

SGC Energy Co., Ltd. and its subsidiaries

Consolidated financial statements

For the two-month period ended December 31, 2020

with the independent auditor's report

Table of contents

Independent auditor's report	
Financial statements	Page
Consolidated statement of financial position	1
Consolidated statement of comprehensive income	3
Consolidated statement of changes in equity	4
Consolidated statement of cash flows	5
Notes to the consolidated financial statements	6

Independent auditor's report

The Shareholders and Board of Directors SGC Energy Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of SGC Energy Co., Ltd. (the "Company") and its subsidiaries (together with the Company, collectively referred to as the "Group"), which comprise the consolidated statement of financial position as of December 31, 2020 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for two-month period then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020, and its consolidated financial performance and its consolidated cash flows for two-month period then ended in accordance with Korean International Financial Reporting Standards ("KIFRS").

Basis for opinion

We conducted our audit in accordance with Korean Auditing Standards ("KGAAS"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Accounting treatment of business combinations

As described in Note 40 to the consolidated financial statements, as of October 31, 2020, the spin-off & merger date, the Group has completed accounting for the business combinations constituting the Company as an acquirer and the newly established corporation through a spin-off from eTec E&C Co., Ltd. and Gunjang Energy Co., Ltd., the subsidiary of the newly established corporation, as acquirees. By taking into account the relative voting rights of the combined company after the merger and the composition of the combined company's decision-making body, based on the accounting treatment for the business combination, the legal acquiree, the newly established corporation, was deemed to be the acquirer for accounting purposes. As business combination transactions are unusual, the impact on the consolidated financial statements is significant and the

accounting treatment is considered complex as it requires management's judgment and estimates such as identification of intangible assets, and others. As a result, accounting treatment of business combinations was determined to be a key audit matter.

The main audit procedures we conducted in this regard are as follows:

- Obtained an understanding of business combination transactions and assessed the Company's business combination accounting policy
- Evaluated whether the principal accounting policy of the acquiree is consistent with the accounting policy of the Company
- Evaluated the competency and objectivity of the Company's expert (external valuation agency)
- Utilized auditor's internal valuation experts to assess the appropriateness of the valuation method and assumptions used by the Company's expert.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with KIFRS, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with KGAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with KGAAS we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or

conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Tae Gon Lee.



March 18, 2021

This audit report is effective as of March 18, 2021, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

SGC Energy Co., Ltd. and its subsidiaries

Consolidated financial statements
for the two-month period ended December 31, 2020

“The accompanying consolidated financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of the Group.”

Bok Young Lee, Chan Kyu Ahn and Jun Young Park
Chief Executive Officer
SGC Energy Co., Ltd.

SGC Energy Co., Ltd. and its subsidiaries
Consolidated Statement of Financial Position
December 31, 2020

(Korean won)

	Notes	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	37	₩ 174,682,440,219
Short-term financial instruments	5	18,110,844,741
Trade and other receivables	6	337,896,718,968
Financial assets at fair value through profit or loss	5	1,693,615,000
Unbilled amount related to construction	6	39,301,946,191
Inventories	7	150,532,956,985
Other current financial assets	5, 6, 8	29,859,088,172
Other current assets	9	28,491,436,108
		780,569,046,384
Non-current assets		
Long-term financial instruments	5	1,338,195,400
Long-term trade and other receivables	6	570,202,841
Long-term financial assets at fair value through profit or loss	5	18,783,218,586
Deferred tax assets	32	4,392,071,585
Financial assets at fair value through other comprehensive income	5	8,105,830,337
Investments in associates	10	-
Property, plant and equipment	11	1,451,249,243,971
Investment properties	12	99,833,492,244
Intangible assets	13	8,320,561,901
Right-of-use assets	15	78,960,883,511
Other non-current financial assets	5, 6, 8	15,107,800,601
Other non-current assets	9	695,590,866
Non-current assets held-for-sale	14	197,744,349,827
		1,885,101,441,670
Total assets		₩ 2,665,670,488,054
Liabilities		
Current liabilities		
Trade and other payables	16	₩ 332,906,805,436
Overbilled amount related to construction		117,355,908,914
Short-term borrowings and bonds	17	809,359,874,662
Other current financial liabilities	21	4,235,211,914
Derivative liabilities	18	59,494,363
Provisions	20	9,733,397,764
Lease liabilities	15	5,493,712,954
Other current liabilities	22	98,462,995,023
Income tax payables		8,010,834,326
		1,385,618,235,356
Non-current liabilities		
Long-term borrowings and bonds	17	489,486,937,631
Net employee defined benefit liabilities	19	648,746,397
Provisions	20	28,032,071,768
Lease liabilities	15	77,358,693,434
Other financial liabilities	21	1,297,175,171
Other non-current liabilities	22	15,151,310,092
		611,974,934,493
Total liabilities		₩ 1,997,593,169,849

SGC Energy Co., Ltd. and its subsidiaries
Consolidated Statement of Financial Position, (cont'd)
December 31, 2020

	<u>Notes</u>	<u>Amount</u>
Shareholders' equity		
Issued capital	23	73,385,020,000
Capital surplus	25	426,461,387,778
Other components of equity	25	(20,401,732,398)
Accumulated other comprehensive income	25	264,568,470
Retained earnings	24	87,237,134,981
Equity attributable to equity holders of the parent		566,946,378,831
Non-controlling interests		101,130,939,374
Total shareholders' equity		<u>₩ 668,077,318,205</u>
Total liabilities and shareholders' equity		<u>₩ 2,665,670,488,054</u>

See accompanying notes to the consolidated financial statements.

SGC Energy Co., Ltd. and its subsidiaries
Consolidated Statement of Comprehensive Income
For the two-month period ended December 31, 2020

(Korean won)

	Notes	December 31, 2020
Revenue	26	₩ 106,548,366,582
Cost of sales	31	93,008,512,997
Gross profit		13,539,853,585
Selling, general and administrative expenses:	27,31	6,522,624,278
Operating profit		7,017,229,307
Finance income	30	767,575,115
Finance costs	30	5,518,591,317
Other income	28	30,369,219,026
Other expenses	29	19,827,293,493
Gains from investments in associates		35,806,485,145
Losses from investments in associates		20,569,886,997
Income before income taxes		28,044,736,786
Income tax expenses	32	1,830,804,363
Net profit for the period		₩ 26,213,932,423
Other comprehensive income		
Other comprehensive income that will be not reclassified to profit or loss in subsequent periods		
Remeasurement gain on defined benefit plans (net of tax)		594,379,285
		594,379,285
Other comprehensive income that will be reclassified to profit or loss in subsequent periods		
Foreign operations foreign currency translation differences, net of tax		8,788,029
		8,788,029
Total comprehensive income, net of tax		₩ 26,817,099,737
Net profit attributable to:		
Owners of the parent company		26,209,364,724
Non-controlling interests		4,567,699
Total comprehensive income attributable to:		
Owners of the parent company		26,812,974,509
Non-controlling interests		4,125,228
Earnings per share:		
Basic and diluted, profit for period attributable to ordinary equity holders of the parent	33	1,792

See accompanying notes to the consolidated financial statements.

SGC Energy Co., Ltd. and its subsidiaries
Consolidated Statement of Changes in Equity
For the two-month period ended December 31, 2020

(Korean won)

	Equity attributable to equity holders of the parent					
	Issued capital	Capital surplus	Other components of equity	Accumulated other comprehensive income	Retained earnings	Total
Balance at November 1, 2020	₩ 6,093,085,000	149,525,469,330	-	92,186,142	-	155,710,740,472
Total comprehensive income	-	-	-	9,230,500	26,803,744,009	26,812,974,509
Net profit	-	-	-	-	26,209,364,724	26,209,364,724
Remeasurement of net defined benefit liabilities	-	-	-	-	594,379,285	594,379,285
Exchange differences in translation of foreign operations	-	-	-	9,230,500	-	9,230,500
Purchase of treasury shares	-	-	(76,470,106)	-	-	(76,470,106)
Conversion of capital reserves	-	(60,000,000,000)	-	-	60,000,000,000	-
Business combination	67,291,935,000	332,412,306,891	(1,942,367,792)	163,151,828	-	397,925,025,927
Movement due to o changes in equity of investments in associates	-	-	4,523,611,557	781,319,217	114,812,037	5,419,742,811
Changes in scope of consolidation	-	4,523,611,557	(22,906,506,057)	(781,319,217)	318,578,935	(18,845,634,782)
Balance at December 31, 2020	₩ 73,385,020,000	426,461,387,778	(20,401,732,398)	264,568,470	87,237,134,981	566,946,378,831
						101,130,939,374
						668,077,318,205

See accompanying notes to the consolidated financial statements.

SGC Energy Co., Ltd. and its subsidiaries
Consolidated Statement of Cash Flows
For two-month period ended December 31, 2020

(Korean won)

	Notes	December 31, 2020
Operating activities		
Cash generated from operations	36	₩ (19,180,948,116)
Interest received		114,171,569
Dividend received		(518,670,064)
Interest paid		(3,998,400,885)
Income tax paid		(15,917,240)
Net cash flows used in operating activities		(23,599,764,736)
Investing activities		
Purchase of short-term financial instruments		(168,862,700)
Decrease of deposits		323,500,000
Purchase of property, plant and equipment		(37,591,970,531)
Purchase of intangible assets		(260,280,000)
Purchase of investment properties		(194,708,170)
Net cash flows from business combinations		121,782,479,105
Net cash flows provided by investing activities		83,890,157,704
Financing activities		
Proceeds from short-term borrowings		7,413,476,951
Repayment of short-term borrowings		(18,506,749,374)
Proceeds from long-term borrowings		50,000,000,000
Transaction costs on issue of shares		(1,000,000)
Purchase of treasury stock		(76,470,106)
Repayment of current portion of long-term borrowings		(2,875,000,000)
Repayment of lease liabilities		(461,964,097)
Repayment of bonds		(20,000,000,000)
Net cash flows provided by financing activities		15,492,293,374
Net increase in cash and cash equivalents	₩	75,782,686,342
Cash and cash equivalents as of November 1		98,915,157,437
Net foreign exchange difference		(15,403,560)
Cash and cash equivalents as of December 31	₩	174,682,440,219

See accompanying notes to the consolidated financial statements.

1. Corporate information

(1) Overview of the Company

SGC Energy Co., Ltd. (the "Company" or "Parent Company") was established on June 27, 1967. The Company merged with Sambo Glass Co., Ltd. on December 1, 1999 and Samkwang Can Co., Ltd. on December 31, 2001. In accordance with the resolution of the board of directors on March 18, 2020, the Company merged the former Gunjang Energy Co., Ltd. as of October 31, 2020. At the same time, the former E-Tech E&C Co., Ltd. was also merged with the Group by spin-off of the investment business unit as prescribed in Articles 530-2 to 530-11 of the Commercial Act.

Together with the mergers, the Company split-off business units of manufacturing/processing/sales of glass products while maintaining the investment business unit for purposed of managing/investing shares in subsidiaries and other investments and business units in steam and electricity production.

Although the Company is the legal acquirer of the merged companies, the acquirer for accounting purpose is the investment division of E-Tech E&C Co., Ltd. As such, the 54th fiscal year began on November 1, 2020, and the financial statements for the 53rd fiscal year are not presented for comparative purposes.

The shareholders of the Company as of December 31, 2020 are as follows:

	The number of shares	%
Woo Sung Lee	2,822,815	19.23%
Won Jun Lee	2,598,902	17.71%
Bok Young Lee	1,486,666	10.13%
Unid Co., Ltd.	819,018	5.58%
Treasury stock	51,802	0.35%
Others	6,897,801	47.28%
Total	14,677,004	100%

SGC Energy Co., Ltd. and its subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020

1. Corporate information (cont'd)

(2) Status of subsidiaries

1) The consolidated subsidiaries of the Group as of December 31, 2020, are as follows:

Name	Business	Location	Share of ownership held by the Group (*1)	Closing date
SGC Solution Co., Ltd. (*2)	Manufacture of packaging glass containers	Republic of Korea	100%	December
Shanghai Gailang Housewares Co., Ltd. (*3)	Distribution and sales of glassware and kitchenware	China	100%	December
SGC Green Power Co., Ltd. (*4)	Thermal power generation, collective energy business	Republic of Korea	95%	December
SGC Development Co., Ltd. (*5)	Real estate rental and sale	Republic of Korea	100%	December
eTEC E&C(Shanghai) Co., Ltd.	Overseas construction	China	100%	December
eTEC E&C(Nanjing) Co., Ltd (*6)	Overseas construction	China	100%	December
PT eTEC Indonesia	Overseas construction	Indonesia	67%	December
SGC eTEC E&C (*7)	Plant, construction and terminal business	Republic of Korea	30.7%	December
eTEC ARABIA Limited. (*8)	Overseas construction	Saudi Arabia	80%	December
eTEC Malaysia Sdn. Bhd. (*8)	Overseas construction	Malaysia	100%	December

(*1) The share of ownership held by the Group refers to a sum of shares held by the Parent Company.

(*2) SGC Energy Co., Ltd. established SGC Solution Co., Ltd. through the spin-off.

(*3) It is a subsidiary of SGC Solution Co., Ltd.

(*4) The company's name was changed from SMG Energy Co., Ltd. to SGC Green Power Co., Ltd. In the current year.

(*5) The company's name was changed from SG Development Co., Ltd. to SGC Development Co., Ltd. in the current year.

(*6) It is a subsidiary of eTEC E&C(Shanghai) Co., Ltd.

(*7) Since the Group was delegated the voting rights for 10.8% of the shares owned by Bok-Young Lee and Woo-sung Lee, who are related parties of the Group, SGC eTEC E&C Co., Ltd. was incorporated into a subsidiary subject to consolidation as the Group was deemed to have acquired de facto control as of December 31, 2020.

(*8) It is a subsidiary of SGC eTEC E&C Co., Ltd.

SGC Energy Co., Ltd. and its subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020

1. Corporate information (cont'd)

2) The financial summary of subsidiaries as of December 31, 2020 is as follows (Korean won in thousands):

	SGC Solution (*1)	SGC Green Power	SGC Development	eTEC E&C(Shanghai) (*1)	PT eTEC Indonesia	SGC eTEC E&C (*1)
Assets	₩ 294,579,391	₩ 290,218,564	₩ 139,616,716	₩ 976,820	₩ 3,545	₩ 662,886,334
Liabilities	124,432,592	240,685,758	78,789,554	446,515	426,364	525,191,852
Equity	170,146,799	49,532,806	60,827,162	530,305	(422,819)	137,694,482
Revenue	47,241,302	-	1,327,283	-	-	-
Net income (loss)	190,468	(29,191)	202,413	(63,824)	18,264	-
Total comprehensive income	513,266	(29,191)	198,910	(71,467)	17,366	-

(*1) The financial summary of subsidiary is prepared based on the consolidated financial statements.

