

KOREA NATIONAL OIL CORPORATION
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2014

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Board of Directors and Shareholder
Korea National Oil Corporation:

We have audited the accompanying consolidated statements of financial position of Korea National Oil Corporation and its subsidiaries (the "Group") as at December 31, 2014 and 2013, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

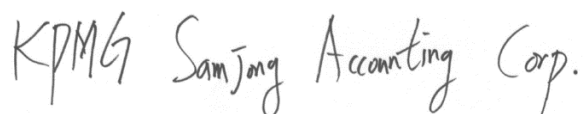
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2014 and 2013 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other Matters

The accompanying consolidated statement of financial position of the Group as of December 31, 2013, and the related consolidated statements of loss and other comprehensive loss, changes in equity and cash flows for the year then ended, prior to the retrospective adjustments on discontinued operations as described in note 7, were audited by us in accordance with the previous auditing standards generally accepted in Republic of Korea. We did not audit the financial statements of four subsidiaries and one 50% owned joint venture. The financial statements of the four subsidiaries constitute 48.0% of the Group's consolidated total assets (before the elimination of the intra-group balances) as of December 31, 2013 and 82.1% of the Group's consolidated revenue (before the elimination of revenue and cost resulting from intra-group transactions and the retrospective adjustment on discontinued operations) for the year ended December 31, 2013. The Group's investment in the joint venture as of December 31, 2013 was ₩672,783 million and its equity in profit of the joint venture was ₩9,800 million for the year ended December 31, 2013. Other auditors audited those financial statements and our report, insofar as it relates to the subsidiaries and joint venture, was based solely on the reports of other auditors.

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.



KPMG Samjong Accounting Corp.
Seoul, Korea
February 27, 2015

<p>This report is effective as of February 27, 2015, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>
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KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of December 31, 2014 and 2013

<i>In thousands of Korean won</i>	<i>Note</i>	2014	2013
Assets			
Cash and cash equivalents	8,9	₩ 508,505,823	966,031,817
Current financial assets	10,12,40	14,585,590	120,451,718
Trade and other receivables	11,40	941,156,630	1,021,629,733
Inventories	15	151,679,512	187,958,393
Current income tax assets	38	70,919,103	61,880,362
Current non-financial assets	16,17	257,292,034	494,625,247
Current assets		1,944,138,692	2,852,577,270
Non-current financial assets	10,12,13,40	1,136,788,538	1,218,428,690
Long-term trade and other receivables	11,40	93,838,391	108,765,400
Property, plant and equipment	19	13,821,982,615	14,786,486,244
Goodwill	20	857,048,504	1,406,615,636
Intangible assets other than goodwill	21	3,850,828,416	3,931,248,659
Investments in associates and joint ventures	18	859,236,636	924,765,106
Deferred tax assets	38	903,175,901	354,969,109
Non-current non-financial assets	16	3,424,305,829	3,216,683,715
Non-current assets		24,947,204,830	25,947,962,559
Total assets		₩ 26,891,343,522	28,800,539,829

See accompanying notes to the consolidated financial statements.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Position, Continued
As of December 31, 2014 and 2013

<i>In thousands of Korean won</i>	<i>Note</i>	2014	2013
Liabilities			
Trade and other payables	22,40	₩ 1,417,940,562	1,473,284,763
Current financial liabilities	23,24,40	1,260,897,165	2,856,551,429
Current income tax liabilities	38	125,838,115	10,095,502
Current non-financial liabilities	17,28	133,328,054	124,763,554
Current provisions	27	258,469,204	275,395,802
Current liabilities		3,196,473,100	4,740,091,050
Long-term trade and other payables	22,40	452,705,928	255,315,265
Non-current financial liabilities	23,24,40	10,904,889,881	9,125,342,439
Defined benefit liability	26	14,031,961	6,751,951
Deferred tax liabilities	38	1,430,501,146	1,836,393,222
Non-current provisions	27	2,523,072,751	2,552,763,693
Non-current liabilities		15,325,201,667	13,776,566,570
Total liabilities		18,521,674,767	18,516,657,620
Equity			
Issued capital	29	10,091,919,780	10,030,492,780
Accumulated deficit	30,31	(2,177,312,124)	(513,370,001)
Other components of equity	32	(357,504,008)	(54,440,419)
Equity attributable to the owner of the parent		7,557,103,648	9,462,682,360
Non-controlling interests		812,565,107	821,199,849
Total equity		8,369,668,755	10,283,882,209
Total equity and liabilities	₩	26,891,343,522	28,800,539,829

See accompanying notes to the consolidated financial statements.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2014 and 2013

<i>In thousands of Korean won</i>	<i>Note</i>	2014	2013(Restated)
Continuing Operations			
Revenue	6,33	₩ 4,358,117,749	5,265,482,026
Cost of sales	39	3,439,873,292	3,579,210,267
Gross profit		918,244,457	1,686,271,759
Selling and administrative expenses	39	445,378,189	513,739,044
Operating profit		472,866,268	1,172,532,715
Other non-operating income	34	139,468,540	38,379,743
Other non-operating expenses	34	(266,860,119)	(144,866,175)
Other loss, net	35	(1,719,940,535)	(678,594,830)
Finance income	36,40	79,958,384	154,767,401
Finance costs	37,40	(621,038,153)	(626,002,578)
Gain(loss) on investments in associates and joint ventures, net	18	(41,575,496)	999,369
Loss before income tax		(1,957,121,111)	(82,784,355)
Income tax benefit	38	(684,335,163)	(41,047,175)
Loss from continuing operations		(1,272,785,948)	(41,737,180)
Discontinued operations	7		
Loss from discontinued operations, net of tax		(338,346,504)	(674,024,520)
Loss for the year		₩ (1,611,132,452)	(715,761,700)
Other comprehensive income (loss), net of tax			
Items that will never be reclassified to profit or loss			
Actuarial gains (losses) on defined benefit plans	26	₩ (18,343,252)	24,339,900
Retained earnings adjustments in equity method		(3,907)	457
Items that are or may be reclassified to profit or loss			
Net change in the unrealized			
fair value of available-for-sale financial assets, net of tax	40	(152,517,668)	21,052,313
Equity adjustments arising from investments in equity-method investees	18	(5,478,246)	1,407,625
Net change in the unrealized			
fair value of derivatives using cash flow hedge accounting, net of tax	40	20,170,210	41,372,402
Foreign currency translation differences		(146,772,486)	(257,893,300)
Other comprehensive loss for the year, net of tax		(302,945,349)	(169,720,603)
Total comprehensive loss for the year		₩ (1,914,077,801)	(885,482,303)
Income (loss) attributable to:			
Owners of the Company		₩ (1,602,523,025)	(728,861,072)
Non-controlling interests		(8,609,427)	13,099,372
Loss for the year		₩ (1,611,132,452)	(715,761,700)
Total comprehensive income (loss) attributable to:			
Owners of the Company		₩ (1,923,933,773)	(893,356,508)
Non-controlling interests		9,855,972	7,874,205
Total comprehensive loss for the year		₩ (1,914,077,801)	(885,482,303)

