	-
Total	₩-	₩347,349	₩785,208	₩552,655

(4) Loans from related parties as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

	Related party	December 31, 2017	December 31, 2016
National housing fund	Ministry of Land Transport and Maritime Affairs	₩29,624,857	₩28,724,095
Industrial facilities loan	Korea Development Bank	-	100,000
	Total	₩29,624,857	₩28,824,095

(5) Compensations for key management personnel for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017	2016
Short-term employee benefits	₩917	₩906
Retirement benefits	67	79
Total	₩984	₩985

47. NON-CASH TRANSACTIONS:

(1) Details of significant transactions not involving cash flows for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

	2017	2016
Transfer of current portion of long-term borrowings	₩819,317	₩1,235,647
Transfer of current portion of bonds payable	11,159,490	11,757,670
Reclassification of investment properties to inventories and others	170,452	469,662
Offsetting of long-term borrowing to loans	₩172,812	₩714,212

(2) Changes in liabilities arising from financial activities of the current and previous years are as follows (in millions of Korean won):

2017					
	December 31, 2017	Cash flow	Exchange rate change	Others	December 31, 2017
Borrowings	₩34,008,186	₩(174,782)	₩-	₩(171,881)	₩33,661,523
Bonds	49,301,681	(6,289,074)	(150,440)	37,365	42,899,532
Total	<u>₩83,309,867</u>	<u>₩(6,463,857)</u>	<u>₩(150,440)</u>	<u>₩(134,516)</u>	<u>₩76,561,054</u>

2016					
	December 31, 2016	Cash flow	Exchange rate change	Others	December 31, 2016
Borrowings	₩35,251,972	₩(528,323)	₩-	₩(715,463)	₩34,008,186
Bonds	54,758,900	(5,523,315)	60,341	5,754	49,301,680
Total	<u>₩90,010,872</u>	<u>₩(6,051,638)</u>	<u>₩60,341</u>	<u>₩(709,709)</u>	<u>₩83,309,866</u>

48. TRANSACTION WITH GOVERNMENT AND PUBLIC INSTITUTIONS:

(1) Details of transactions with government and other public institutions for the years ended December 31, 2017 and 2016, are as follows (in millions of Korean won):

		Revenue	
	Business	2017	2016
Government department	Revenue from sales of goods:	₩1,052,719	₩390,293
Local government	Revenue from sales of goods:	328,141	103,091
Public corporations	Revenue from sales of goods:	99,712	106,270
Quasi-governmental institutions	Revenue from sales of goods:	174,726	228,892
Non-classified public institutions	Revenue from sales of goods:	68,513	113,945
Government department	Revenue from government grants	83,095	83,902
Government department	Revenue from consignment business	1,030	219
Total		<u>₩1,807,936</u>	<u>₩1,026,612</u>

(2) Details of receivables and payables with related parties as of December 31, 2017 and 2016, are as follows (in millions of Korean won):

		Receivables		Payables	
Business		December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Government department	Trade and other receivables	₩12,785	₩11,118	₩-	₩-
	Government grants	-	-	35,194	6,037
Local government	Trade and other receivables	31,567	8,174	-	-
	Current non-financial assets	18,787	19,482	-	-
	Current trade payables	-	-	3,796	5,772
	Consignment	-	-	21,085	24,896
Public corporations	Trade and other receivables	602	344	-	-
	Current non-financial assets	80,056	76,547	-	-
	Current trade payables	-	-	1,500	4,506
Quasi- governmental institutions	Trade and other receivables	-	1,021	-	-
	Current non-financial assets	-	-	-	-
	Current trade payables	-	-	367	367
Non-classified public institutions	Trade and other receivables	-	-	-	-
	Current non-financial assets	417	417	-	-
	Current trade payables	-	-	1,156	105
Total		<u>₩144,214</u>	<u>₩117,103</u>	<u>₩63,098</u>	<u>₩41,683</u>