(*2) The above financial information reflect the performance after being included in the consolidation, and the fair value adjustment incurred at the time of equity acquisition and the adjustment of differences in accounting policies with the Group. However, goodwill and internal transactions recognized by the Group for subsidiaries are not reflected.

3) Non-controlling interests effective share ratio and financial position, operating performance and dividend amount attributable to non-controlling interests for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	SGC Green Power	PT eTEC Indonesia	SGC eTEC E&C	eTEC ARABIA
Non-controlling interests effective share ratio (*1)	5.0%	33.0%	67.1%	20.0%
Accumulated non-controlling interests	₩ 2,476,640	₩ (139,530)	₩ 102,499,510	₩ (3,705,681)
Net income(loss) attributable to non-controlling interests	(1,460)	6,027	-	-
Total comprehensive income(loss) attributable to non-controlling interests	(1,460)	5,585	-	-
Dividend paid to non-controlling interests	-	-	-	-

(*1) This is the percentage of ownership calculated by taking into account the treasury stocks held by subsidiaries.

2. Basis of preparation and summary of significant accounting policies

(1) Basis of consolidated financial statements preparation

The Company and its subsidiaries (collectively, the "Group") prepares the consolidated financial statements in Korean in accordance with Korean International Financial Reporting Standards ("KIFRS"). The significant accounting policies applied in the preparation of the consolidated financial statements are described below. The consolidated financial statements are prepared at the end of each reporting period on the historical cost basis, except for certain non-current assets and financial assets that are either revalued or measured in fair value. Historical cost is generally measured at the fair value of consideration given to acquire assets. The accompanying separate financial statements have been translated into English from Korean financial statements. In the event of any differences in interpreting the financial statements or the independent auditor's report thereon, Korean version, which is used for regulatory reporting purposes, shall prevail.

2. Basis of preparation and summary of significant accounting policies (cont'd)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of KIFRS 1102 *Share-based Payment*, leasing transactions that are within the scope of KIFRS 1116 *Leases* and measurements that have some similarities to fair value but are not fair value, such as net realizable value in KIFRS 1002 *Inventories*, or value in use in KIFRS 1036 *Impairment of Assets*.

The new standards and interpretations introduced in the current year and the resulting changes in accounting policies are as follows:

- Amendments to KIFRS 1001 and KIFRS 1008 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

- Amendments to KIFRS 1103: Definition of a Business

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and the definition of output excludes the returns in the form of lower costs and other economic benefits. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, an entity may elect to apply an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. These amendments had no impact on the consolidated financial statements of the Group.

- Amendments to KIFRS 1107, KIFRS 1109 and KIFRS 1039 Interest Rate Benchmark Reform

The amendments to KIFRS 1109 and KIFRS 1039 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. The exceptions require the Group assumes that the interest rate benchmark on which the hedged items and the hedging instruments are based on is not altered as a result of interest rate benchmark reform, when determining whether the expected cash flows are highly probable, whether an economic relationship between the hedged item and the hedging instrument exists, and when assessing the hedging relationship is highly effective. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

2. Basis of preparation and summary of significant accounting policies (cont'd)

- Conceptual Framework for Financial Reporting (Amended in 2018)

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the KASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

New standards and interpretations not yet adopted by the Group are as follows:

- Amendments to KIFRS 1116 COVID-19 Related Rent Concessions

The amendments provide relief to lessees from applying KIFRS 1116 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, and the amounts recognized in profit or loss as a result of applying this exemption should be disclosed. The amendment applies to annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

- Amendments to KIFRS 1109 *Financial Instruments*, KIFRS 1039 *Financial Instruments: Recognition and Measurement* and KIFRS 1107 *Financial Instruments: Disclosures*, KIFRS 1104 *Insurance Contracts* and KIFRS 1116 *Leases* – Interest rate benchmark reform

In relation to interest rate benchmark reform, the amendments provide exceptions including adjust effective interest rate instead of book amounts when interest rate benchmark of financial instruments at amortized costs is replaced, and apply hedge accounting without discontinuance although the interest rate benchmark is replaced in hedging relationship. The amendment applies to annual reporting periods beginning on or after January 1, 2021. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

- Reference to the Conceptual Framework – Amendments to KIFRS 1103

The amendments update a reference of definition of assets and liabilities to qualify for recognition in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of KIFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and KIFRS 2121 *Levies*. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

2. Basis of preparation and summary of significant accounting policies (cont'd)

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to KIFRS 1016

Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to KIFRS 1037

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments are not expected to have a material impact on the Group.

- Annual Improvements to KIFRS 2018-2020

KIFRS Annual Improvements 2018-2020 apply for annual periods beginning on or after January 1, 2022, and early application is permitted. The amendments are not expected to have a material impact on the Group.

- KIFRS 1101 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- KIFRS 1109 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- KIFRS 1116 Lease – Lease incentive
- KIFRS 1041 Agriculture – Taxation in fair value measurement

- Amendments to KIFRS 1001: Classification of Liabilities as Current or Non-current

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability include the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the consolidated financial statements.

2. Basis of preparation and summary of significant accounting policies (cont'd)

(2) Basis of consolidation

The consolidated financial statements of the Group constitute the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- 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 relevant 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.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of the 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 consolidated financial statements of subsidiaries to bring the accounting policies used in line with the Group's accounting policies.

All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

2. Basis of preparation and summary of significant accounting policies (cont'd)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the Group. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at 1) fair value or 2) at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition, plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to the owners of the Group and to the non-controlling interests even if the non-controlling interest has a deficit balance.

Changes in the Group's ownership interests in subsidiaries, without a loss of control, 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, the profit 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), liabilities of the subsidiary and any non-controlling interests. The amounts previously recognized in other comprehensive income 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 as specified by applicable KIFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under KIFRS 1109 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

(3) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured as the sum of the acquisition-date fair values of the assets transferred by the Group in exchange for control of the acquiree, liabilities assumed by the Group for the former owners of the acquiree and the equity interests issued by the Group. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their acquisition-date fair values, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with KIFRS 1012 and KIFRS 1019, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with KIFRS 1102 at the acquisition date.
- Assets (or disposal groups) that are classified as held-for-sale in accordance with KIFRS 1105 are measured in accordance with that standard.

2. Basis of preparation and summary of significant accounting policies (cont'd)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement-period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement-period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement-period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration is remeasured at fair value at each reporting date and changes in fair value shall be recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognized in profit or loss (if applicable, other comprehensive income). Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if those interests were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2. Basis of preparation and summary of significant accounting policies (cont'd)

(4) Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not 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 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 of operations 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 KIFRS 1105. Under the equity method, an investment in an associate or a joint venture is recognized initially in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses in 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.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee 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 and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of KIFRS 1028 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 KIFRS 1036 as a single asset by comparing its recoverable amount (higher of value in use or fair value, less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with KIFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

2. Basis of preparation and summary of significant accounting policies (cont'd)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. When the Group retains an interest in the former associate or a joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with KIFRS 1109. The difference between the carrying amount of the investment and the fair value of the investment is recognized in profit or loss, including the gain or loss on disposal of the associate. In addition, the investor accounts for all amounts recognized as other comprehensive income in relation to the associate and the joint venture on the same basis as the accounting treatment in case the associate and the joint venture directly dispose of the related asset or liability. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate or joint venture is disposed of.

When the Group reduces its ownership interest in an associate or a joint venture, but 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 other comprehensive income 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. If an investment in an associate or a joint venture is classified as held-for-sale, the Group adopts KIFRS 1105.

When an investment in an associate is a joint venture or, conversely, a joint venture is an investment in an associate, the Group continues to apply the equity method and does not remeasure any residual equity.

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.

The Group applies KIFRS 1109 *Financial Instruments* including impairment requirements to long-term investment interests in subsidiaries and joint ventures that are part of net investment. In addition, when applying KIFRS 1109 to long-term investments interests, the Group does not take into account the adjustments of carrying amount required in KIFRS 1028. Examples of such adjustments are adjustments to the carrying amount of long-term investment interests due to impairment assessment in accordance with KIFRS 1028 or distribution of losses by the investee.

(5) Non-current assets held-for-sale

Non-current assets classified as held-for-sale or as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell or to distribute.

The Group classifies non-current assets or disposal groups as held-for-sale if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. These conditions are considered to have been met only when non-current assets (or disposal groups) are immediately available for sale in their current state and are highly likely to be sold. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Such non-current assets and disposal groups classified as held-for-sale or as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to distribute are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding the finance costs and income tax expense.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held-for-sale or as held for distribution.

2. Basis of preparation and summary of significant accounting policies (cont'd)

If the Group commits a sale plan that results in a loss of control of the subsidiary, the Group will, if the Group has satisfied the conditions previously mentioned, regardless of whether the Group has a non-controlling interest in the former subsidiary after the sale, all assets and liabilities are classified as held-for-sale.

If the Group is committed to a sale of an investment in an associate or a joint venture, all or part of the investment in the associate or joint venture to be sold will be classified as held-for-sale if it meets the criteria for sale, and the Group ceases to apply the equity method for investments in associates or joint ventures related to the items classified as held-for-sale. The Group continues to apply the equity method of accounting for residual interests in investments in associates or joint ventures that are not classified as held-for-sale. However, if the Group has a significant influence over the associates or joint ventures, the Group ceases to apply the equity method at the time of sale.

Assets and liabilities classified as held-for-sale or for distribution are presented separately as current items in the statement of financial position.

(6) Revenue from contracts with customers

The Group recognizes revenue from the following major sources:

- Business of producing and selling electricity and steam
- Sales of bottled products and household glassware
- Sales of raw materials
- Plant and construction, terminal business

The Group sells goods directly to customers, and recognizes revenue and receivables when they are delivered to the customer and control of the goods is transferred. The Group grants the right to return to the customer, and a refund liability and a right to collect returns are recognized in relation to the goods expected to be returned.

2. Basis of preparation and summary of significant accounting policies (cont'd)

(7) Leases

1) The Group as a lessee

The Group evaluates whether the contract is a lease or if the contract contains a lease at the contractual date. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable.

Lease payments included in the measurement of lease liabilities consist of the following amounts:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable)
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The Group presents leased liabilities separately from other liabilities in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

2. Basis of preparation and summary of significant accounting policies (cont'd)

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under KIFRS 1037. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statements of financial position.

The Group applies KIFRS 1036 to determine whether right-of-use assets are impaired and accounts for any identified impairment loss as described in the accounting policy for 'Property, plant and equipment' (see Note 2.(13)).

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in profit or loss.

As a practical expedient, KIFRS 1116 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. In a contract containing one leased element and one or more additional leased or non-lease elements, the lessee allocates the contract consideration to each leased element based on the relative individual price of the leased element and the total individual price of the non-lease element.

2. Basis of preparation and summary of significant accounting policies (cont'd)

2) The Group as a lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

When a contract includes both lease and non-lease components, the Group applies KIFRS 1115 to allocate the consideration under the contract to each component.

(8) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Korean won, which is the functional currency of the entity and the presentation currency for the consolidated financial statements.

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

- Exchange differences are recognized in profit or loss in the period in which they arise, except for:
- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

2. Basis of preparation and summary of significant accounting policies (cont'd)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Korean won using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in a foreign exchange translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation or a disposal involving loss of control over a subsidiary that includes a foreign operation, or partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the accumulated exchange differences in respect of that operation attributable to the owners of the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e., no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences is reattributed to non-controlling interests in equity and is not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

(9) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable-rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed-rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2. Basis of preparation and summary of significant accounting policies (cont'd)

(10) 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.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants related to assets are presented in the consolidated statements of financial position by deducting the grant from the carrying amount of the asset (including property and equipment). The related grant is recognized in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Government grants related to income are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants toward staff retraining costs are recognized as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants related to the acquisition of property, plant and equipment are deducted from the asset's carrying amount and recognized in profit or loss over the useful life of the assets.

(11) Retirement benefit costs and termination benefits

Contributions to defined-contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurements comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognized immediately in the consolidated statements of financial position with a charge or credit to the consolidated statements of comprehensive income in the period in which they occur. Remeasurements recognized in the consolidated statements of comprehensive income are reflected immediately in retained earnings, and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss when the plan amendment or curtailment occurs or when the Group recognizes related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognized when the settlement occurs.

2. Basis of preparation and summary of significant accounting policies (cont'd)

Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- Service costs, which include current service cost, past service cost and gains or losses on curtailments and settlements
- Net interest expense or income
- Remeasurements

The service cost and net interest expense or income are recognized in selling and administrative expenses and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statements of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or when the entity recognizes any related restructuring costs.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan. When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service as follows:

If the contributions are not linked to services (e.g., contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability (asset).

If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by KIFRS 1019 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related service is rendered.

2. Basis of preparation and summary of significant accounting policies (cont'd)

(12) Current and Deferred tax

Income tax expense represents the sum of the current tax and deferred tax.

1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit reported in the separate statements of comprehensive income because of items of income or expense that are taxable or deductible on other years and items that are not taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain, but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

2) Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. And deferred tax assets relating to the deductible temporary difference arising 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 are not recognized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which the benefits of the temporary differences can be utilized and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

2. Basis of preparation and summary of significant accounting policies (cont'd)

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

3) Current and deferred taxes

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive income or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(13) Property, plant and equipment

Property and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment is directly attributable to its purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in the carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Group does not depreciate land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Useful lives (years)
Buildings	20~40
Structures	15~30
Machinery	5~20
Vehicles	4~8

If each part of an item of property and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Group reviews the depreciation method, estimated useful lives and residual values of property and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

2. Basis of preparation and summary of significant accounting policies (cont'd)

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(14) Investment properties

Real estate held to obtain rental income or capital gain is classified as investment properties. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. After initial recognition, acquisition cost less accumulated depreciation and accumulated impairment losses is presented as carrying amount.

Subsequent costs are recognized in the carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably, and the book value of a portion of an asset that are replaced by a subsequent expenditure is removed from the books. Routine maintenance and repairs are expensed as incurred.

The Group does not depreciate land among investment properties. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Useful lives (years)
Buildings	30~40
Structures	15~30

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Investment properties are derecognized either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

2. Basis of preparation and summary of significant accounting policies (cont'd)

(15) Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses, and amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and the amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost, less accumulated impairment losses.

2) Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- The ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost, less accumulated amortization and accumulated impairment losses.

3) Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost, less accumulated amortization and accumulated impairment losses.

2. Basis of preparation and summary of significant accounting policies (cont'd)

4) Derecognition of intangible assets

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

5) Patent and trademark

Patent and trademark are initially recognized at cost and amortized using the straight-line method over the estimated useful lives.

(16) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets excluding goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs; otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that an asset may be impaired.