See accompanying notes to the consolidated financial statements.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the years ended December 31, 2014 and 2013

In thousands of Korean won

		Share capital	Retained earnings (accumulated deficit)	Other components of equity	Subtotal	Non- controlling interests	Total equity
Balance at January 1, 2013	₩	9,736,914,780	201,543,314	134,395,373	10,072,853,467	661,873,082	10,734,726,549
Total comprehensive loss for the year							
Income (loss) for the year		-	(728,861,072)	-	(728,861,072)	13,099,372	(715,761,700)
Items that will not be reclassified subsequently to profit or loss							
Defined benefit plan actuarial losses, net of tax		-	24,339,900	-	24,339,900	-	24,339,900
Retained earnings adjustments in equity method		-	457	-	457	-	457
Items that are or may be reclassified subsequently to profit or loss							
Net change in the unrealized fair value of available-for-sale financial assets, net of tax		-	-	21,052,313	21,052,313	-	21,052,313
Equity adjustments arising from investments in equity-method investees		-	-	1,407,625	1,407,625	-	1,407,625
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax		-	-	41,372,402	41,372,402	-	41,372,402
Exchange differences on translation of foreign operations		-	-	(252,668,132)	(252,668,132)	(5,225,168)	(257,893,300)
Total comprehensive income (loss) for the year		-	(704,520,715)	(188,835,792)	(893,356,507)	7,874,204	(885,482,303)
Transactions with owners of the Company, recognized directly in equity							
Issuance of share capital		293,578,000	-	-	293,578,000	-	293,578,000
Dividends		-	(10,392,600)	-	(10,392,600)	(31,971,456)	(42,364,056)
Changes in ownership interests in subsidiaries		-	-	-	-	183,424,019	183,424,019
Total transactions with owners of the Company		293,578,000	(10,392,600)	-	283,185,400	151,452,563	434,637,963
Balance at December 31, 2013	₩	10,030,492,780	(513,370,001)	(54,440,419)	9,462,682,360	821,199,849	10,283,882,209

See accompanying notes to the consolidated financial statements.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Equity, Continued
For the years ended December 31, 2014 and 2013

In thousands of Korean won

		Share capital	Retained earnings (accumulated deficit)	Other components of equity	Subtotal	Non- controlling interests	Total equity
Balance at January 1, 2014	₩	10,030,492,780	(513,370,001)	(54,440,419)	9,462,682,360	821,199,849	10,283,882,209
Total comprehensive loss for the year							
Loss for the year		-	(1,602,523,025)	-	(1,602,523,025)	(8,609,427)	(1,611,132,452)
Items that will not be reclassified subsequently to profit or loss							
Defined benefit plan actuarial losses, net of tax		-	(18,343,252)	-	(18,343,252)	-	(18,343,252)
Retained earnings adjustments in equity method		-	(3,907)	-	(3,907)	-	(3,907)
Items that may be reclassified subsequently to profit or loss							
Net change in the unrealized fair value of available-for-sale financial investments, net of tax		-	-	(152,517,668)	(152,517,668)	-	(152,517,668)
Equity adjustments arising from investments in equity-method investees		-	-	(5,478,246)	(5,478,246)	-	(5,478,246)
Net change in the unrealized fair value of derivatives using cash flow hedge accounting, net of tax		-	-	20,170,210	20,170,210	-	20,170,210
Exchange differences on translation of foreign operations		-	-	(165,237,885)	(165,237,885)	18,465,399	(146,772,486)
Total comprehensive income (loss) for the year		-	(1,620,870,184)	(303,063,589)	(1,923,933,773)	9,855,972	(1,914,077,801)
Transactions with owners of the Company, recognized directly in equity							
Issuance of share capital		61,427,000	-	-	61,427,000	-	61,427,000
Dividends		-	(43,071,939)	-	(43,071,939)	(27,747,883)	(70,819,822)
Changes in ownership interests in subsidiaries		-	-	-	-	9,257,169	9,257,169
Total transactions with owners of the Company		61,427,000	(43,071,939)	-	18,355,061	(18,490,714)	(135,653)
Balance at December 31, 2014	₩	10,091,919,780	(2,177,312,124)	(357,504,008)	7,557,103,648	812,565,107	8,369,668,755

See accompanying notes to the consolidated financial statements.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2014 and 2013