49. COMMITMENTS AND CONTINGENCIES:

- (1) The Group has entered into an agreement to guarantee the purchase of unsold apartments that Third-Party Managed REIT for Development of Public Rental Housing will own upon the completion of construction and subsequent lease and sale in accordance with Housing Act and related laws. However, the final effects from this agreement cannot be estimated as of December 31, 2017.
- (2) The Group has entered into an agreement to guarantee the discounted purchase of unsold apartments that a house development and real estate investment trusts company will own upon the completion of construction and subsequent sale in accordance with Housing Act and related laws. However, the final effects from this agreement cannot be estimated as of December 31, 2017.
- (3) The Group has entered into an agreement with the provincial government of Gyeonggi-do and Seongnam City municipal government on the Pangyo-district joint implementation project. According to the agreement, the excess returns are agreed to be reinvested if the actual return on investment (ROI) earned by the Company exceeds the reasonable ROI of comparable entities. Accordingly, the Company records the estimated excess returns as cost of sales and other current liabilities as of December 31, 2017.
- (4) The Group has entered into an agreement to guarantee the discounted purchase of unsold apartments that Cheonan Mid-Hill Town Real Estate Investment Trust, established for Cheonan Urban Renewal Project, will own upon the completion of construction and subsequent sale in accordance with Housing Act and related laws. However, the final effects from this agreement cannot be estimated as of December 31, 2017.
- (5) The Group has entered into an agreement to guarantee the purchase of unsold apartments that Third-Party Managed REIT for Hope Public Rental Housing (including No. 2) will own upon the completion of construction and subsequent sale in accordance with Housing Act and related laws. However, the final effects from this agreement cannot be estimated as of December 31, 2017.
- (6) The Group has entered into an agreement to guarantee the purchase of unsold apartments that Passive House Third-Party Managed REIT for Public Rental Housing will own upon the completion of construction and subsequent lease and sale in accordance with special Act on Housing and related laws. However, the final effects from this agreement cannot be estimated as of December 31, 2017.
- (7) As of December 31, 2017, the Group is involved in a total of 771 pending litigations with total claims against the Group amounting to ₩1,075,446 million. Accordingly, the Group provides a contingent reserve for the outflow of economic resources as a result of legal

settlements. The management of the Group utilizes reasonable methods in approximating the provision for such reserve.

(8) The Group has entered into agreements for returning cancellation agreements with financial institutions until the amount to be refunded to the buyer when canceling the contract-related intermediate payment in accordance with the real estate sale contract.

(9) Details of agreements with institutions-related loan agreement, performance guarantee, etc., as of December 31, 2017, are as follows (in millions of Korean won):

Agreement	financial institutions	Limit	Loan Execution	Remarks
	Woori Bank	₩450,000	₩-	Checking loan
	KB Bank	100,000	-	Checking loan
	KEB Hana Bank	150,000	-	Checking loan
	KEB Hana Bank	200,000	-	Bill discount
	KEB Hana Bank	150,000	-	Bill discount
	KEB Hana Bank	150,000	-	Bill discount
Loan arrangement	KEB Hana Bank	100,000	-	Bill discount
	Hana Finance investment	100,000	-	Bill discount
	KEB Hana Bank	200,000	-	Bill discount
	KEB Hana Bank	200,000	-	Bill discount
Guarantee	Seoul Guarantee Insurance	259,400	259,400	License and deposit
Guarantee	KB Bank	4,169	4,169	Kuwait new town service
Advance payment guarantee	KB Bank	4,169	4,169	Kuwait new town service
Total		₩2,067,738	₩2,067,738	

(8) Details of debt guarantees and guarantees provided by the Group for others are as follows
(in millions of Korean won):

Guarantee provider	warrantee	Institution	Date of commitment	Period	2017	2016	Remarks
Hannuri	Hannuri Energy	Hyundai Asan	2008.09.11	2009.06.22–2028.09.11	600,000,000	600,000,000	Joint guarantees for the return of the deposit about gas station operation outsourcing
Hannuri	Hannuri Energy	E1	2008.07.25	2010.05.20–2028.07.25	70,000,000	70,000,000	Joint guarantees for the return of the deposit about gas station filling operation outsourcing
Guarantee provider	warrantee	Start Date	Amount of collateral	Book Value	Remarks		
Hannuri	Korea Exim Bank	2016.03.30	9,100,000,000	7,071,872,298	Upon Hannuri receipt of insurance (₩7,000 million), setting collateral to the asset of Hannuri Hotel's right to use land and building		
Hannuri	Korea Exim Bank	2016.07.29	371,268,070	8,668,422,383	Upon Hannuri receipt of government grants (₩285 million), setting collateral to the asset of Hannuri Hotel & Hannuri Energy's right to use land and building		