Recoverable amount is the higher of net fair value or value in use. If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(17) Inventories

Inventories are valued at the lower of cost and net realizable value. The cost is determined according to the average method, excluding goods not yet delivered. The initial cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognized in OCI, in respect of the purchases of raw materials. 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.

When inventories are sold, the carrying amount of those inventories is recognized as an expense (cost of sales) in the period in which the related revenue is recognized. The amount of any write down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

2. Basis of preparation and summary of significant accounting policies (cont'd)

(18) 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.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pretax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage is recognized in profit or loss as borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

1) Onerous contracts

If the Group has a contract that is onerous, the present obligation under the contract is recognized and measured as a provision. An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

2) Restructuring provisions

A restructuring provisions is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. Only expenditures incurred directly related to restructuring, which are indispensable to restructuring and are not related to the continued activities of the Group, are measured as the amount of provision for restructuring.

3) Warranty provisions

Warranty provisions are recognized as the best estimate of the expenditure required to settle the Group's obligation at the date of sale of the relevant products.

4) Restoration provisions

Provisions for the costs to restore leased plant assets to their original condition, as required by the terms and conditions of the lease, are recognized when the obligation is incurred, either at the commencement date or as a consequence of having used the underlying asset during a particular period of the lease, at the directors' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

2. Basis of preparation and summary of significant accounting policies (cont'd)

5) Contingent liabilities recognized in a business combination

A contingent liability recognized in a business combination is initially measured at its fair value. At the end of the subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with KIFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognized less, where applicable, the cumulative amount of income recognized in accordance with KIFRS 1115 *Revenue from Contracts with Customers*.

(19) Financial instruments

Financial assets and financial liabilities are recognized in the Group's consolidated statements of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. However, Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss upon occurrence.

(20) Financial assets

All regular-way purchases or sales of financial assets are recognized and derecognized on a trade-date basis. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently at amortized cost or fair value depending on the classification of the financial assets.

2. Basis of preparation and summary of significant accounting policies (cont'd)

1) Classification of financial assets

The Group measures debt instruments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election or designation at initial recognition of a financial asset:

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (1-3) below).
- The Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (1-4) below).

1-1) Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and allocating interest income over the relevant period. For financial assets other than purchased or originated credit-impaired financial assets (i.e., assets that are credit impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), excluding ECLs, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including ECLs, to the amortized cost of the debt instrument on initial recognition.

2. Basis of preparation and summary of significant accounting policies (cont'd)

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of the financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measure subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit impaired (see below). For financial assets that have subsequently become credit impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit impaired-financial instrument improves so that the financial asset is no longer credit impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, interest revenue is recognized by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. Even if the financial asset is no longer impaired in the subsequent periods due to credit improvement, the basis of interest revenue calculation is not changed from amortized cost to unamortized cost of the financial assets.

Interest income is recognized in profit or loss and is included in the "Financial income- interest income according to the effective interest method" line item (Note 33).

1-2) Debt instruments classified as at FVTOCI

Fair value is determined using the valuation techniques described in Note 37. The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses, impairment gains or losses and interest income calculated using the effective interest method are recognized in profit or loss. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these corporate bonds had been measured at amortized cost. All other changes in the carrying amount of these corporate bonds are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these corporate bonds are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

2. Basis of preparation and summary of significant accounting policies (cont'd)

1-3) Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is a contingent consideration recognized by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with KIFRS 1109, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'finance income' line item in profit or loss.

1-4) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (1-3) above).
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria (see (1-1) and (1-2) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss includes dividends earned on the financial asset in the 'other non-operating profit and loss'. Meanwhile, interests on financial assets at FVTPL are recognized in 'finance income-other'. The fair value is determined as described in Note 34.

2. Basis of preparation and summary of significant accounting policies (cont'd)

2) Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- For financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'financial income and expenses' line item.
- For debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortized cost of the debt instrument are recognized in profit or loss in the 'other non-operating profit and loss'. Other exchange differences are recognized in other comprehensive income in the investments revaluation reserve:
- For financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other non-operating profit and loss' line item.
- For equity instruments measured at FVTOCI, exchange differences are recognized in other comprehensive income in the investments revaluation reserve.

3) Impairment of financial assets

The Group recognizes a loss allowance for ECLs on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of ECLs is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognizes lifetime ECL for trade receivables, contract assets and lease receivables. The ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Expected credit loss for the entire period refers to the expected credit loss resulting from all default events that may occur during the expected life of a financial instrument. Conversely, 12-month expected credit loss refers to a portion of expected credit loss for the entire period due to default events of financial instruments that can occur within 12 months after the end of the reporting period.

2. Basis of preparation and summary of significant accounting policies (cont'd)

4) Derecognition of financial assets

The Group derecognizes a financial asset-only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

(21) Financial liabilities and equity instruments

1) Classification of financial liabilities and equity

The Group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

If the Group reacquires its own equity instruments, the consideration paid including the direct transaction costs (net of income tax expense) are presented as a deduction from total equity until such instruments are retired or reissued. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3) Financial liabilities

All financial liabilities are subsequently measured at financial liabilities at FVTPL or financial liabilities at amortized cost using the effective interest method. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts are issued by the Group, are measured in accordance with the specific accounting policies set out below.

2. Basis of preparation and summary of significant accounting policies (cont'd)

4) Financial liabilities at FVTPL

Financial liabilities are usually classified as financial liabilities at FVTPL when they are acquired with a purpose to repurchase them within a short period of time, when they are contingent consideration of the acquirer in a business combination, or they are designated at fair value through profit or loss upon initial recognition.

Financial liabilities are short-term trading items in the following cases:

- When they are acquired with a purpose to repurchase them within a short period of time.
- When they are part of a certain financial instrument portfolio that is actually and recently being managed with a purpose of short-term profit and joint management by the Group at initial recognition.
- When they are derivatives that do not qualify as hedging instruments.

A financial liability other than a financial liability held for trading or a contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- It is possible to remove or significantly reduce recognition or measurement mismatch that may otherwise have occurred if not for its designation as financial liability at FVTPL
- The financial liability forms part of the Group's financial instrument group (a group composed of a combination of financial asset or liability) according to the Group's documented risk management or investment strategy, is measured at fair value and is being evaluated for its performance, and such information is provided internally.
- The financial liability is part of a contract that contains one or more of embedded derivatives, and is a hybrid contract in which designation as financial liability at FVTPL is allowed under KIFRS 1109 *Financial Instruments*.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising in changes in fair value recognized on profit or loss to the extent that they are not part of a designated hedging relationship. Interest expenses paid for financial liabilities at FVTPL are recognized as 'other non-operating profit and loss' in profit or loss on financial liabilities at FVTPL.

However, for financial liabilities that are designated as at FVPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Profit or loss arising from financial guarantee contracts designated as FVTPL are recognized in profit or loss.

Fair value is determined by the method described in Note 34.

2. Basis of preparation and summary of significant accounting policies (cont'd)

6) Financial liabilities at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVPL as of the date of initial recognition, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows to the financial liabilities at amortized cost over the expected period, or shorter if appropriate. Future cash flows include commissions and cost of reward points (limited to the primary component of effective interest rate) and other premiums or discounts that are paid or received between the contractual parties, and future cash flows exclude expected credit loss when calculating the effective interest rate.

7) Financial guarantee liabilities

A financial guarantee contract is a contract that the issuer must pay a certain amount of money to compensate for losses incurred by the holder due to the failure of a specific debtor to pay the due date on the original contract or modified terms of the debt instrument.

Financial guarantee liabilities are measured initially at fair value and subsequently measured at the greater of the following, unless they are designated as at fair value through profit or loss or arising from the transfer of assets.

- Loss provision calculated in accordance with KIFRS 1109
- The amount recognized less the accumulated profits recognized in accordance with KIFRS 1115

8) Foreign exchange gains and losses

For financial liabilities that are denominated on a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other non-operating profit and loss' line item in separate statements of income.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

2. Basis of preparation and summary of significant accounting policies (cont'd)

9) Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Group exchanges with the existing lender one debt instrument for another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between (1) the carrying amount of the liability before the modification and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other non-operating income and expenses.

(22) Derivative instruments

The Group enters into derivatives contracts such as currency swaps to manage interest rate risk and foreign currency risk. Derivatives are initially recognized at the fair value of the contract date and are subsequently measured at the fair value of the end of each reporting period. The resulting gain or loss is recognized in net income immediately unless the derivative is designated and effective as a hedging instrument.

(23) Accounting related to the greenhouse gas emission rights cap and trade scheme

The Group classifies the emission rights as intangible assets. Emission rights allowances the government allocated free of charge are measured at nil, and emission rights allowances purchased are measured at cost, which the Group paid to settle the emission rights allowances allotted for vintage year, the emission liabilities are measured at nil. However, for the emission liabilities that exceed the allowances allocated free of charge, emission liabilities are measured using the best estimates as of the end of the reporting period for the expenditure expected to be spent on fulfilling the emission liabilities corresponding to the shortfall.

2. Basis of preparation and summary of significant accounting policies (cont'd)

(24) Classification of current or non-current

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle.
- Held primarily for the purpose of trading.
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle.
- It is held primarily for the purpose of trading.
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

3. Critical Accounting Estimates and Assumptions

In the application of the Group accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The main sources of uncertainty in important estimates and assumptions are:

(1) Defined benefit plan

The Group operates a defined benefit pension plan. Defined benefit obligation is calculated at every end of the reporting period by performing actuarial valuation, and estimation of assumptions such as discount rate, expected wage growth rate and mortality rate is required to perform such actuarial valuation. The defined benefit plan, due to its long-term nature, contains significant uncertainties in its estimates. The defined benefit retirement benefit obligation is KRW 61,989,144 thousands as of December 31, 2020, and details are described in Note 19.

(2) Fair value of financial instruments

As described in Note 34, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain type of financial instruments. Note 34 provides detailed information about key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(3) Calculation of loss allowance

When measuring ECL, the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which historical data, assumptions and expectations of future conditions.

3. Critical Accounting Estimates and Assumptions (cont'd)

(4) Estimation of net realizable value of inventories

As described in Note 7, the Group estimates the net realizable value of inventory at the end of each reporting period. The lower of cost or net realizable value is applied to reduce the net realizable value below the acquisition cost. At the end of the current year, the method of estimating net realizable value has been revised for cases in which it is difficult to recover the acquisition cost of inventory assets due to obsolescence of inventory assets. Estimating net realizable value should be based on the most reliable evidence available at the end of the reporting period for the amount achievable from inventory. Management believes that the valuation techniques and assumptions used to estimate the net realizable value of inventory are appropriate.

(5) Impairment of non-financial assets

The Group assesses the existence of impairment on all non-financial assets at the end of each reporting period. For intangible assets with indefinite useful lives, impairment tests are carried out annually or in the event of impairment. For other non-financial assets, the Group carries out impairment tests when there are indications that the carrying amount will not be recoverable. To determine the use value, management must estimate future cash flows from the asset or CGU and choose an appropriate discount rate.

(6) Deferred tax assets

Deferred tax assets are recognized for unused tax losses in the extent that it is probable that future taxable income will be available for tax losses. Management of the Group makes key judgments to determine the amount of deferred tax assets that are recognized based on the timing and level of future tax strategy and tax benefits.

4. Segment information

Information about each operating segment of the Group for the two-month period ended December 31, 2020 are as follows. Profit for the period from the operating segments is included in the internal reporting reviewed by the highest operating decision-making body of the Group for performance measurement and segment assets and segment liabilities are not reported. Management believes that such information is relevant for assessing the performance of each sales segment against other companies in the same industry.

In accordance with KIFRS 1108, the reporting parts of the Group are as follows:

	Key business contents
Power generation/Energy	Steam and electricity generation
Glass	Manufacturing and sales of bottled products and household glassware
Construction and real estate	Construction, plant and rental business

(1) Profit and performance from each reporting segment of the Group for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Power generation / Energy	Glass	Construction / Real estate	Consolidation adjustments	Total
Revenue	₩ 69,990,768	₩ 47,816,863	₩ 1,327,283	₩ (12,586,548)	₩ 106,548,366
Operating profit	5,603,178	1,075,206	552,916	(214,071)	7,017,229
Net profit	3,209,005	188,630	156,853	22,659,445	26,213,933

(2) Assets and liabilities of each reporting segments of the Group as of December 31, 2020 are as follows (Korean won in thousands):

	Power generation / Energy	Glass	Construction / Real estate	Consolidation adjustments	Total
Total assets of reporting segment	₩ 1,935,319,114	₩ 293,209,674	₩ 809,258,749	₩ (372,117,049)	₩ 2,665,670,488
Total liabilities of reporting segment	1,330,522,410	128,224,314	650,762,833	(111,916,387)	1,997,593,170

(3) Profit and performance from each region of the Group for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Domestic	Foreign	Consolidation adjustments	Total
Revenue	₩ 117,468,048	₩ 1,666,866	₩ (12,586,548)	₩ 106,548,366
Operating profit (loss)	7,567,228	(335,928)	(214,071)	7,017,229
Net profit (loss)	3,948,766	(394,279)	22,659,445	26,213,932

SGC Energy Co., Ltd. and its subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020

4. Segment information (cont'd)

(4) Assets and liabilities of each region of the Group as of December 31, 2020 are as follows (Korean won in thousands):

	Domestic	Foreign	Consolidation adjustments	Total
Total assets of reporting segment	₩ 3,028,146,965	₩ 9,640,572	₩ (372,117,049)	₩ 2,665,670,488
Total liabilities of reporting segment	2,054,930,868	54,578,689	(111,916,387)	1,997,593,170

5. Financial assets

(1) Financial assets at fair value through profit or loss as of December 31, 2020 are as follows (Korean won in thousands):

	Current	Non-current
Investments in capital	₩ -	₩ 18,783,219
Listed stocks	1,693,615	-
Total	₩ 1,693,615	₩ 18,783,219

(2) Details of financial assets at fair value through profit or loss of the Group as of December 31, 2020 are as follows (Korean won in thousands):

	The number of shares	Acquisition cost	Book value
Electric Contractors Financial Co-op. (*1)	300	₩ 50,123	₩ 100,295
Construction Guarantee Co-op. (*1)	5,972	7,485,816	9,064,899
Plant & Mechanical Contractors Financial Co-op. of Korea (*1)	54	50,226	53,335
Fire Guarantee Co-op. (*1)	40	20,000	20,240
Information & Communication Financial Co-op. (*1)	47	15,070	19,170
Engineering Guarantee Insurance Co-op. (*1)	12,872	7,186,410	9,525,280
Hitejinro Co., Ltd.	45,000	1,507,500	1,433,250
Hitejinro Holdings Co., Ltd.	17,300	252,580	260,365
Total		₩ 16,567,725	₩ 20,476,834

(*1) All of the above investments have been pledged for payment guarantees.