In thousands of Korean won

	2014	2013
Cash flows from operating activities		
Loss for the year	₩ (1,611,132,452)	(715,761,700)
Adjustment for:		
Net pension plan costs	11,694,258	12,663,052
Depreciation of property, plant and equipment	1,492,743,482	1,548,058,086
Amortization of intangible assets other than goodwill	262,608,618	157,729,831
Bad debt expense	(569,684)	-
Gains on exemption of debts	(96,533,646)	(18,835,861)
Accrual for other provisions	167,601,802	96,181,135
Other bad debt expense	69,485,634	28,322,504
Gains on disposal of property, plant and equipment	(377,791,284)	(32,028,564)
Gains on disposal of intangible assets other than goodwill	(1,703,639)	(8,419)
Gains on valuation of derivatives (other profit or loss)	(774,415)	(8,851,387)
Gains on foreign currency translation (other profit or loss)	(7,899,235)	(5,027,805)
Losses on disposal of property, plant and equipment	14,375,586	3,085,780
Losses on disposal of intangible assets other than goodwill	41,987,066	-
Losses on valuation of derivatives (other profit or loss)	774,410	6,444,846
Impairment on property, plant and equipment	946,552,254	665,070,919
impairment and write-off of intangible assets other than goodwill	825,979,042	549,937,542
Impairment on goodwill	457,038,443	-
Losses on foreign currency translation (other profit or loss)	29,551,178	5,425,735
Income tax benefit	(596,451,641)	(67,403,834)
Interest income	(34,635,404)	(53,499,524)
Dividends income	(4,807,355)	(43,215,577)
Gains on disposal of available-for-sale financial investments	(2,893,891)	(21,057,599)
Gains on valuation of derivatives (finance income)	-	(5,303,095)
Gain on redemption of financial liabilities	-	(3,885,444)
Gains on foreign currency translation (finance income)	(11,534,554)	(41,262,651)
Interest expense	394,660,817	447,290,897
Losses on valuation of derivatives (finance cost)	2,020,344	1,493,679
Losses on foreign currency translation (finance cost)	148,902,648	87,106,004
Other finance costs (Interest expense)	52,288,703	64,215,575
Share of loss (profit) in associates and joint ventures, net	42,586,212	(999,369)
Losses on disposal of investments in associates and joint ventures	2,354,683	-
Gains on disposal of investments in associates and joint ventures	(3,365,399)	-
Loss on disposal of discontinued operation	54,024,188	-
	3,878,269,221	3,371,646,456
Changes in:		
Inventories	37,843,325	1,232,821
Trade and other receivables	(24,877,240)	(63,249,722)
Other receivables relating to operating activities	156,645,636	(272,447,779)
Trade and other payables	158,988,915	(172,820,212)
Other payables relating to operating activities	(142,258,780)	145,623,432
Defined benefit liability	(39,773,830)	(8,036,794)
Provisions	(271,721,154)	(86,783,892)
Cash generated from operating activities	2,141,983,641	2,199,402,610
Dividend received	5,333,965	43,215,577
Interest paid	(490,825,700)	(437,010,342)
Interest received	38,612,528	26,701,115
Income tax paid	(152,692,239)	(271,518,967)
Net cash provided by operating activities	1,542,412,195	1,560,789,993

See accompanying notes to the consolidated financial statements.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued
For the years ended December 31, 2014 and 2013

In thousands of Korean won

	2014	2013
Cash flows from investing activities:		
Disposal of investments in associates and joint ventures ₩	5,543,479	19,727,679
Acquisition of investments in associates and joint ventures	(79,058,447)	-
Proceeds from disposal of property, plant and equipment	678,070,042	223,355,446
Property dispositions	198,022,483	-
Acquisition of property, plant and equipment	(2,452,102,662)	(2,394,783,013)
Proceeds from disposal of assets held for sale	52,330,382	-
Proceeds from disposal of intangible assets other than goodwill	8,654,840	8,662,006
Acquisition of intangible assets other than goodwill	(359,830,574)	(490,244,189)
Acquisition of non-current non-financial assets	(95,970,934)	(130,152,107)
Proceeds from disposal of short-term trading financial assets	15,724,991	332,860,800
Acquisition of short-term trading financial assets	-	(5,517,377)
Acquisition of available-for-sale financial investments	(11,750,343)	(21,750,084)
Proceeds from disposal of available-for-sale financial investments	9,671,986	41,268,013
Increase in long-term and short-term financial assets	-	(5,193,819)
Decrease in long-term and short-term financial assets	89,306,976	26,336,903
Increase in leasehold deposits provided	(39,081,824)	-
Decrease in leasehold deposits provided	17,782,167	-
Collection of short-term and long-term loans	(133,001,119)	(215,682,389)
Decrease in short-term and long-term loans	32,909,405	107,843,034
Increase in leasehold deposits received	1,868,583	652,795
Decrease in leasehold deposits received	(3,529)	-
Proceeds from change in scope of consolidation, net	35,827,797	-
Net cash used in investing activities	(2,025,086,301)	(2,502,616,302)
Cash flow from financing activities		
Proceeds from increase in issued capital	61,427,000	293,578,000
Proceeds from short-term borrowings	263,596,573	917,930,755
Repayments of short-term borrowings	(220,502,771)	(558,413,441)
Repayments of current portion of long-term liabilities	(219,617,413)	(219,008,000)
Proceeds from issue of bond payables	2,310,012,129	2,333,659,791
Repayments of bond payables	(2,415,168,194)	(1,781,823,902)
Proceeds from long-term borrowings	459,184,671	285,310,496
Repayments of long-term borrowings	(160,073,731)	(65,404,677)
Dividends paid	(70,819,822)	(42,364,056)
Proceeds from partial disposition of interest in subsidiaries	9,257,169	183,424,019
Net cash provided by financing activities	17,295,611	1,346,888,985
Net increase (decrease) in cash and cash equivalents before net effect of foreign exchange differences	(465,378,495)	405,062,676
Effect of exchange rate fluctuations on cash held	7,852,501	(31,309,027)
Increase (decrease) in cash and cash equivalents	(457,525,994)	373,753,649
Cash and cash equivalents at January 1	966,031,817	592,278,168
Cash and cash equivalents at December 31 ₩	508,505,823	966,031,817

See accompanying notes to the consolidated financial statements.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

1. Reporting Entity

(a) Description of the controlling company

Korea National Oil Corporation (the “Company” or the “Parent Company”) was incorporated on March 3, 1979 to engage in the development of oil fields, distribution of crude oil, maintenance of petroleum reserve stock and improvement of the petroleum distribution infrastructure under the Korea National Oil Corporation Act. The Company’s head office is located at 305, Jongga-Ro, Jung-Gu, Ulsan in Korea. The Company also has 9 petroleum stockpile sites, 1 domestic gas field management office, 8 overseas offices in Vietnam and other countries and overseas subsidiaries and affiliates in the United States and other countries.

As of December 31, 2014, the Company’s issued capital is ₩10,091,920 million, which is wholly owned by the government of the Republic of Korea.

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interests in associates and joint ventures.

The list of subsidiaries as of December 31, 2014 and 2013 is disclosed in Note 5.

2. Basis of Preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards (“K-IFRS”), as prescribed in the Act on External Audits of Corporations in the Republic of Korea.

The consolidated financial statements were authorized for issue by the Board of Directors on February 27, 2015.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- ✓ derivative financial instruments are measured at fair value
- ✓ financial instruments at fair value through profit or loss are measured at fair value
- ✓ available-for-sale financial assets are measured at fair value
- ✓ liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

2. Basis of Preparation, Continued

(c) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The accompanying consolidated financial statements are prepared in the Group's functional currency, the United States dollar, and presented in Korean won, the Group's presentation currency, for the financial reporting purposes in accordance with K-IFRS 1021, 'The Effects of Changes in Foreign Exchange Rates'. The Group is required to present its financial statements in Korean won in accordance with regulations in Korea.