(3) Financial assets at fair value through other comprehensive income as of December 31, 2020 are as follows:

	Current	Non-current
Non-listed stocks	₩ -	₩ 3,065,830
Beneficiary certificates	-	5,040,000
Total	₩ -	₩ 8,105,830

SGC Energy Co., Ltd. and its subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020

5. Financial assets (cont'd)

(4) Details of financial assets at fair value through other comprehensive income as of December 31, 2020 are as follows (Korean won in thousands):

	The number of shares	Acquisition cost	Book value	Accumulated impairment losses	Gains (losses) on valuations
Korea Housing & Urban Guarantee (*1)	52,185	₩ 1,126,900	₩ 111,155	₩ (1,015,745)	₩ -
The Chonbuk Domin Ilbo	4,000	20,000	1	(19,999)	-
Daesung ECO - Energy Co., Ltd. (*2)	188,076	940,380	2,954,674	-	2,014,294
Kangho D&C Co., Ltd. (*3)	28,620	143,100	-	(143,100)	-
Kwang Dong D&C Co., Ltd. (*4)	-	750,000	750,000	-	-
Songkang Industrial Co., Ltd. (*4)	-	4,290,000	4,290,000	-	-
Nexolon Co., Ltd.	-	77,619	-	(77,619)	-
Total		₩ 7,347,999	₩ 8,105,830	₩ (1,256,463)	₩ 2,014,294

(*1) The above stocks are pledged for loan and payment guarantees.

(*2) The fair values of the above stocks were determined through a discounted cash flow method by external valuation agency.

(*3) As the Group has no significant influence on the investment in associate, the investment was changed to financial assets at fair value through profit or loss as of December 31, 2020.

(*4) Beneficiary certificate does not show the number of shares.

(5) Details of financial instruments at amortized cost as of December 31, 2020 are as follows (Korean won in thousands):

	Current	Non-current
Cash and short-term deposits	₩ 174,682,440	₩ -
Short-term financial instruments	18,110,845	-
Short-term loans	41,007,588	-
Allowance for bad debts (short-term loans)	(11,500,000)	-
Long-term financial instruments	-	1,338,195
Deposits	351,500	8,759,422
Present value discount (deposits)	-	(126,649)
Long-term loans	-	7,893,688
Allowance for bad debts (long-term loans)	-	(1,418,660)
Total	₩ 222,652,373	₩ 16,445,996

6. Trade and other receivables & other financial assets

(1) Details of trade and other receivables as of December 31, 2020 are as follows (Korean won in thousands):

	Face amount	Present value discount	Allowance for bad debts	Government grants	Book value
Trade receivables	₩ 105,532,056	₩ -	₩ (2,971,260)	₩ -	₩ 102,560,796
Receivables from construction contracts	255,157,688	-	(38,340,650)	-	216,817,038
Other receivables	28,671,907	-	(12,028,770)	(15,511)	16,627,626
Accrued income	7,041,166	-	(5,149,908)	-	1,891,258
Subtotal	396,402,817	-	(58,490,588)	(15,511)	337,896,718
Long-term trade receivables	2,475,071	(248,278)	(1,656,591)	-	570,202
Subtotal	2,475,071	(248,278)	(1,656,591)	-	570,202
Total	₩ 398,877,888	₩ (248,278)	₩ (60,147,179)	₩ (15,511)	₩ 338,466,920

(2) Details of loans in the other financial assets as of December 31, 2020 are as follows (Korean won in thousands):

	Loans	Allowance for bad debts	Book value
Short-term loans	₩ 41,007,588	₩ (11,500,000)	₩ 29,507,588
Long-term loans	7,893,688	(1,418,660)	6,475,028
Total	₩ 48,901,276	₩ (12,918,660)	₩ 35,982,616

(3) Credit risk and allowance for bad debts

The trade and other receivables and loans above are measured at amortized cost, and the average collection period for sales of the Group is 90 days. The Group sets an estimated amount of uncollected trade receivable based on the counterparty's past default experience and current financial status analysis as allowance for bad debts.

The trade and other receivables and loans above include receivables that are past due as of December 31, 2020 but have not set loan loss allowance in that the receivables including the accrued interests that have elapsed for more than 90 days are deemed recoverable and their credit ratings have not changed significantly.

SGC Energy Co., Ltd. and its subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020

6. Trade and other receivables & other financial assets (cont'd)

A. The aging analysis of trade and other receivables, and loans as of December 31, 2020 are as follows (Korean won in thousands):

	Trade receivables	Receivables from construction contracts	Other receivables	Accrued income	Long-term trade receivables	Short-term loans	Long-term loans
1. Not past due	₩ 99,424,888	₩ 216,630,184	₩ 16,243,913	₩ 1,891,258	₩ -	₩ 29,507,588	₩ 6,475,028
2. Past due but not impaired	3,135,908	186,854	383,714	-	818,480	-	-
3. Individually impaired receivables	2,552,050	38,340,650	10,569,238	5,149,908	1,656,591	11,500,000	1,418,660
4. Collectively impaired receivables	-	-	-	-	-	-	-
6~12 months	419,210	-	1,459,532	-	-	-	-
More than 12 months	-	-	-	-	-	-	-
Subtotal (1+2+3+4)	105,532,056	255,157,688	28,656,397	7,041,166	2,475,071	41,007,588	7,893,688
Less: present value discount	-	-	-	-	(248,278)	-	-
Less: Allowance for bad debts	(2,971,260)	(38,340,650)	(12,028,770)	(5,149,908)	(1,656,591)	(11,500,000)	(1,418,660)
Total	₩ 102,560,796	₩ 216,817,038	₩ 16,627,627	₩ 1,891,258	₩ 570,203	₩ 29,507,588	₩ 6,475,028

B. Changes of allowance for bad debts about trade and other receivables and loans for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Nov. 1, 2020	Business combination	Raised	Write-offs	Reversals	Others (*1,2)	Dec. 31, 2020
Trade receivables	₩ 885,325	₩ 2,268,167	₩ 40,000	₩ -	₩ (262,367)	₩ 40,135	₩ 2,971,260
Receivables from construction contracts	-	-	-	-	-	38,340,650	38,340,650
Other receivables	8,379,929	685,015	-	-	(2,006)	2,965,832	12,028,770
Accrued Income	-	-	-	-	-	5,149,908	5,149,908
Long-term trade receivables	-	1,560,973	-	-	-	-	1,560,973
Short-term loans	-	-	-	-	-	11,500,000	11,500,000
Long-term loans	-	-	-	-	-	1,418,660	1,418,660
Total	₩ 9,265,254	₩ 4,514,155	₩ 40,000	₩ -	₩ (264,373)	₩ 59,415,185	₩ 72,970,221

(*1) This includes the effect from the change in consolidation scope due to the inclusion of SGC eTEC E&C Co., Ltd. as a subsidiary as of December 31, 2020 (Note 40).

(*2) In addition to the above, the Group set allowance for bad debts of KRW 19,930,880 thousand for KRW 59,232,826 thousand of unbilled amount related to construction receivables.

7. Inventories

Details of inventories as of December 31, 2020 are as follows (Korean won in thousands):

	Acquisition cost	Inventory valuation allowance	Book value
Finished goods	₩ 86,450,203	₩ (27,670,616)	₩ 58,779,587
Merchandise	14,364,528	(1,616,257)	12,748,271
Work-in-process	287,552	(96)	287,456
Raw materials	28,627,149	(332,489)	28,294,660
Supplies	4,325,426	-	4,325,426
Components	318,108	(61,763)	256,345
Land	14,326,759	-	14,326,759
Construction in progress	31,503,272	-	31,503,272
Goods to arrive	11,181	-	11,181
Total	₩ 180,214,178	₩ (29,681,221)	₩ 150,532,957

The cost of sales is KRW 92,364,250 thousand for the two-month period ended December 31, 2020. In 2020, KRW 2,842,459 thousand was recognized as losses for inventories carried at net realizable value. This is recognized in cost of sales.

8. Other financial assets

Details of other financial assets as of December 31, 2020 are as follows (Korean won in thousands):

	Current	Non-current
Short-term loans	₩ 41,007,588	₩ -
Allowance for bad debts (short-term loans)	(11,500,000)	-
Deposits	351,500	8,759,422
Present value discount (deposits)	-	(126,649)
Long-term loans	-	7,893,688
Allowance for bad debts (long-term loans)	-	(1,418,660)
Total	₩ 29,859,088	₩ 15,107,801

SGC Energy Co., Ltd. and its subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020

9. Other assets

Details of other assets as of December 31, 2020 are as follows (Korean won in thousands):

	Current	Non-current
Advanced payments	₩ 22,096,407	₩ 640,000
Allowance for bad debts (advanced payments)	(838,320)	-
Prepaid expenses	6,217,162	55,591
Prepaid costs of construction	1,206,564	-
Allowance for bad debts (prepaid costs of construction)	(515,277)	-
Collection right of inventory returned	324,901	-
Total	₩ 28,491,437	₩ 695,591

10. Investments in associates

(1) Details of investments in associates as of December 31, 2020 are as follows (Korean won in thousands):

	Key sales activities	Establishment of a corporation and place of business	Ownership interest	Acquisition cost	Book value
eTEC (Thailand) Company Ltd.	Overseas construction	Thailand	39 %	₩ 30,810	₩ -

(2) Changes of investments in associates for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Nov. 1, 2020	Business combination	Gains (losses) in associates	Reclassification as a subsidiary	Dec. 31, 2020
eTEC (Thailand) Company Ltd.	₩ -	₩ -	₩ -	₩ -	₩ -
SGC eTEC E&C Co., Ltd. (*1)	43,218,634	(43,218,634)	-	-	-
SGC Development Co., Ltd. (*2)	-	60,588,879	(20,569,887)	(40,018,992)	-
Total	₩ 43,218,634	₩ 17,370,245	₩ (20,569,887)	₩ (40,018,992)	₩ -

(*1) Due to the business combination, the Group measured the fair value of the net asset of the associate and the difference amounting to KRW 4,903,005 thousand with the carrying amount was recognized as gain on disposal of investments in associates.

(*2) It was classified as a subsidiary as of December 31, 2020. As a result, KRW 35,806,485 thousand of the gain on bargain purchase was recognized as gain on valuation using equity method.

(3) As reliable financial information for investments in associates are not available as of December 31, 2020, the summarized financial information is not disclosed.

SGC Energy Co., Ltd. and its subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020

11. Property, plant and equipment

(1) Book values of property, plant and equipment as of December 31, 2020 are as follows (Korean won in thousands):

	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Government grants	Book value
Land	₩ 163,196,561	₩ -	₩ (28,996)	₩ (3,855,000)	₩ 159,312,565
Buildings	159,553,160	(43,930,781)	(2,934,600)	(336,096)	112,351,683
Structures	200,243,195	(58,888,211)	(2,694,291)	-	138,660,693
Machinery	1,401,469,696	(586,977,954)	(10,801,590)	(105,381)	803,584,771
Tools and equipment	36,525,783	(26,296,926)	(2,059,826)	-	8,169,031
Construction in progress	228,589,560	-	-	-	228,589,560
Others	2,987,792	(2,395,601)	(11,250)	-	580,941
Total	₩ 2,192,565,747	₩ (718,489,473)	₩ (18,530,553)	₩ (4,296,477)	₩ 1,451,249,244

(2) Changes in property, plant and equipment for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Nov. 1, 2020	Business combination (*1)	Changes in scope of consolidation (*2)	Acquisitions	Disposals	Depreciation	Transfer (*3)	Dec. 31, 2020
Land	₩ 51,698,253	₩ 32,533,029	₩ 1,070,122	₩ 415,537	₩ -	₩ -	₩ 73,595,624	₩ 159,312,565
Buildings	51,040,024	42,504,365	845,816	509,145	-	(850,319)	18,302,652	112,351,683
Structures	113,959,111	25,758,935	449,379	-	-	(1,646,149)	139,417	138,660,693
Machinery	778,903,424	35,677,536	-	1,219,300	(24,908)	(12,281,167)	90,586	803,584,771
Tools and equipment	207,504	7,238,570	932,110	281,476	-	(490,629)	-	8,169,031
Construction in progress	187,082,831	151,100	-	41,441,729	-	-	(86,100)	228,589,560
Others	264,103	279,599	47,748	3,549	-	(14,058)	-	580,941
Total	₩ 1,183,155,250	₩ 144,143,134	₩ 3,345,175	₩ 43,870,736	₩ (24,908)	₩ (15,282,322)	₩ 92,042,179	₩ 1,451,249,244

(*1) This includes an increase in the incorporation of SGC Development Co., Ltd. as a subsidiary due to a business combination during the two-month period ended December 31, 2020 (Note 40).

(*2) This includes an increase by the inclusion of SGC eTEC E&C Co., Ltd. as a subsidiary, during the two-month period ended December 31, 2020 (Note 40).

(*3) Includes transfers from investment properties.

12. Investment properties

(1) Details of investment properties as of December 31, 2020 are as follows (Korean won in thousands):

	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Government grants	Book value
Land	₩ 76,644,752	₩ -	₩ -	₩ -	₩ 76,644,752
Buildings	33,849,259	(9,316,991)	(1,395,577)	(38,340)	23,098,352
Structures	812,033	(721,645)	-	-	90,389
Total	₩ 111,306,044	₩ (10,038,636)	₩ (1,395,577)	₩ (38,340)	₩ 99,833,493

The value posted by the Ministry of Land, Infrastructure and Transport and the National Tax Service are regarded as the fair value of investment properties of the Group as of December 31, 2020.

(2) Changes in investment properties for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Nov. 1, 2020	Business combination	Acquisitions	Transfer (*1)	Disposals	Depreciation	Dec. 31, 2020
Land	₩ -	₩ 150,053,909	₩ 187,422	₩ (73,596,579)	₩ -	₩ -	₩ 76,644,752
Buildings	-	41,646,179	7,286	(18,300,216)	-	(164,508)	23,188,741
Total	₩ -	₩ 191,700,088	₩ 194,708	₩ (91,987,184)	₩ -	₩ (164,508)	₩ 99,833,493

(*1) With the incorporation of SGC eTEC E&C Co., Ltd. in the Group, the purpose of investment properties was changed to a self-use purpose, resulting in a reclassification as property, plant and equipment as of December 31, 2020.

(3) Profit or loss related to investment properties is as follows (Korean won in thousands):

	Amount
Rental income from investment properties	₩ 1,378,396

(4) The fair value of the Group's investment properties is not significantly different from the book value as of December 31, 2020.

(5) All investment properties are directly owned by the Group.

(6) Investment properties are provided as collateral for long and short-term borrowings as of December 31, 2020 (Note 38).