Assets and liabilities for each statement of financial position presented (i.e. including comparatives) were translated at the closing rate at the date of that statement of financial position, income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) were translated at the average exchange rates of the period and all resulting exchange differences were recognized in other comprehensive income.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(i) Management's judgment

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes

Note 25: Loans from Special Accounting for Energy and Resources ("SAER")

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes

Note 19: Property, Plant and Equipment – estimation of factors for depreciation

Note 20: Goodwill – main assumptions for recoverable amounts

Note 21: Intangible assets other than goodwill – main assumptions for recoverable amounts

Note 26: Employee Benefits – main actuarial assumptions

Note 27 and 44: Provisions and Contingencies – assumptions for possibility of cash outflows and their amounts

Note 38: Income tax benefit – possibility of realization of deferred tax assets

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

2. Basis of Preparation, Continued

(d) Use of estimates and judgments, continued

(iii) Measurement of fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group's Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Information about the assumptions made in measuring fair values is included in the following notes:

Note 40 – Categories of financial instruments

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3. Changes in Accounting Policies

Except for the changes below, the Group has consistently applied the accounting policies set out in note 4 to all periods presented in these consolidated financial statements. The Group has adopted the following new standards and amendments to standards with a date of initial application of January 1, 2014.

- (i) Offsetting Financial Assets and Financial Liabilities (Amendments to K-IFRS No. 1032 'Financial Instruments: Presentation')
- (ii) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to K-IFRS No. 1036 'Impairment of Assets')
- (iii) K-IFRS No. 2121, 'Levies'

The details of changes in accounting policies are as follows.

- (a) Offsetting Financial Assets and Financial Liabilities (Amendments to K-IFRS No. 1032 'Financial Instruments: Presentation')

The Group has adopted amendments to K-IFRS 1032, 'Offsetting Financial Assets and Financial Liabilities' since January 1, 2014. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'. According to the amendments, the right to set off should not be contingent on a future event, and legally enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendments also state that some gross settlement systems would be considered equivalent to net settlement if they eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.

- (b) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to K-IFRS No. 1036 'Impairment of Assets')

The Group has adopted amendments to K-IFRS 1036 'Impairment of Assets' since January 1, 2014. The amendments require the disclosure of information about the recoverable amount of impaired assets, if that amount is based on fair value less costs of disposal. They also require the disclosure of additional information about that fair value measurement. In addition, if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique, the amendments also require the disclosure of the discount rates that have been used in the current and previous measurements.

- (c) K-IFRS No. 2121, 'Levies'

The Group has adopted K-IFRS No.2121, 'Levies' since January 1, 2014. K-IFRS No. 2121 is an Interpretation of K-IFRS No. 1037 'Provisions, Contingent Liabilities and Contingent Assets', on the accounting for levies imposed by governments. K-IFRS 1037 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (or 'obligating event'). K-IFRS 2121 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The interpretation does not provide guidance on the accounting for the costs arising from recognizing the liability to pay a levy. Other K-IFRSs should be applied to determine whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

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3. Changes in Accounting Policies, Continued

Management believes the impact of the amendments on the Group's consolidated financial statements is not significant, and the Group did not retrospectively apply the new standards and amendments to standards stated above.

4. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for changes in accounting policies as explained in note 3.

Certain comparative amounts in the statement of comprehensive income have been reclassified or re-represented as a result of an operation discontinued during the current year (see note 7).

(a) Basis of consolidation

(i) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

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4. Significant Accounting Policies, Continued

(a) Basis of consolidation, continued

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(vi) Acquisitions from entities under common control

The assets and liabilities acquired under business combinations under common control are recognized at the carrying amounts recognized previously in the consolidated financial statements of the ultimate parent. The difference between consideration transferred and carrying amounts of net assets acquired is recognized as part of share premium.

(b) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale.

When an operation is classified as a discontinued operation, the comparative consolidated statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative period.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments in highly liquid securities that are readily convertible to known amounts of cash with maturities of three months or less from the acquisition date and which are subject to an insignificant risk of changes in value. Equity investments are excluded from cash and cash equivalents.

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4. Significant Accounting Policies, Continued

(d) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the moving-weighted average method, and includes expenditures for acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(e) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(i) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets are classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

4. Significant Accounting Policies, Continued

(e) Non-derivatives financial assets, continued

(iv) Available-for-sale financial assets

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Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

(v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

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4. Significant Accounting Policies, Continued

(f) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(i) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

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4. Significant Accounting Policies, Continued

(f) Derivative financial instruments, including hedge accounting, continued

(ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- ① the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- ② a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- ③ the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(g) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

If there is objective evidence that financial instruments are impaired, impairment losses are measured and recognized. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

4. Significant Accounting Policies, Continued

(g) Impairment of financial assets, continued

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other

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comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

(h) Property, plant and equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, 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 and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The following costs are capitalized as oil and gas properties.

- the costs incurred in development stage for constructing facilities and drilling wells for production
- the costs of acquiring production areas or fields with proved reserves
- the construction costs and other expenditures for initiating production
- the estimated costs for decommissioning

Additionally, the Group depreciates the acquisition costs of oil and gas properties which are aggregated on an area-by-area basis or field-by-field basis. For the costs of oil and gas properties which are aggregated on an area-by-area basis, the Group depreciates the acquisition costs using proved reserves as the total estimated production when applying the unit-of-production depreciation method. For the costs of oil and gas properties which are aggregated on a field-by-field basis, the Group depreciates the acquisition costs using proved developed reserves as the total estimated production when applying the unit-of-production depreciation method.

Costs related to undeveloped oil and gas properties are not immediately included in the depletable pool of developed assets but are transferred to the depletable pool as the reserves become proved (for area-by-area basis) or developed (for field-by-field basis) through drilling activities.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

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4. Significant Accounting Policies, Continued

(h) Property, plant and equipment, continued

Property, plant and equipment, except for land and oil and gas properties, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

	Useful lives (years)
Buildings	20 ~ 40 years
Structures	20 ~ 40 years
Machinery	5 ~ 20 years
Vessels	35 years
Tools and fixtures	5 years
Vehicles	5 years

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(i) Intangible assets

Intangible assets with finite useful lives acquired separately are carried at cost. Intangible assets acquired in a business combination 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.