13. Intangible assets

(1) Details of intangible assets as of December 31, 2020 are as follows (Korean won in thousands):

	Amount
Membership	₩ 3,207,451
Software	1,317,500
Industrial property rights	42,831
Technology	3,480,000
Greenhouse gas emission rights	272,780
Total	₩ 8,320,562

(2) Changes in intangible assets for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Software	Membership	Industrial property rights	Technology	Greenhouse gas emission rights	Total
November 1, 2020	₩ 2,010	₩ 1,428,537	₩ 3,529	₩ -	₩ -	₩ 1,434,076
Business combination	-	39,125	-	3,600,000	391,380	4,030,505
Changes in the scope of consolidation (*1)	1,286,222	1,474,801	39,348	-	-	2,800,371
Acquisitions	30,000	245,280	-	-	-	275,280
Reversal of impairment loss	-	19,708	-	-	(118,600)	(98,892)
Amortization	(149)	-	(620)	(120,000)	-	(120,769)
Others (*2)	(583)	-	574	-	-	(9)
December 31, 2020	₩ 1,317,500	₩ 3,207,451	₩ 42,831	₩ 3,480,000	₩ 272,780	₩ 8,320,562

(*1) Changes include the increase by the incorporation of SGC eTEC E&C Co., Ltd. as a subsidiary (Note 40).

(*2) Transfers from construction in progress is included.

14. Assets held-for-sale

Details of assets held-for-sale as of December 31, 2020 are as follows (Korean won in thousands):

	Amount
Property, plant and equipment	
Land (*1, 2, 3, 4)	₩ 185,145,193
Buildings (*1, 2, 3)	4,892,075
Structures (*1, 2, 3)	793,364
Machinery and equipment	6,913,718
Total	₩ 197,744,350

(*1) The Group decided to sell the site of the Incheon plant to DCRE, an affiliate of the Company, for KRW 110 billion and disclosed the decision on April 29, 2019. The Group plans to collect the money according to the urban development plan in the future, and the Group did not recognize the impairment loss because the Group expects the net fair value to exceed the carrying amount of the site classified as an asset held-for-sale.

(*2) The Group provided DCRE with 3,910,000 shares of SGC Development Co., Ltd. as a collateral in case of return of received consideration in advance and down payments to be received amounting to KRW 85 billion for sale of real estate to DCRE Co., Ltd.

(*3) Assets held-for-sale are provided as collateral for borrowings as of December 31, 2020 (Note 38).

(*4) Part of assets held-for-sale are the transportation terminal business site in Hakik-dong, Incheon. By the resolution of board of directors, the Group announced the sale to DCRE Co., Ltd. of land and buildings located in Hakik-dong 587045 under the urban development project and signed a sale contract (KRW 88,942 million) on August 6, 2020.

15. Leases

(1) Details of right-of-use assets as of December 31, 2020 are as follows (Korean won in thousands):

	Amount
Property	₩ 7,200,158
Vehicles	1,176,921
Vessels	68,858,600
Waste heat power plant	919,463
Heat pipes	176,906
Road usage fee	628,836
Total	₩ 78,960,884

15. Leases (cont'd)

(2) Changes of right-of-use assets for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount
As of November 1, 2020	₩ 71,711,240
Business combination	3,874,769
Changes in the scope of consolidation (*1)	14,106,966
Acquisitions	372,939
Disposals	(21,657)
Depreciation	(781,530)
Transfers, etc. (*2)	(10,301,843)
As of December 31, 2020	₩ 78,960,884

(*1) It includes the effect from the change in consolidation scope due to the inclusion of SGC eTEC E&C Co., Ltd. as a subsidiary for the two-month period ended December 31, 2020 (Note 40).

(*2) Includes transfers to property, plant and equipment.

(3) The amount recognized as profit or loss in relation to the lease is as follows (Korean won in thousands):

	Amount
Depreciation of right-of-use assets	
Real estate	₩ 63,269
Vehicles	34,811
Vessels	652,688
Waste heat power plant	19,155
Heat pipes	2,347
Road usage fee	9,260
Total	₩ 781,530
Interest expenses of lease liabilities	₩ (20,977)
Short-term leases	4,304
Low-value assets leases	17,672

(4) Details of the current/non-current classification of lease liabilities as of December 31, 2020 are as follows (Korean won in thousands):

	Amount
Current	₩ 5,493,713
Non-current	77,358,693
Total	₩ 82,852,406

15. Leases (cont'd)

(5) Matters concerning future cash outflows that are potentially exposed as lessees but are not reflected in the measurement of lease liabilities are as follows:

1) Variable lease payments

Some leases include variable lease terms that are linked to sales associated with the underlying asset. The variable lease associated with sales is recognized in profit or loss during the period when the conditions that cause the variable lease occur.

2) Renewal and termination options

The Group reassesses whether it is fairly certain to exercise (or not to exercise) the extension option when a significant event occurs that is within the scope of the lessee's control and affects the determination of the lease term.

3) Amounts expected to be payable under a residual value guarantee

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

16. Trade and other payables

Details of trade and other payables as of December 31, 2020 are as follows (Korean won in thousands):

	Current
Trade payables	₩ 259,570,558
Other payables	68,804,638
Accrued expenses	6,515,420
Accrued dividends	16,189
Total	₩ 332,906,805

17. Borrowings and bonds

(1) Details of borrowings and bonds as of December 31, 2020 are as follows (Korean won in thousands):

	Current	Non-current
Short-term borrowings	₩ 639,744,961	₩ -
Long-term borrowings (including current portion)	88,688,567	235,007,983
Bonds	80,926,346	254,478,954
Total	₩ 809,359,874	₩ 489,486,937

17. Borrowings and bonds (cont'd)

(2) Details of short-term borrowings as of December 31, 2020 are as follows (Korean won in thousands):

	Lender	Interest rate (%)	December 31, 2020
General fund loan	Shinhan Bank	3.44 ~ 3.7	₩ 27,000,000
General fund loan	Construction Guarantee	1.43	6,310,845
General fund loan	Engineering Guarantee Insurance	2	3,660,000
General fund loan	Shinhan Bank, etc.	1.20 ~ 3.90	528,972,000
General fund loan	Shinhan Bank, etc.	0.74 ~ 5.00	73,802,116
Total			₩ 639,744,961

(3) Details of long-term borrowings as of December 31, 2020 are as follows (Korean won in thousands):

Lender	Interest rate (%)	Current	Non-current
Sangjin Credit Union	3.70	₩ -	₩ 346,370
Jeonju Seongga Credit Union	3.70	-	599,560
Gunsan Oryong Credit Union	3.70	-	227,230
Gunsan Palma Credit Union	3.70	-	256,840
Korea Housing & Urban Guarantee	1.00	64,917	324,583
KEPCO Energy Solution	4.50	481,891	582,869
Hyundai Commercial	4.82 ~ 4.87	1,391,759	-
KDB Bank, etc.	3.00	5,250,000	3,920,531
KDB Bank	1.75	7,500,000	13,750,000
KEB Hana Bank	2.60	74,000,000	-
Credit Union Federation of Korea	3.70	-	47,900,000
MG Korean Federation of Community Credit	3.70	-	60,300,000
Industrial Bank of Korea	3.77 ~ 3.90	-	19,500,000
China Construction Bank	3.77 ~ 5.35	-	87,300,000
Total		₩ 88,688,567	₩ 235,007,983

17. Borrowings and bonds (cont'd)

(4) Details of bonds as of December 31, 2020 are as follows (Korean won in thousands):

	Issued date	Maturity date	Interest rate	Amount
1st private	2018.06.28	2021.06.28	3.60%	₩ 30,000,000
2nd private	2018.10.15	2021.10.15	3.60%	20,000,000
6th private	2020.10.21	2021.10.21	3.70%	25,000,000
4-1st public	2019.04.25	2022.04.25	2.23%	10,000,000
4-2nd public	2019.04.25	2024.04.25	2.63%	2,800,000
5th public	2019.10.15	2024.10.15	2.36%	2,617,001
7-1st public	2020.10.28	2022.10.28	2.32%	106,000,000
7-2nd public	2020.10.28	2023.10.28	2.58%	134,000,000
42nd non-guaranteed private	2020.02.06	2021.02.05	4.50%	6,000,000
Subtotal				336,417,001
Discount on bonds				(1,011,701)
Current portion of bonds				(80,926,346)
Total				₩ 254,478,954

18. Financial derivatives

As of the end of the reporting period, the Group uses derivatives to avoid the risk of changes in cash flows from interest and principal by the changes in interest rate, and the details are as follows (Korean won in thousands):

	Assets	Liabilities
Interest rate swap	₩ -	₩ 59,494

19. Pensions and other post-employment benefit plans

The Group operates a defined contribution retirement benefit system and a defined benefit retirement benefit system for employees who meet the qualifications.

Under the defined contribution retirement benefit plan, plan assets are operated independently of the Group's assets in the form of funds under the management of the trustee. If employees retire the firm before they meet the vesting conditions of the defined contribution, the contributions payable to the Group will be reduced by the amount of contributions lost. The Group must pay a certain percentage of their salaries to the fund for their retirement benefit plans. Under the defined contribution retirement benefit plan, the Group's sole obligation is to pay the prescribed contributions.

There are no outstanding payments related to the defined contribution retirement benefit plan as of December 31, 2020.

Under the defined benefit plan, employees receive lump-sum benefits by applying the average salary for the last three months during the service period provided at the time of retirement.

The Group is exposed to investment risk, interest rate risk, and wage risk.

The actuarial evaluation of the most recent plan assets and defined benefit obligations was carried out on January 12, 2021 by KDB Bank. The current value of the defined benefit obligation related current and past service costs were measured using the projected unit credit method.

(1) Details of net defined benefit liabilities (assets) recognized in the statement of financial position as of December 31, 2020 are as follows (Korean won in thousands):

	Amount
Present value of defined benefit obligations	₩ 61,989,144
Fair value of plan assets	(61,340,398)
Net defined benefit liabilities	₩ 648,746

19. Pensions and other post-employment benefit plans (cont'd)

(2) Changes in the defined benefit obligation and fair value of plan assets as of December 31, 2020 are as follows (Korean won in thousands):

	Defined benefit obligation	Fair value of plan assets	Total
As of November 1, 2020	₩ 10,146,093	₩ (8,004,439)	₩ 2,141,654
Current service cost	541,271	-	541,271
Interest cost (income)	70,550	(71,660)	(1,111)
Subtotal	10,757,914	(8,076,099)	2,681,814
Remeasurement gain (loss) in OCI:			
- Return on plan assets (excluding amounts included in net interest expense)	-	(42,925)	(42,925)
- Actuarial changes arising from changes in financial assumptions	(393,975)	-	(393,975)
- Experience adjustments	(326,863)	-	(326,863)
Subtotal	(720,838)	(42,925)	(763,763)
Contributions by employer	-	(3,102,471)	(3,102,471)
Benefits paid	(187,484)	37,874	(149,610)
Business combination	12,541,052	(9,814,574)	2,726,478
Transfer from affiliates	621,843	(621,843)	-
Others (*1)	38,976,657	(39,720,359)	(743,702)
Subtotal	51,952,069	(53,221,374)	(1,269,305)
As of December 31, 2020	₩ 61,989,144	₩ (61,340,398)	₩ 648,746

(*1) Changes in the scope of consolidation include the increase by the inclusion of SGC eTEC E&C Co., Ltd. as a subsidiary due to delegation of management rights at the end of the current year (Note 40).

(3) The amount recognized in profit or loss in relation to the retirement benefit plan for the two-month period ended December 31, 2020 are as follows:

	Amount
DB Plans	
Current service cost	₩ 541,271
Interest expenses of plan liability	70,550
Interest incomes of plan asset	(71,660)
Subtotal	540,161
DC plans	11,629
Total	₩ 551,790

19. Pensions and other post-employment benefit plans (cont'd)

(4) Details of fair value of plan assets as of December 31, 2020 are as follows (Korean won in thousands):

	Amount	
Time deposits	₩	61,340,398
Total	₩	61,340,398

(5) Principal actuarial assumptions as of December 31, 2020 are as follows:

	Rate
Discount rate	2.37% ~ 3.01%
Expected wage increase rate	2.95% ~ 5.29% + Promotion rate

(6) When significant actuarial assumptions vary within a reasonable range with all other assumptions held constant as of December 31, 2020, the effects on the defined benefit obligations are as follows (Korean won in thousands):

	Increase		Decrease	
1% change of discount rate	₩	(3,147,444)	₩	3,560,316
1% change of salary growth rate		3,549,702		(3,198,182)

The variation in assumptions will not occur independently because there is a correlation between actuarial assumptions. Therefore, the sensitivity analysis above maybe not represent the actual change in defined benefit obligations. Present value of the defined benefit obligation was measured by the projected unit credit method which was applied to measure defined benefit obligation in the statement of financial position.

20. Provisions

(1) Details of provisions as of December 31, 2020 are as follows (Korean won in thousands):

	Current		Non-current	
Provision for construction warranties	₩	5,963,207	₩	6,602,783
Provision for construction losses		3,696,453		-
Emission allowance		73,738		-
Provisions for restoration		-		3,354,862
Other provisions (*1)		-		18,074,426
Total	₩	9,733,398	₩	28,032,071

(*1) The Group has set provisions for the pending litigation case.

20. Provisions (cont'd)

(2) Changes in provisions for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Nov. 1, 2020	Increase (*1)	Decrease	Dec. 31, 2020
Provision for construction warranties	₩ -	₩ 12,565,990	₩ -	₩ 12,565,990
Provision for construction losses	-	3,696,453	-	3,696,453
Emission allowance	-	73,738	-	73,738
Provisions for restoration (*2)	3,525,894	22,163	(193,194)	3,354,863
Other provisions (*1)	-	18,074,426	-	18,074,426
Total	₩ 3,525,894	₩ 34,432,770	₩ (193,194)	₩ 37,765,469

(*1) Changes in the scope of consolidation include the increase by the inclusion of SGC eTEC E&C Co., Ltd. as a subsidiary due to delegation of management rights at the end of the current year (Note 40).

(*2) The Group is obliged to reinstate the undersea tunnel and offshore transportation anchorage facilities at Gunsan Port after the expiration of the occupation and use of property, plant and equipment under the Shared Water Management and Reclamation Act. At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

The provision for construction warranties is the best estimate of the future cash outflow of economic benefits incurred in accordance with the conditions for performing defect repairs in the contract, as the present value. These estimates are based on past warranty experience, but are subject to change depending on other events.

21. Other financial liabilities

Details of other financial liabilities as of December 31, 2020 are as follows (Korean won in thousands):

	Current	Non-current
Rental deposits	₩ 2,280,406	₩ 1,069,449
Financial guarantee liabilities	1,954,805	-
Long-term accounts payables		272,585
Present value discount of long-term accounts payable		(44,859)
Total	₩ 4,235,212	₩ 1,297,175

22. Other liabilities

Details of other liabilities as of December 31, 2020 are as follows (Korean won in thousands):

	Current	Non-current
Advances from customers	₩ 62,806,119	₩ 13,888,889
Advances from real-estate sales	29,577,748	-
Withholdings	4,745,919	-
Refund liabilities	404,314	-
Employee benefits (*1)	928,895	1,262,421
Total	₩ 98,462,995	₩ 15,151,310

(*1) Other liabilities related to employee benefits include annual leave incurred, leave earned for long-term employment, employee's compensation requests and etc.

23. Issued capital and reserves

(1) Details of the Group's issued capital as of December 31, 2020 are as follows:

	Amount
Authorized shares of capital stock	100,000,000
Issued shares of common stock:	14,677,004
Par value	₩ 5,000
Capital stock (Korean won in thousands)	₩ 73,385,020

(2) Changes in the Group's outstanding shares for the two-month period ended December 31, 2020 are as follows (shares):

	Amount
As of November 1, the number of outstanding shares (*1)	14,625,202
Purchase of treasury stock (*2)	(468,354)
As of December 31, the number of outstanding shares	14,156,848

(*1) 51,802 treasury stocks acquired through a split merger are excluded in the number of outstanding shares as of November 1, 2020.

(*2) It was acquired through consolidation of SGC eTEC E&C Co., Ltd. as of December 31, 2020.

(3) Changes in the Group's issued capital for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount
As of November 1, 2020	₩ 6,093,085
Business combination	67,291,935
As of December 31, 2020	₩ 73,385,020

24. Retained earnings and dividends

- (1) Changes in retained earnings for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount
As of November 1, 2020	₩ -
Net profit for the period attributable to equity holders of the parent	26,209,365
Remeasurement component of defined benefit plans	594,379
Conversion from capital reserve	60,000,000
Other comprehensive income	114,812
Change in consolidation scope	318,579
Total	₩ 87,237,135

25. Capital surplus and other components of capital

- (1) Details of capital surplus as of December 31, 2020 are as follows (Korean won in thousands):

	Amount
Share premium	₩ 420,104,852
Other capital surplus	6,356,535
Total	₩ 426,461,387

- (2) Details of other components of capital as of December 31, 2020 are as follows (Korean won in thousands):

	Amount
Treasury stock	₩ (20,401,732)
Total	₩ (20,401,732)

- (3) Details of accumulated other comprehensive income as of December 31, 2020 are as follows (Korean won in thousands):

	Amount
Foreign exchange gain on overseas business translation, net	₩ 342,188
Gain on valuation of financial assets measured at FVOCI	(77,619)
Total	₩ 264,569

26. Revenue from contracts with customers

Revenue from contracts with customers for the two-month period ended December 31, 2020 is as follows (Korean won in thousands):

	Amount
Revenue from contracts with customers	
Revenues from services	₩ 1,184,226
REC sales	24,231,900
Finished goods sales	32,472,645
Merchandise sales	3,273,035
Steam sales	16,320,898
Electricity sales	28,934,131
Other sales	131,532
Total	₩ 106,548,367
Revenue recognition	
Goods and services performed over time	46,570,787
Goods and services performed at a point in time	59,977,580
Total	₩ 106,548,367

27. Selling and general administrative expenses

Details of selling and general administrative expenses for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount
Wages and salaries	₩ 1,553,698
Retirement benefits	143,334
Employee welfare benefits	230,391
Travel	79,108
Communication	21,403
Water utility	13,137
Taxes and dues	61,097
Rents	35,151
Depreciation	93,631
Repairs	16,957
Insurance	24,916
Entertainment	84,698
Advertising	428,653
Transportation	1,604,500
(Reversal of) Allowance for bad debts	(195,198)
Education and training	7,577
Vehicle maintenance	42,754
Supplies	187,821
Commissions	1,329,545
Newspaper and books	19,507
Sample fees	22,462
Amortization	120,602
R&D expenses	80
Electricity costs	3,654
Fees related to exports	458,943
Service charges	121,445
Depreciation of investment properties	12,757
Total	₩ 6,522,623

28. Other non-operating income

Details of other non-operating Income for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount
Gains on foreign currency transactions	₩ 168,342
Gains on foreign currency translation	11,531
Recovery of impairment losses on intangible assets	19,708
Recovery of gain on bargain purchase	25,212,488
Miscellaneous gains	54,145
Gains on disposal of investment in associates	4,903,005
Total	₩ 30,369,219

29. Other non-operating expenses

Details of other non-operating expenses for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount
Loss on disposal of property, plant and equipment	₩ 24,908
Impairment losses on intangible assets	118,600
Loss on foreign currency transactions	214,182
Loss on foreign currency translation	307,619
Other bad debt expenses	(1,017)
Donations	7,803
Miscellaneous losses	30,100
Loss on disposal of investment in associates	19,125,098
Total	₩ 19,827,293

30. Financial income and costs

(1) Details of financial income for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount
Interest income	₩ 50,195
Gains on foreign currency transactions	459,264
Gains on foreign currency translation	250,331
Gains on valuation of financial instruments at fair value through profit or loss	7,785
Total	₩ 767,575

(2) Details of the financial income per categorized assets for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount
Financial instruments at amortized cost	₩ 759,790
Financial instruments at fair value	7,785
Total	₩ 767,575

(3) Details of financial cost for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount
Interest expenses	₩ 5,154,070
Losses on foreign currency transactions	10,455
Losses on foreign currency translation	259,112
Loss on valuation of financial instruments at fair value through profit or loss	74,250
Financial fees	20,704
Total	₩ 5,518,591

30. Financial income and costs (cont'd)

(4) Details of the financial costs per categorized liabilities for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount
Financial instruments at amortized cost	₩ 5,444,341
Financial instruments at fair value	74,250
Total	₩ 5,518,591

31. Expenses categorized by nature

Details of expenses categorized by nature for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount
Salaries	₩ 8,240,894
Outsourcing service fee	1,369,202
Sales of goods	2,287,320
Material cost	44,508,920
Depreciation	16,228,360
Amortization	120,769
Commissions	2,806,741
Changes in inventories	9,572,658
Repairment	1,108,175
Others	13,288,098
Total	₩ 99,531,137

32. Income taxes

- (1) The major components of income tax expenses for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount
Current income tax:	
Current income tax charge	₩ 137,877
Deferred tax:	
Tax effect of temporary differences	1,861,560
Income tax recognized directly to equity	(168,633)
Income tax expenses	₩ 1,830,804

- (2) A reconciliation between income tax expenses and the profit before income tax are as follows (Korean won in thousands):

	Amount
Profit before income tax	₩ 28,044,737
Taxes at the statutory income tax rate	6,169,842
Adjustment:	
Applying the progressive tax rate	(22,000)
Tax effect of non-taxable income	(7,588,025)
Tax effect of non-taxable expenses	1,244,020
Effects of tax credits and reductions	(310,577)
Others	2,337,544
Income tax expense	₩ 1,830,804
Effective tax rate	6.5%

- (3) Details of corporate tax recognized in other comprehensive income for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount
Recognized in other comprehensive income	₩
Remeasurement factor of defined benefit obligation	(168,633)
Total	₩ (168,633)

SGC Energy Co., Ltd. and its subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020

32. Income taxes (cont'd)

(4) Details of deferred tax as of December 31, 2020 are as follows (Korean won in thousands):

	As of Nov. 1, 2020	Business combination	Net income	Other comprehensive income	As of Dec. 31, 2020
Deferred taxes of temporary differences					
Defined benefit obligations	₩ 2,437,059	₩ 8,184,758	₩ (111,559)	₩ (168,633)	₩ 10,341,625
Retirement pension provision	(1,937,074)	(6,474)	(466,336)	-	(2,409,884)
Accrued revenues	(453)	(656,907)	435	-	(656,925)
Other receivables	-	-	6,087	-	6,087
Construction in progress	(208,264)	2,544,223	22,359	-	2,358,318
Land	(674,642)	(38,824,869)	61,331	-	(39,438,180)
Buildings	-	-	542	-	542
Machinery	-	-	14,448	-	14,448
Accumulated impairment loss on property, plant and equipment	-	451,556	(122,926)	-	328,630
Allowance for bad debts	2,207,231	21,888,184	(311,226)	-	23,784,189
Long-term accrued expenses	53,163	-	2,730	-	55,893
Intangible assets	-	-	87,720	-	87,720
Unpaid annual leave allowance	123,686	519,663	(71,273)	-	572,076
Depreciation	1,050,562	(8,203,070)	(151,313)	-	(7,303,821)
Capitalized borrowing costs on general borrowings	(18,117)	-	1,801	-	(16,316)
Financial guarantee liabilities	553,432	-	4,443,591	-	4,997,023
Prepaid expenses	(553,432)	-	(4,825,130)	-	(5,378,562)
Provisions for restoration liabilities	853,266	-	(115,197)	-	738,069
Other provisions	-	3,976,374	16,222	-	3,992,596
Structures	(786,190)	-	48,120	-	(738,070)
(Gain) Losses on foreign currency translations	(30,107)	-	30,107	-	-
Accrued expenses	-	-	(60,270)	-	(60,270)
Right-of-use asset	(17,354,120)	-	1,695,138	-	(15,658,982)
Lease liabilities	18,206,601	-	(1,702,072)	-	16,504,529
Government grants (Other receivables)	39,204	-	(50,339)	-	(11,135)
Loss on valuation of inventories	2,037,668	-	989,768	-	3,027,436
Investment stock	(272,566)	3,877	(1,426,988)	-	(1,695,677)
Financial instruments at fair value through profit or loss	-	(4,012,258)	-	-	(4,012,258)
Treasury stock	-	10,578	-	-	10,578
Combined shares in merger	-	(6,161,826)	-	-	(6,161,826)

SGC Energy Co., Ltd. and its subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020

32. Income taxes (cont'd)

	As of Nov. 1, 2020	Business combination	Net income	Other comprehensive income	As of Dec. 31, 2020
Discounted present value	-	-	(6,536)	-	(6,536)
Others	7,389	3,352,411	(2,736)	-	3,357,064
Subtotal	₩ 5,734,296	₩ (16,933,780)	₩ (2,003,502)	₩ (168,633)	₩ (13,371,619)
Deferred tax of unused tax losses, unused tax credits					
Unused tax losses	₩ -	₩ 11,485,478	₩ 310,577	₩ -	₩ 11,796,055
Tax credits	5,964,713	2,925	-	-	5,967,638
Subtotal	5,964,713	11,488,403	310,577	-	17,763,693
Total	₩ 11,699,009	₩ (5,445,377)	₩ (1,692,925)	₩ (168,633)	₩ 4,392,074

- (5) The temporary differences for which deferred tax assets and liabilities have not been recognized as of December 31, 2020 are as follows (Korean won in thousands):

	Amount
Temporary difference to be deducted	
Loss carry forward	₩ 942,902
Tax credit	1,491,178
Investments in subsidiaries	597,588
Total	₩ 3,031,668

- (6) The expiration date of unused deficits and tax credits that are not recognized as deferred tax assets as of December 31, 2020 are as follows (Korean won in thousands):

Year	Unused deficits	Tax credits
2026	₩ -	₩ 1,491,178
2034	942,902	-
Total	₩ 942,902	₩ 1,491,178

- (7) The temporary differences associated with investments in the Group's subsidiaries, associates and joint ventures, for which deferred tax assets and liabilities have not been recognized as of December 31, 2020 are as follows (Korean won in thousands):

	Amount
Investments in subsidiaries	₩ (1,252,445)

32. Income taxes (cont'd)

- (8) Current/non-current deferred tax assets (liabilities) shown in the statement of financial position as of December 31, 2020 are as follows (Korean won in thousands):

	Amount
Deferred tax assets:	
Deferred tax assets to be recovered after 12 months	₩ 39,445,415
Deferred tax assets to be recovered within 12 months	58,309,536
Subtotal	<u>97,754,951</u>
Deferred tax liabilities:	
Deferred tax liabilities to be recovered after 12 months	34,881,149
Deferred tax liabilities to be recovered within 12 months	58,481,728
Subtotal	<u>93,362,877</u>
Net deferred tax assets (liabilities)	<u>₩ 4,392,074</u>

33. Earnings per share

(1) The following table reflects the income and share data used in the basic EPS computations for the two-month period ended December 31, 2020 (in Korean won and in number of shares):

		Amount
Net profit attributable to owners of the Group used in the calculation of basic earnings per share	₩	26,209,364,724
Weighted-average number of ordinary shares outstanding		14,625,202
Basic earnings per share	₩	1,792

(2) Weighted average number of ordinary shares outstanding for the two-month period ended December 31, 2020 is calculated as follows (shares):

	The number of shares	The number of days	Accumulated shares
Issued shares as of November 1, 2020	14,625,202	61	892,137,322
Changes in ordinary shares	-	-	-
Weighted average number of ordinary shares outstanding (*1)	14,625,202	61	892,137,322

(*1) 468,354 treasury stocks acquired through the consolidation of SGC eTEC E&C Co., Ltd. were not considered when calculating the weighted average number of outstanding common stocks.

(3) Diluted earnings per share

The Group has no shares that are potentially dilutive. Therefore, dilutive earnings per share is the same as basic earnings per share.

34. Risk management

(1) Capital risk management

The Group manages its capital to ensure that entities under the Group will be able to continue while maximizing the return to shareholders through the optimization of its debt and equity balance. The Group's overall strategy remains unchanged. The Group utilizes the debt ratio as capital management index which is the total liabilities divided by the total equity. Total liabilities and total equity are based on the amounts stated in the financial statements. The Group is not subject to any externally imposed capital requirements.

The debt ratio as of December 31, 2020 is as follows (Korean won in thousands):

		Amount
Total liabilities	₩	1,997,593,170
Total capital		668,077,318
Debt ratio		299%

34. Risk management (cont'd)

(2) Major accounting policies and methods adopted for each category of financial assets, financial liabilities and equity (including recognition and measurement criteria and revenue and expense recognition criteria) are disclosed in detail in Note 2.

(3) Book value of financial assets by criteria

1) Financial assets by classification as of December 31, 2020 are as follows (Korean won in thousands):

A. Financial assets

	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Total
Cash and cash equivalents	₩ -	₩ 174,682,440	₩ -	₩ 174,682,440
Short-term financial instruments	-	18,110,845	-	18,110,845
Long-term financial instruments	-	1,338,195	-	1,338,195
Trade and other receivables	-	338,466,922	-	338,466,922
Financial assets at fair value	20,476,834	-	8,105,830	28,582,664
Other financial assets	-	44,966,889	-	44,966,889
Total	₩ 20,476,834	₩ 577,565,291	₩ 8,105,830	₩ 606,147,955

The book value and fair value of the financial assets are consistent.