Prior to acquiring the legal rights to explore an area, all costs related to exploration and evaluation of an area are charged directly to the statement of comprehensive loss. Once the legal rights to explore are acquired, all costs associated with acquisition of exploration rights, geological, geophysical and geographical research, drilling costs and evaluation of technical and commercial viability of economic production are capitalized as exploration and evaluation assets. All such costs are subject to review for impairment when facts and circumstances suggest that the carrying amount of the assets exceeds their recoverable amount. When technical feasibility and commercial viability are established, the relevant expenditure is transferred to oil and gas properties after impairment is assessed and any resulting impairment loss is recognized. If no potentially commercial petroleum is discovered from exploration drilling, the relating exploration and evaluation assets are written off through the statement of comprehensive loss.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for intangible assets with a finite useful lives are reviewed at least each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

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4. Significant Accounting Policies, Continued

(i) Intangible assets, continued

Intangible assets with indefinite useful lives such as membership are not amortized, but are tested for impairment annually. Intangible assets with definite useful lives are amortized on a straight-line basis over estimated useful lives of 5 to 20 years.

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, and are recognized in income or loss when the asset is derecognized.

(j) Oil stockpiles

The Group stockpiles crude oil and petroleum products to stabilize domestic demand and market prices and classifies those assets as oil stockpiles (non-current non-financial assets) of which the cost is determined using the moving-average method. The Group performs annual impairment test for oil stockpiles.

(k) Borrowing costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

(l) Government grants

Government grants are not recognized unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.

Government grants whose primary condition is that the Group purchases, constructs or otherwise acquires long-term assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

In case where the Group receives loans with interest rate lower than the market rate, the benefits from lower interest rates shall be recognized as government grants.

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4. Significant Accounting Policies, Continued

(m) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets ("CGUs"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

(n) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036, 'Impairment of Assets'.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

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4. Significant Accounting Policies, Continued

(o) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(p) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

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4. Significant Accounting Policies, Continued

(p) Employee benefits, continued

(iii) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

Re-measurements of net defined benefit liabilities, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments, net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss in curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(q) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation 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 risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

When there is a legal or contractual obligation for dismantling, removing facilities and restoring sites on which they are located to their original condition at the end of the useful lives of the facilities, the present value of the estimated future restoration costs are capitalized at the acquisition date as additions to the cost of oil and gas properties and are accounted for as a provision. The Group subsequently depreciates the restoration costs using the unit-of-production method and the difference between estimated restoration costs and their present value is charged to current operations by applying the effective-interest-rate method.

(r) Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the dates of the transactions.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. When gains or losses on non-monetary items are recognized in other comprehensive income, exchange components of those gains or losses are recognized in other comprehensive income. Conversely, when gains or losses on non-monetary items are recognized in profit or loss, exchange components of those gains or losses are recognized in profit or loss.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(s) Revenue

Revenue from sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit.

(i) Sales of goods

Revenue from the sale of goods in the ordinary course of activities is measured at the fair value of the consideration received or receivable, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. The appropriate timing for transfer of risks and rewards varies depending on the individual terms and conditions of the sales contract. For international sales, this timing depends on the type of international commercial terms of the contract.

The Group recognizes revenue from the sales of product from a production area, only when the Group invests in the production area as a joint operation not as a joint venture. In addition, for the Group's joint operations, the Group capitalizes costs related to the production area as the oil and gas properties even if the Group is a non-operator.

(ii) Sales of other services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed or services performed to date as a percentage of total services to be performed or the proportion that costs incurred to date bear to the estimated total costs of the transaction or other methods that reliably measures the services performed.

(t) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(t) Income taxes, continued

(ii) Deferred tax

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

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

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

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

(u) Operating Segments

An operating segment is a component of the Group that engages in business activities and has discrete financial information that is reviewed regularly by the Group's chief operating decision maker (the Chief Executive Officer), to make decisions about resources to be allocated to the segments and assess their performance.

(v) New standards and interpretations not yet adopted

The following amendments to existing standards have been published and are mandatory for the Group for annual period beginning after January 1, 2014, and the Group has not early adopted them.

Management believes the impact of the amendments on the Group's consolidated financial statements is not significant.

K-IFRS No. 1019 'Employee Benefits' – Employee contributions

Amendments to K-IFRS 1019 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

5. Subsidiaries

- (a) The list of subsidiaries directly owned by the Company as of December 31, 2014 and December 31, 2013 are as follows:

Subsidiary name	Principal activity	Country of incorporation	Ownership (%)	
			December 31, 2014	December 31, 2013
ANKOR E&P Holdings Corp.	Exploration and production (E&P)	United States	100.00	100.00
Dana Petroleum Limited	E&P	United Kingdom	100.00	100.00
KNOC Eagle Ford Corp.	E&P	United States	100.00	100.00
Harvest Operations Corp.	E&P	Canada	100.00	100.00
KNOC Kaz B.V.	Holding Company	Netherlands	100.00	100.00
KNOC Exploracao e Producao de Petro do Brasil Ltda	E&P	Brazil	100.00	100.00
KNOC NEMONE	E&P	Indonesia	100.00	100.00
KNOC NEMTWO	E&P	Indonesia	100.00	100.00
KNOC Sumatra Ltd.	E&P	Indonesia	100.00	100.00
KNOC Yemen Ltd.	E&P	Yemen	60.00	60.00
KNOC Trading Singapore Pte. Ltd.	Trading and Marketing	Singapore	100.00	100.00
KNOC Trading Corporation(*)	Trading and Marketing	United States	100.00	-

(*) In February 2014, the Group acquired 100% of KNOC Trading Corporation from North Atlantic Refining Limited, which was a subsidiary of Harvest Operations Corp. North Atlantic Refining Limited was disposed of during the year ended December 31, 2014 and excluded from consolidation scope.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

5. Subsidiaries, Continued

(b) Financial information of subsidiaries

(i) Financial information of subsidiaries as of and for the year ended December 31, 2014 is as follows:

In millions of Korean won

Company		Assets	Liabilities	Revenue	Net profit (loss)
ANKOR E&P Holdings Corp.	₩	1,235,190	680,210	220,177	(93,466)
Dana Petroleum Limited (*)		5,836,302	3,970,789	1,184,384	(609,807)
KNOC Eagle Ford Corp.		2,836,393	775,501	689,707	27,757
Harvest Operations Corp.		4,844,729	3,366,532	855,036	(434,218)
KNOC Kaz B.V.(*)		1,513,170	619,469	365,721	(35,101)
KNOC Exploracao e Producao de Petro do Brasil Ltda		23	477	-	(105)
KNOC NEMONE		90	45,061	-	(4,618)
KNOC NEMTWO		111	40,197	-	(3,915)
KNOC Sumatra Ltd.		1,892	435	-	9,775
KNOC Yemen Ltd.		25,132	117,015	-	(17,597)
KNOC Trading Singapore Pte. Ltd.		185	4	459	50
KNOC Trading Corporation		1,486	58	1,643	315

(*) The amounts presented are after reflecting the difference between the fair value and the book value that arose during the business combination.

(ii) Financial information of subsidiaries as of and for the year ended December, 2013 is as follows:

In millions of Korean won

Company		Assets	Liabilities	Revenue	Net profit (loss)
ANKOR E&P Holdings Corp.	₩	1,267,645	613,449	279,280	(38,357)
Dana Petroleum Limited(*)		6,455,994	3,824,008	1,719,649	(78,795)
KNOC Eagle Ford Corp.		2,786,166	844,671	495,200	62,367
Harvest Operations Corp.		5,282,705	3,319,952	1,007,934	(787,080)
KNOC Kaz B.V.(*)		1,635,083	618,462	473,095	128,467
KNOC Exploracao e Producao de Petro do Brasil Ltda		26	441	-	(480)
KNOC NEMONE		4,754	43,302	-	(100)
KNOC NEMTWO		4,070	38,633	-	(85)
KNOC Sumatra Ltd.		68,213	8,015	71,437	5,614
KNOC Yemen Ltd.		52,174	122,755	-	(962)
KNOC Trading Singapore Pte. Ltd.		131	-	87,105	138

(*) The amounts presented are after reflecting the difference between the fair value and the book value that arose during the business combination.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

5. Subsidiaries, Continued

(b) Financial information of subsidiaries, continued

(iii) The financial information of the subsidiaries that are related to the Group's non-controlling interests as of December 31, 2014 is as follows

In millions of Korean won

Company	Ankor Energy LLC	KOA Energy LP	Eagle Ford MS LLC and Eagle Ford Energy LLC
Non-controlling interest	20%	98%	20%
Non-current assets	₩ -	222,058	2,618,601
Current assets	4,483	27,792	192,524
Non-current liabilities	-	(28,999)	(33,100)
Current liabilities	(4,457)	(6,266)	(41,349)
Net assets	25	214,585	2,736,676
Book value of the non-controlling interests	5	210,293	546,470
Revenue	-	61,976	758,042
Net income (loss)	-	(3,109)	61,400
Other comprehensive income	-	-	-
Total comprehensive income (loss)	-	(3,109)	61,400
Net income (loss) distributed to non-controlling interests	-	(3,056)	12,280
Total comprehensive income (loss) distributed to non-controlling interests	-	(3,056)	12,280

(iv) The financial information of the subsidiaries that are related to the Group's non-controlling interests as of December 31, 2013 is as follows

In millions of Korean won

Company	Ankor Energy LLC	KOA Energy LP	Eagle Ford MS LLC and Eagle Ford Energy LLC
Non-controlling interest	20%	98%	20%
Non-current assets	₩ -	235,311	2,406,754
Current assets	1,102	28,462	333,320
Non-current liabilities	-	(27,141)	(13,636)
Current liabilities	(1,120)	(3,348)	(157,745)
Net assets	(18)	233,284	2,568,693
Book value of the non-controlling interests	(4)	229,330	513,739
Revenue	-	82,548	495,200
Net income (loss)	-	(1,955)	62,367
Other comprehensive income	-	-	-
Total comprehensive income (loss)	-	(1,955)	62,367
Net income (loss) distributed to non-controlling interests	-	(1,922)	12,473
Total comprehensive income (loss) distributed to non-controlling interests	-	(1,922)	12,473

6. Segment and Other Information

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

Previously, the Group's operating segments were 1) resource development and refinery, 2) oil trading, 3) oil stockpiling, 4) financing, 5) drillship chartering and 6) others. With an initial application for the year ended December 31, 2014, the Group changed its operating segments to those described below. In addition, the refinery segment was disposed of in November 2014 and was classified as a discontinued operation (note 7). Operating segment information for the comparative periods presented below have been restated to retrospectively present the new basis of segmentation and to exclude the discontinued operations.

- (a) For management purposes, the Group is organized into business units based on their goods and services and has seven reportable operating segments as follows:

Segments	Goods and services	Location of business
Oil and gas	Exploration, development and production of domestic and overseas resources and purchases and sales of crude oil	Domestic and overseas
Petroleum distribution	The whole sale gasoline and gas oil distribution business	Domestic
Refinery(*)	Refining of crude oil and sales of the refined petroleum products	Overseas
Oil stockpiling	Import and export of crude oil and petroleum products; lending and sales of oil stockpiles; management, operation and lending of oil stockpiling facilities	Domestic
Financing	Financing for companies engaged in energy and natural resources energy and natural resources development activities	Domestic
Drillship chartering	Drillship chartering business	Domestic and overseas
Others	Oil information services, other research services, etc.	Domestic and overseas

(*) The refinery segment is classified as a discontinued operation due to its disposal in November 2014 as described in Note 7.