B. Financial liabilities

	Financial liabilities at amortized cost
Trade and other payables	₩ 332,906,805
Borrowings	1,298,846,813
Lease liabilities	82,852,406
Other finance liabilities	5,532,387
Total	₩ 1,720,138,411

The book value and fair value of the financial liabilities are consistent.

(4) Financial risk management

1) Purpose of financial risk management

The Group is exposed to various risks related to its financial instruments, such as market risk (currency risk, fair value interest rate risk, and price risk), credit risk, liquidity risk and cash flow interest rate risk. The finance department of the Group manages operations, organizes the approach to financial market and controls the financial risks related to operations of the Group through internal risk reports which analyze the scope and degree of each risk factor.

34. Risk management (cont'd)

2) Market risk

A. Foreign currency risk management

The Group generates foreign currency exchange positions due to income and expenditures that are different from global sales and book currency. Major foreign currencies that generate exchange positions include USD and SAR. The Group periodically evaluates, manages, and reports on foreign currency exposure risk through a foreign currency bond and debt management system.

The book values of the financial assets and liabilities denominated in foreign currencies other than its functional currencies as of December 31, 2020 are as follows (Korean won in thousands):

	Assets		Liabilities	
USD	₩	87,260,138	₩	47,477,976
JPY		-		632,311
CNY		3,515,228		45,240
EUR		204,712		1,296,977
SGD		-		1,988,939
VND		37,873,577		22,844,916
MYR		2,895		-
	₩	128,856,550	₩	74,286,359

Internally, the Group regularly assesses exchange rate risk due to exchange rate fluctuations. As of December 31, 2020, the effects of a 10% exchange rate change on profit or loss and net assets are expected to be as follows (Korean won in thousands):

	10% increase		10% decrease	
Net profit	₩	5,457,019	₩	(5,457,019)
Net assets		5,457,019		(5,457,019)

As of December 31, 2020, the sensitivity analysis was conducted on monetary assets and liabilities denominated in foreign currencies other than the functional currency.

B. Stock price fluctuation risk

The Group invests in equity securities, including unlisted stocks, for liquidity management and business needs. It is held for strategic purposes, not for trading purposes, and the investment assets are not actively traded.

34. Risk management (cont'd)

C. Interest rate risk

The Group is exposed to interest rate risk. The risk is composed of the changes in amount of accounts including finance assets and liabilities, and changes in interest income (expense) from investment and borrowings. The interest rate risk is borne by the interest-bearing liabilities and assets, such as bonds or loan.

The Group measures the risk from the changes in interest rates internally and regularly. Following analysis is based on the assumption that interest rate has increased/decreased by 1% (Korean won in thousands):

	1% increase	1% decrease
Net profit	₩ (4,439,050)	₩ 4,439,050

3) Credit risk management

Credit risk arises from ordinary transactions and investment activities of the Group, and arises when a customer or counterparty fails to comply with the obligations under the terms of the contract. To manage such credit risk, the Group periodically evaluates the financial credit rating of customers and counterparties, taking into account the financial position, past experience, and other factors, and sets credit limits for each client and counterparty.

Maximum credit risk exposure as of December 31, 2020 is as follows (Korean won in thousands):

	Amount
Financial guarantee contracts (*1)	₩ 585,717,075

(*1) The maximum exposure of the Group related to the financial guarantee contract is the amount that the Group must pay when the guarantee is claimed. As of December 31, 2020, the amount recognized as financial guarantee liability in relation to the financial guarantee contract is KRW 1,954,805 thousand.

Financial assets other than the above financial guarantee contracts and loan agreements are excluded from the above disclosure because the carrying amount best represents the maximum exposure to credit risk.

4) Liquidity risk management

The Group manages liquidity risk through periodic fund forecasting and adjustment to maintain adequate liquidity.

The Group sells accounts receivables to domestic and overseas financial institutions with a certain level of credit rating or higher to ensure smooth fund management, and has overdraft agreements with financial institutions.

The maturity analysis of the remaining contract maturity of borrowings, bonds, and lease liabilities among the financial liabilities of the Group is as follows (Korean won in thousands):

	Less than 1 year	1 ~ 5 years	More than 5 years	Total
Trade and other payables	₩ 332,906,805	₩ -	₩ -	₩ 332,906,805
Borrowings and bonds	809,359,875	311,078,728	178,408,210	1,298,846,813
Lease liabilities	5,493,713	73,357,663	4,001,030	82,852,406
Other financial liabilities	4,235,212	1,297,175	-	5,532,387
Total	₩ 1,151,995,605	₩ 385,733,566	₩ 182,409,240	₩ 1,720,138,411

34. Risk management (cont'd)

(5) Fair value of financial instruments

- 1) The book value of financial instruments subsequently measured at fair value as of December 31, 2020 is as follows (Korean won in thousands):

		Amount
Quoted shares	₩	1,693,615
Unquoted shares		3,065,830
Capital stock		18,783,219
Beneficiary certificates		5,040,000
Total	₩	28,582,664

2) Valuation techniques and assumptions applied to fair value measurement

The fair value of financial assets and financial liabilities are determined as follows:

- Standard trading conditions and fair values of financial assets and financial liabilities with active markets were determined by referring to market prices (Government bonds and unsecured corporate bonds).
- The fair value of other financial assets and financial liabilities (excluding derivatives) was determined according to a generally accepted pricing model based on discounted cash flow analysis using observable current market transaction prices and dealer quotes for similar financial instruments.

In particular, the important assumptions used in determining the fair value of the following financial assets and financial liabilities are described below.

34. Risk management (cont'd)

3) All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The following table analyzes financial instruments that are measured at fair value after initial recognition by classifying them from Level 1 to Level 3 according to the degree to which the fair value is observable in the market.

	Level 1	Level 2	Level 3	Total
Financial assets at fair value	₩ 1,693,615	₩ -	₩ 26,889,049	₩ 28,582,664

Except as detailed in the table above, management believes that the carrying amounts of financial assets and financial liabilities measured at amortized cost in the consolidated financial statements are similar to their fair value.

Financial instruments that are not subsequently measured at fair value in the consolidated statement of financial position as of December 31, 2020 are classified as Level 3 in the fair value hierarchy.

35. Related party transactions

(1) Details of related parties as of December 31, 2020 are as follows:

Relationship	Companies
Associates	eTEC(Thailand) Company Limited.
Others (*1)	SAMWA Resort Co., Ltd.
Others (*2)	DCR E&C Co., Ltd., OCI Co., Ltd., OCI Specialty Co., Ltd., OCIC Co., Ltd., OCI Dream, OCI Ferro Co., Ltd., OCISE Co., Ltd., OCI Power Co., Ltd., Haeng Bok Do Si Phovoltaic Power Generation Co., Ltd., BNO Bio Co.,Ltd., UNID Global Co., Ltd., UNID Co., Ltd., UNID LED Co., Ltd., UNID(Sichuan) New Materials CO., Ltd., OCI INTERNATIONAL INC

(*1) This is a company with the same CEO as the company's representative director.

(*2) These companies do not correspond to related parties as defined in paragraph 9 of KIFRS 1024. However, but they are classified according to the resolution of Fair Trade Commission regarding that companies in large corporate group are related parties in terms of substantial relations prescribed in paragraph 10 of KIFRS 1024.

SGC Energy Co., Ltd. and its subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020

35. Related party transactions (cont'd)

(2) Transactions with related parties for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

Relationship	Related companies	Revenue		Expenses		
		Revenue	Other Revenue	Raw Materials	Construction in progress	Other expenses
Associates	SGC eTEC E&C	₩ 688,968	₩ -	₩ -	₩ 43,702,337	₩ 34,890
	DCRE Co., Ltd.	7,016	-	-	-	-
	UNID Co., Ltd.	-	-	-	-	3,000
Others	OCI INTERNATIONAL INC	-	4,488	-	-	218,640
	OCIC Co., Ltd .	-	-	-	-	23,298
	OCI Co., Ltd .	4,282,771	-	1,216,985	-	-
Total		₩ 4,978,755	₩ 4,488	₩ 1,216,985	₩ 43,702,337	₩ 279,828

(3) As of December 31, 2020, main outstanding balances related to transactions with related parties are as follows (Korean won in thousands):

Relationship	Related companies	Assets			Liabilities	
		Trade receivables	Other receivables	Allowance for bad debts	Trade Payables	Other Payables
Associates	eTEC(Thailand) Company Limited	₩ -	₩ 1,048,930	₩ (1,048,930)	₩ -	₩ -
	DCRE Co., Ltd	4,528	26,269	-	-	59,000,000
	UNID Co., Ltd.	-	1,075,550	-	-	25,550
	OCI INTERNATIONAL INC	217,600	-	-	-	217,600
Others	OCIC Co., Ltd.	-	-	-	-	28,188
	OCI Co., Ltd.	2,341,510	8,367,596	(8,367,596)	1,542,968	107,658
	UNID Global Co., Ltd.	-	-	-	-	567,361
	SAMWA Resort Co., Ltd.	-	300,000	-	-	-
Total		₩ 2,563,638	₩ 10,818,345	₩ (9,416,526)	₩ 1,542,968	₩ 59,946,357

35. Related party transactions (cont'd)

(4) Details of lease transactions with related parties for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

Relationship	Related companies	Lease payment		Interest expenses	
Others	OCI Co., Ltd.	₩	680	₩	719
	UNID Co., Ltd.		309		191

(5) The details of payment guarantee with related parties as of December 31, 2020 are as follows (Korean won in thousands):

Relationship	Related companies	Currency	Amounts	Details
Others	DCRE Co., Ltd. (*1)	KRW	42,000,000	Guarantee of fulfillment of contract

(*1) The Group provided DCRE with 3,910,000 shares of SGC Development Co., Ltd. as a collateral in case of return of received consideration in advance and down payments to be received amounting to KRW 85 billion for sale of real estate to DCRE Co., Ltd.

(6) Compensation details for key members of management for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount	
Short-term employee benefits	₩	1,800,750
Retirement benefits		590,000
Total	₩	2,390,750

SGC Energy Co., Ltd. and its subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020

36. Statements of cash flows

(1) Details of cash generated from operations for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount
Net profit	₩ 26,213,932
Adjustments to reconcile profit to net cash flows provided by operating activities:	
Income taxes expenses	1,830,804
Depreciation	16,063,852
Amortization	120,769
Depreciation of investment properties	164,508
Losses on disposal of property, plant and equipment	24,908
Gains on disposal of investment securities on associates	(4,903,005)
Losses on disposal of investment securities on associates	19,125,098
Gains on valuation of investment securities using equity method	(35,806,485)
Losses on valuation of investment securities using equity method	20,569,887
(Reversal of) bad debt expenses	(195,198)
Other bad debt expenses	(1,017)
Interest expenses	5,154,070
Losses on foreign currency translation	318,078
Impairment losses on intangibles	118,600
Losses on valuation of inventories	3,270,973
Reversal of negative goodwill	(25,212,488)
Losses on valuation of financial instruments at fair value through profit or loss	74,250
Gains on valuation of financial instruments at fair value through profit or loss	(7,785)
Recovery of impairment losses on intangibles	(19,708)
Interest income	(50,200)
Retirement benefits	551,039
Reversal of allowance for valuation of inventory	(426,335)
Gains on foreign currency translation	(261,862)
Insurance	6,967
Recovery of provision for restoration	(332,611)
Changes in assets and liabilities from operating activities	
Trade receivables	(30,114,586)
Inventories	6,499,753
Other receivables	(3,041,026)
Other current assets	2,540,330
Trade payables	(6,493,565)
Other payables	(6,629,877)
Defined benefit obligations	(3,234,513)
Other current liabilities	(5,206,750)
Provisions	73,738
Other non-current liabilities	34,507
Cash generated from operations	₩ (19,180,948)

SGC Energy Co., Ltd. and its subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020

36. Statements of cash flows (cont'd)

- (2) Significant non-cash transactions for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Amount
Increase in net assets due to business combinations	₩ 573,532,439
Reclassification of the current portion of long-term borrowings	1,875,000
Reclassification of the current portion of advances from customers	370,370
Other payables related to acquisition of property, plant and equipment	9,278,765

- (3) Changes in liabilities arising from financial activities for the two-month period ended December 31, 2020 are as follows (Korean won in thousands):

	Nov. 1, 2020	Business combination	Cash flow from financing activities	Reclassification	Others (*1)	Dec. 31, 2020
Short-term borrowings	₩ 463,972,000	₩ 150,695,468	₩ (11,093,256)	₩ -	₩ 36,170,750	₩ 639,744,961
Current portion of long-term borrowings	5,250,000	82,500,000	(2,875,000)	1,875,000	1,938,568	88,688,568
Loans (Current)	94,909,857	5,996,763	(20,000,000)	-	19,726	80,926,346
Lease liabilities (Current)	2,622,306	1,280,305	(461,963)	(511,090)	2,564,154	5,493,712
Long-term borrowings	165,425,507	15,638,784	50,000,000	(1,875,000)	5,818,692	235,007,983
Loans (Non-current)	254,410,745	-	-	-	68,210	254,478,954
Lease liabilities (Non-current)	72,611,582	2,643,912	-	(511,090)	2,614,290	77,358,694
Total	₩ 1,059,201,997	₩ 258,755,232	₩ 15,569,781	₩ -	₩ 48,172,212	₩ 1,381,699,218

- (*1) The increase is mainly due to the inclusion of SGC eTEC E&C Co., Ltd. as a subsidiary as of December 31, 2020 (Note 40).

37. Cash and cash equivalents

Cash and cash equivalents in the statement of cash flow include cash and bank deposits. As of December 31, 2020, cash and cash equivalents in the statement of cash flows are adjusted to related items in the statement of financial position as follows (Korean won in thousands):

	Amount
Cash on hand	₩ 60,387
Ordinary Deposit	147,903,809
Foreign Currency Deposit	17,290,259
Current Deposit	36,673
MMT (*1)	8,391,093
RP	1,000,219
Total	₩ 174,682,440

(*1) It is classified as cash and cash equivalents in that it is easy to convert into cash and has low risk of fluctuations in value.

38. Restricted use financial assets

Financial assets that are restricted in use or provided as collateral for liabilities or contingent liabilities as of December 31, 2020 are as follows (Korean won in thousands):

		Dec. 31, 2020
Cash and cash equivalents	Saving accounts (*1)	₩ 21,754,070
Short-term financial instruments	Time deposits (*2)	8,530,645
	Time deposits	249,195
Long-term financial instruments	Deposits for current account	7,000
Total		₩ 30,540,910

(*1) Pledge has been set in relation to the borrowing.

(*2) Deposits is pledged by Hana Bank for construction guarantee on underwater tunnel GE3 and for guarantee the stand-by L/C of the subsidiary Shanghai subsidiary.