Segment profit and loss is determined the same way that consolidated operating profit for the period is determined under K-IFRS, except that it excludes certain expenses pertaining to headquarters' salaries, training costs, service fees and other corporate related costs. Those expenses are included as reconciling items to selling and administrative expenses in the tables below.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

6. Segment and Other Information, Continued

(b) Segment results for the year

(i) For the year ended December 31, 2014

<i>In millions of Korean won</i>	Oil and gas	Petroleum distribution	Oil stockpiling	Financing	Drillship chartering	Others	Reconciling items(*)	Continuing operations total	Refinery (discontinued operation)	Group total
Revenue	₩ 3,817,016	222,459	147,768	2,128	96,931	71,815	-	4,358,117	3,275,081	7,633,198
Cost of sales	3,013,841	213,776	175,564	-	32,388	4,304	-	3,439,873	3,313,801	6,753,674
Gross profit (loss)	803,175	8,683	(27,796)	2,128	64,543	67,511	-	918,244	(38,720)	879,524
Selling and administrative expenses	363,966	-	-	1,102	-	-	80,310	445,378	6,183	451,561
Reportable segment operating profit (loss)	439,209	8,683	(27,796)	1,026	64,543	67,511	(80,310)	472,866	(44,903)	427,963
Other income								139,469	-	139,469
Other expenses								266,860	-	266,860
Other loss, net								(1,719,941)	(170,817)	(1,890,758)
Finance income								79,958	20,696	100,654
Finance costs								621,038	1,415	622,453
Loss on investments in associates and joint ventures, net								(41,575)	-	(41,575)
Loss before income tax	₩							(1,957,121)	(196,439)	(2,153,560)
Depreciation and amortization	₩ 1,658,232	-	74,180	-	2,846	-	7,866	1,743,124	12,228	1,755,352
Impairment loss of property, plant and equipment	775,546	-	-	-	-	-	-	775,546	171,006	946,552
Impairment loss of intangible assets other than goodwill	825,979	-	-	-	-	-	-	825,979	-	825,979
Impairment loss of goodwill	457,038	-	-	-	-	-	-	457,038	-	457,038

(*) Primarily consists of headquarter salaries, training costs, service fees and other corporate related costs, including depreciation and amortization, that are not allocated to the segments.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

6. Segment and Other Information, Continued

(b) Segment results for the year, continued

(ii) For the year ended December 31, 2013

<i>In millions of Korean won</i>	Oil and gas	Petroleum distribution	Oil stockpiling	Financing	Drillship chartering	Others	Reconciling items(*)	Continuing operations total	Refinery (discontinued operation)	Group total
(Restated)										
Revenue	₩ 4,708,293	228,965	143,845	2,555	91,226	90,598	-	5,265,482	4,696,899	9,962,381
Cost of sales	3,150,399	221,133	166,023	-	34,491	7,164	-	3,579,210	4,937,606	8,516,816
Gross profit (loss)	1,557,894	7,832	(22,178)	2,555	56,735	83,434	-	1,686,272	(240,707)	1,445,565
Selling and administrative expenses	446,375	-	-	413	-	-	66,951	513,739	6,361	520,100
Reportable segment operating profit (loss)	1,111,519	7,832	(22,178)	2,142	56,735	83,434	(66,951)	1,172,533	(247,068)	925,465
Other income								38,380	186	38,566
Other expenses								144,866	488,019	632,885
Other loss, net								(678,594)	-	(678,594)
Finance income								154,767	36,648	191,415
Finance costs								626,003	2,129	628,132
Loss on investments in associates and joint ventures, net								999	-	999
Loss before income tax	₩							(82,784)	(700,382)	(783,166)
Depreciation and amortization	₩ 1,530,336	-	76,172	-	2,382	-	8,808	1,617,698	88,090	1,705,788
Impairment loss of property, plant and equipment	177,052	-	-	-	-	-	-	177,052	488,019	665,071
Impairment loss of intangible assets other than goodwill	549,938	-	-	-	-	-	-	549,938	-	549,938

(*) Primarily consists of headquarter salaries, training costs, service fees and other corporate related costs, including depreciation and amortization, that are not allocated to the segments.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

6. Segment and Other Information, Continued

(c) Segment assets and liabilities

(i) As of December 31, 2014

<i>In millions of Korean won</i>	<u>Oil and gas</u>	<u>Petroleum distribution</u>	<u>Oil stockpiling</u>	<u>Financing</u>	<u>Drillship chartering</u>	<u>Reconciling items(*2)</u>	<u>Group total</u>
Assets	₩ 20,256,787	82,789	5,388,078	3,668	66,863	-	25,798,185
Adjustments:							
Headquarters' land, buildings, tools & fixtures	-	-	-	-	-	297,544	297,544
Headquarters' software and memberships	-	-	-	-	-	14,550	14,550
Headquarters' loans to employees	-	-	-	-	-	89,305	89,305
Headquarters' deferred tax assets	-	-	-	-	-	339,226	339,226
Headquarters' interest rate swaps	-	-	-	-	-	7,634	7,634
Headquarters' financial assets and etc.	-	-	-	-	-	344,900	344,900
	<u>₩ 20,256,787</u>	<u>82,789</u>	<u>5,388,078</u>	<u>3,668</u>	<u>66,863</u>	<u>1,093,159</u>	<u>26,891,344</u>
Liabilities	17,870,654	100,457	41,751	-	9,625	-	18,022,487
Adjustments:							
Headquarters' derivative liabilities	-	-	-	-	-	259,008	259,008
Headquarters' financial liabilities	-	-	-	-	-	240,180	240,180
	<u>₩ 17,870,654</u>	<u>100,457</u>	<u>41,751</u>	<u>-</u>	<u>9,625</u>	<u>499,188</u>	<u>18,521,675</u>
Investments in associates and others(*1)	₩ 1,177,722	38,220	-	-	-	-	1,215,942
Acquisitions of property, plant and equipment	2,373,935	-	93,747	-	6,061	64,107	2,537,850
Acquisitions of intangible assets other than goodwill	377,704	-	-	-	-	3,681	381,385

(*1) Investments in associates and others consist of investment in associates and joint ventures and loans to related parties.

(*2) Primarily consists of loans for employees, deferred tax assets and others which are not allocated to the reportable segments.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