39. Commitments and contingencies

(1) Commitments

As of December 31, 2020, the contracts with financial institutions that the Group has entered into are as follows (Korean won in thousands):

	Details	Currency	December 31, 2020
	Loan for industrial facilities	KRW	56,250,000
KDB Bank	Loan for industrial operation funds	KRW	331,400,000
	Letter of credit	USD	8,000,000
Shinhan Bank	General loan	KRW	18,500,000
	Letter of credit	USD	4,000,000
NH Bank	General loan	KRW	22,000,000
Woori Bank	General loan	KRW	6,572,000
KEB Hana Bank	General loan	KRW	38,000,000
Commercial paper	General loan	KRW	80,000,000
Leo partners investment 8th	General loan	KRW	48,500,000
Private bonds	Corporate bonds	KRW	75,000,000
Public bonds	Corporate bonds	KRW	255,417,001
KEB Hana Bank	Letter of credit	USD	20,000,000
NH Bank	Letter of credit	USD	4,000,000
Shinhan Bank	Issuance agreement of secured loan of electronic credit sales	KRW	45,000,000
National Credit Union Federation of Korea	Loan for corporate facilities	KRW	50,000,000
Dalgubeol Credit Union	Loan for corporate facilities	KRW	5,000,000
Halla National Credit Union	Loan for corporate facilities	KRW	5,000,000
Gyeongsangnam-do Jeil Credit Union	Loan for corporate facilities	KRW	5,000,000
Chuncheon Catholic Credit Union	Loan for corporate facilities	KRW	3,300,000
Pyeongtaek Seongdong Credit Union	Loan for corporate facilities	KRW	1,700,000
Commercial paper	Loan for corporate facilities	KRW	50,000,000
DB Insurance Co., Ltd	Loan for corporate facilities	KRW	26,000,000
Lotte Insurance Co., Ltd	Loan for corporate facilities	KRW	16,000,000
China Construction Bank	Loan for corporate facilities	KRW	30,000,000
KEB Hana Bank	Loan for corporate facilities	KRW	30,000,000
Korean Federation of Community Credit Cooperatives	Loan for corporate facilities	KRW	90,000,000
KEB Hana Bank	Loan for equipment	KRW	75,500,000

39. Commitments and contingencies (cont'd)

(2) The Group's assets provided as collateral to financial institutions in relation to the Group's long- and short-term borrowings as of December 31, 2020 are as follows (Korean won in thousands):

	Financial Institutions	Maximum amount of bonds	Book value
Property, plant and equipment	KDB Bank	₩ 455,200,000	₩ 959,686,608
	Iksan City	1,145,000	
	UNID Global Co., Ltd.	3,000,000	
Assets held-for-sale	Shinhan Bank	71,600,000	110,000,000
	KEB Hana Bank	37,800,000	
Investment in subsidiary	NH Bank	8,626,953	8,316,327
Investment in subsidiary	Daesang Corp.	25,000,000	20,406,800
	Shinhan Bank	71,600,000	45,239,745
Property, plant and equipment	KEB Hana Bank	37,800,000	
	KDB Bank	196,000,000	106,158,473
Saving account	National Credit Union	21,754,070	21,754,070
	Federation of Korea and others		
Land and construction in progress	National Credit Union	374,400,000	254,266,651
	Federation of Korea and others		
Investment properties and property, plant and equipment	KEB Hana Bank	92,400,000	136,668,326
Non-current assets held-for-sale and investment properties	Shinhan Bank	50,000,000	77,346,740
Financial assets measured at fair value	Engineering Guarantee Insurance	3,660,000	9,525,280
Financial assets measured at fair value	Construction Guarantee	6,310,845	9,064,899
Trade receivables	Hyundai Commercial, Inc.	2,783,519	4,759,563
	Kepco Energy Solution	1,064,760	
	Jeonju Seongga Credit Union		
Investment properties	Sangjin Credit Union	3,966,300	3,220,758
	Oryong Credit Union		
	Palma Credit Union		
Financial assets measured at fair value	Korea Housing & Urban Guarantee Corporation	389,500	111,155
Total		₩ 1,464,500,947	₩ 1,670,792,057

39. Commitments and contingencies (cont'd)

(3) The payment guarantees provided to the Group as of December 31, 2020 are as follows (Korean won in thousands):

Guarantee	Guarantor	Amount	Details
Gunsan Regional Office of Oceans and Fisheries	NH Bank	₩ 2,024,000	Performance guarantee for restoration submarine tunnel
The Export-Import Bank of Korea, etc.	The Export-Import Bank of Korea, etc.	USD 78,485	Foreign currency payment guarantee
The Export-Import Bank of Korea, etc.	The Export-Import Bank of Korea, etc.	SAR 46,181	Foreign currency payment guarantee
Construction Guarantee	Construction Guarantee	₩ 149,549,202	Bidding and payment guarantee, etc.
Seoul Guarantee Insurance	Seoul Guarantee Insurance	₩ 47,508,943	Bidding and payment guarantee, etc.
Korea Housing & Urban Guarantee Corporation	Korea Housing & Urban Guarantee Corporation	₩ 7,738,274	Defect repair guarantee
Engineering Guarantee Insurance	Engineering Guarantee Insurance	₩ 499,366,833	Subcontract payment guarantee, etc.

(4) The payment guarantees provided by the Group as of December 31, 2020 are as follows (Korean won in million):

	Amount	Guarantee
DCRE	₩ 42,000	Payment guarantee for the return of down payment and intermediate payment
Seongsu-dong The LIV buyers	36,930	Intermediate payment loan joint guarantee
Baekseok station The LIV style buyers	53,089	Intermediate payment loan joint guarantee
Daegu Beomeo The LIV Square Buyers	51,440	Intermediate payment loan joint guarantee
Cheonan Asan station The LIV Buyers	129,517	Intermediate payment loan joint guarantee
Uiwang Technopark The LIV buyers	69,341	Intermediate payment loan joint guarantee
Homaesil The LIV style	32,525	Intermediate payment loan joint guarantee
Yeongju Gaheung The LIV sweet M	142,596	Intermediate payment loan joint guarantee
G Valley The LIV smart	29,558	Intermediate payment loan joint guarantee
Daegu Bon-dong	10,722	Intermediate payment loan joint guarantee
Yeongju Gaheung The LIV buyers	30,000	Business-related loan joint guarantee

39. Commitments and contingencies (cont'd)

- (5) Notes and checks that were provided as pledge in relation to the Group's loan transactions and contract performance guarantee as of December 31, 2020 are as follows (Korean won in thousands):

Type	Quantity	Amount	Provided by	Purpose
Check	35	₩ 133,455,746	Lotte E&C, Hyundai Chemical, etc.	Contract performance guarantee, etc.

- (6) As of December 31, 2020, the Group has entered into a completion contract with the developer and related lenders in relation to projects of the residential-commercial building construction in Yeongdeungpo-gu, Seoul. In case of non-fulfillment of liability for some sites, the Group provides conditional debt underwriting agreements the Group provides conditional debt endorsement agreements (limit as of December 31, 2020 - KRW 979,000 thousand, Used - KRW 461,700 thousand).

- (7) Pending litigation

As of December 31, 2020, there are nine cases pending in the court where the Group is a defendant (litigation amount: KRW 81,532,884 thousand). The best estimate expected to be paid as a result of the lawsuit was recognized as other provisions, and the final burden due to the outcome of the lawsuits may differ from the amount estimated by the Group.

40. Business combinations

A. Split merger

(1) General Information

On October 31, 2020, the Group merged with Gunjang Energy Co., Ltd. Gunjang Energy was liquidated due to this merger. Samkwang Glass Co., Ltd. remains after the merger. At the same time, the former E-Tech E&C Co., Ltd. was merged into Samkwang Glass Co., Ltd. by dividing the investment sector as stipulated in Articles 530-2 to 530-11 of the Commercial Act.

The legal acquirer of the spin-off and acquisition is the Company (formerly Samkwang Glass Co., Ltd.), and the legal acquiree is the investment division of E-Tech E&C Co., Ltd. However, considering the relative voting rights in the combined company after the merger and the composition of the decision-making body of the combined company, the acquirer for accounting purposes was deemed to be the investment division of E-Tech E&C Co., Ltd.

As a result of the merger and division, the Group acquired control over SGC Development Co., Ltd. The consolidated financial statements include the financial performance of the SGC Development Co., Ltd. from the acquisition date to the end of the reporting period.

40. Business combinations (cont'd)

At the time of division, the financial position of the investment sector of the former E-Tech E&C is as follows (Korean won in thousands):

	Amounts	
Assets		
Investment in subsidiaries	₩	198,822,840
Investment in associates		25,139,289
Total assets	₩	223,962,129
Liabilities		
Borrowings	₩	70,827,127
Total liabilities		70,827,127
Total equity	₩	153,135,002

In addition, assuming that the acquisition date for the business combination is November 1, 2020, which is the commencement of the reporting period, the amount of revenue and net loss of the combined entity during the reporting period is KRW 348,380,131 thousand and KRW 33,287,137 thousand, respectively.

- (2) The fair values of identifiable assets acquired in a business combination and liabilities acquired, and the consideration transferred, and goodwill are as follows (Korean won in thousands):

	Amount (*1)	
Consideration		
Equity instruments (4,802,616 common stocks (*2))	₩	182,019,146
Total		182,019,146
Assets		
Cash and cash equivalents		19,734,414
Short-term financial instruments		6,000,000
Financial assets at fair value through profit or loss		1,760,080
Trade and other receivables		43,887,109
Other financial assets		1,353,500
Inventories		47,109,019
Other current assets		3,111,646
Current income tax assets		122,525
Long-term financial assets		253,195
Long-term trade and other receivables		806,139
Investment in associates		21,196,229
Other non-current assets (held-for-sale)		110,000,000
Property, plant and equipment		144,143,133
Investment properties		170,411,503
Intangible assets		4,030,505
Right-of-use assets		3,874,769
Other non-current finance assets		1,623,221
Liabilities		

40. Business combination (cont'd)

	Amount (*1)
Trade and other payables	31,243,760
Borrowings	239,192,231
Current income tax liabilities	276,327
Other finance liabilities	1,963,872
Lease liabilities (current)	1,280,304
Current other liabilities	37,100,155
Borrowings	15,638,784
Long-term other payables	4,911,058
Defined benefit obligations	2,726,478
Deferred tax liabilities	14,583,066
Lease liabilities	2,643,912
Other finance liabilities	3,357,282
Non-current other liabilities	285,873
Treasury stock	1,942,368
Amount of acquired assets and acquired liabilities.	226,156,254
Non-controlling interests (*2)	(217,686,095)
Other capital increase or decrease (*2)	216,486,621
Gain on bargain purchase (*2)	₩ 45,336,582

(*1) The amounts of assets and liabilities recognized in the financial statements in a business combination have been tentatively determined, and the related amounts may be adjusted in the future.

(*2) Consideration for transfer was determined by calculating the number of shares that would have been issued to the owners of the Group and the fair value per share of the Group at the date of split-off and acquisition, assuming that shares were issued by the investment division of E-Tech E&C Co., Ltd., the acquirer in accounting. Consideration for treasury stock not related to the business combination was not included. In addition, the difference between the consideration transferred and the amount recognized as identifiable assets and liabilities was recorded as amount of decrease in other capital due to changes in ownership (KRW 1,199,474 thousand), gains on equity method (KRW 35,806,485 thousand), gains on disposal of investment stocks using equity method (KRW 4,903,005 thousand), and gain on bargain purchase (KRW 4,627,091 thousand).

40. Business combination (cont'd)

B. Business combination

(1) General information

As of December 31, 2020, the Group has acquired de facto control over SGC E-Tech E&C because Bok-young Lee and Woo-sung Lee, who are related parties of the Group, have been entrusted voting rights for a 10.8% stake in SGC E-Tech E&C. The consolidated financial statements include the financial performance of the SGC E-Tech E&C as of December 31, 2020.

(2) The fair values of identifiable assets acquired in a business combination and liabilities acquired, and the consideration transferred and goodwill are as follows (Korean won in thousands):

	Amount (*1)	
Transfer price		
Fair value of previously held shares (*2)	₩	29,676,881
Total		29,676,881
Assets		
Cash and cash equivalents		102,048,065
Short-term financial instruments		9,580,200
Trade and other receivables		223,515,319
Unclaimed construction		39,301,946
Other financial assets		29,007,588
Inventories		45,830,031
Other current assets		24,294,489
Current income tax assets		398,725
Long-term financial assets		3,000
Long-term trade and other receivables		4,804,553
Financial assets at fair value through profit or loss		18,783,219
Deferred tax assets		12,342,248
Financial assets at fair value though other comprehensive income		26,488,725
Other non-current assets (held-for-sale)		73,178,164
Property, plant and equipment		3,345,175
Investment properties		21,288,585
Intangible assets		2,800,371
Right-of-use assets		14,106,966
Non-current assets held-for-sale		26,335,150
Liabilities		
Trade and other payables		250,214,526
Over claimed construction		117,355,909
Borrowings		38,909,412
Current income tax liabilities		4,351,051
Derivative liabilities		59,494
Other finance liabilities		3,609,290

40. Business combination (cont'd)

	Amount (*1)
Provisions	9,659,660
Lease liabilities (current)	6,451,534
Current other liabilities	56,030,527
Borrowings and bonds	6,257,983
Defined benefit obligations	(743,702)
Provisions	24,677,209
Deferred tax liabilities	3,204,561
Lease liabilities	7,615,455
Other finance liabilities	40,000
Non-current other liabilities	703,504
Amount of acquired assets and acquired liabilities.	149,056,106
Non-controlling interests (*3)	98,793,829
Gain on bargain purchase (*3)	₩ 20,585,396

(*1) The amounts of assets and liabilities recognized in the financial statements in business combination have been tentatively determined, and the related amounts may be adjusted in the future.

(*2) Gains or losses on disposal of KRW 19,588 million arising from remeasurement of the equity held prior to the business combination at fair value was recognized in profit or loss. Other comprehensive income of KRW 463 million previously recognized for the equity was reclassified to profit or loss.

(*3) The difference between the consideration transferred and the amount recognized as identifiable assets and liabilities was recorded as change in non-controlling interests due to change in equity ratio and gain on bargain purchase.

41. Uncertainty of the impact of COVID-19

Various preventative and control measures have been implemented worldwide, including restrictions on movement, in order to contain the spread of COVID-19, and as a result, the global economy has been affected extensively. In addition, various forms of government support policies are being announced to cope with COVID-19. Recoverability of trade receivables and, impairment of property, plant and equipment and intangible assets including goodwill are mainly affected by COVID-19. Although the future spread or duration of COVID-19 may affect the estimates and assumptions of the Group, the ultimate impact cannot be reasonably estimated at this stage.