6. Segment and Other Information, Continued

(c) Segment assets and liabilities, continued

(ii) As of December 31, 2013

<i>In millions of Korean won</i>	Oil and gas	Petroleum distribution	Oil stockpiling	Financing	Drillship chartering	Reconciling items(*2)	Reportable segment total	Refinery	Group total
Assets	₩ 22,308,332	79,169	5,365,875	2,632	68,944	-	27,824,952	348,633	28,173,585
Adjustments:									
Headquarters' land, buildings, tools & fixtures	-	-	-	-	-	199,682	199,682	-	199,682
Headquarters' software and memberships	-	-	-	-	-	15,678	15,678	-	15,678
Headquarters' loans to employees	-	-	-	-	-	56,930	56,930	-	56,930
Headquarters' deferred tax assets	-	-	-	-	-	175,435	175,435	-	175,435
Headquarters' interest rate swaps	-	-	-	-	-	57,247	57,247	-	57,247
Headquarters' financial assets and etc.	-	-	-	-	-	121,983	121,983	-	121,983
	₩ 22,308,332	79,169	5,365,875	2,632	68,944	626,955	28,451,907	348,633	28,800,540
Liabilities	16,198,361	78,469	101,759	-	5,119	-	16,383,708	1,933,241	18,316,949
Adjustments:									
Headquarters' derivative liabilities	-	-	-	-	-	49,592	49,592	-	49,592
Headquarters' financial liabilities	-	-	-	-	-	150,117	-	-	150,117
	₩ 16,198,361	78,469	101,759	-	5,119	199,709	16,583,417	1,933,241	18,516,658
Investments in associates and others(*1)	₩ 1,048,036	35,922	-	-	-	-	1,083,958	-	1,083,958
Acquisitions of property, plant and equipment	2,227,145	-	10,356	-	9,270	91,486	2,338,257	56,526	2,394,783
Acquisitions of intangible assets other than goodwill	471,061	-	-	-	-	19,183	490,244	-	490,244

(*1) Investments in associates and others consist of investment in associates and joint ventures and loans to related parties.

(*2) Primarily consists of loans for employees, deferred tax assets and others which are not allocated to the reportable segments.

(d) Information about main customers

There is no customer comprising more than 10% of total sales.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

6. Segment and Other Information, Continued

(e) Information about geographical areas

(i) Revenue by geographic area for the years ended December 31, 2014 and 2013 is as follows:

<i>In millions of Korean won</i>		2014	2013
	Domestic	₩ 1,040,991	1,131,782
	Canada	855,036	1,007,934
	United Kingdom	1,184,384	1,719,649
Continuing operations	United States	911,526	774,480
	Kazakhstan	365,721	473,095
	Indonesia	-	71,437
	Singapore	459	87,105
Discontinued operation (Refinery)		3,275,082	4,696,899
		₩ 7,633,199	9,962,381

In presenting information about geographical areas, segment revenue is based on the geographical location of the Group's entities which recorded the related revenue.

(ii) Non-current assets by geographic area as of December 31, 2014 and December 31, 2013 are as follows:

<i>In millions of Korean won</i>	December 31, 2014	December 31, 2013
Domestic(*)	₩ 5,469,565	5,855,411
Canada	4,351,286	4,910,837
United Kingdom	4,902,800	5,532,250
United States	3,435,186	3,306,561
Kazakhstan	2,589,822	2,733,169
Iraq	1,428,984	1,280,051
Yemen	4,411	34,203
Colombia	-	28,296
Peru	68,086	50,152
Libya	81,113	116,424
Vietnam	469,438	408,483
Others	12,711	9,963
	₩ 22,813,402	24,265,800

(*)The goodwill that cannot be allocated to an individual country amounting to ₩429,766 million and ₩901,230 million as of December 31, 2014 and 2013, respectively is included in domestic.

Non-current assets by geographic area include property, plant and equipment, goodwill, intangible assets other than goodwill, investments in associates and joint ventures, and non-financial assets.

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7. Discontinued Operations

The refinery segment has been reclassified as a discontinued operation as North Atlantic Refining Limited, which was the refinery segment, was disposed of in November 2014. The segment was not previously classified as a discontinued operation or held-for-sale. The comparative consolidated statement of comprehensive loss has been restated to present the discontinued operation separately from continuing operations.

(a) Results of discontinued operation for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014	2013
Profit	₩ 3,295,968	4,734,497
Loss(*1)	(3,492,407)	(5,434,879)
Loss before income tax	(196,439)	(700,382)
Income tax benefit (expense)	(87,884)	26,357
Loss after tax	(284,323)	(674,025)
Loss on disposal of discontinued operation(*2)	(54,024)	-
Loss from discontinued operation	₩ (338,347)	(674,025)

(*1) Impairments on property, plant, and equipment for the years ended December 31, 2014 and 2013 are ₩171,006 million and ₩488,019 million, respectively.

(*2) Reclassification of cumulative foreign currency translation on disposal of subsidiary is ₩42,126 million.

(b) Cash flow from (used in) discontinued operation for the years ended December 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014	2013
Net cash used in operating activities	₩ (60,752)	(188,684)
Net cash from (used in) investing activities	(30,330)	241,146
Net cash from (used in) financing activities	123,172	(59,863)
Effect of foreign exchange translation	(954)	-
Net cash from (used in) discontinued operation	₩ 31,136	(7,401)

(c) Carrying value of assets and liabilities upon disposal and cash flows related to the disposal are as follows:

<i>In millions of Korean won</i>	2014
Inventories	₩ 94,616
Trade and other receivables	33,038
Other assets	2,068
Cash and cash equivalents	30,862
Trade and other payables	(54,969)
Provisions	(16,258)
Other liabilities	(10,864)
Net assets and liabilities	78,493
Consideration received, in cash	66,690
Cash and cash equivalents disposed	(30,862)
Net cash inflow	₩ 35,828

8. Cash and Cash Equivalents

Cash and cash equivalents in the statement of cash flows include cash and bank deposit and exclude bank overdrafts. Cash and cash equivalents in the consolidated statements of cash flows for the years ended December 31, 2014 and

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2013 are comprised of the following items in the consolidated statements of financial position.

<i>In millions of Korean won</i>	December 31, 2014	December 31, 2013
Cash in hands	₩ 1,138	109
Other on demand deposits	201,919	183,310
Short-term deposits classified as cash equivalents	9,142	334,920
Short-term investments classified as cash equivalents	296,508	448,074
	<u>508,707</u>	<u>966,413</u>
Cash and cash equivalents included in the assets held for sales	(201)	(381)
	<u>₩ 508,506</u>	<u>966,032</u>

9. Restricted Cash and Cash Equivalents

Restricted deposits as of December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	December 31, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Asset retirement obligation	₩ -	2,015	-	5,240
Deposits for foreign workers	-	17	-	17
Compensations for fishermen	356	-	370	-
Investment for natural resource development	-	-	17,752	-
	<u>₩ 356</u>	<u>2,032</u>	<u>18,122</u>	<u>5,257</u>

10. Financial Assets

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

<i>In millions of Korean won</i>	December 31, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Short-term financial instruments	₩ 2,436	-	103,440	-
Derivative assets (note 12)	1,801	7,634	8,477	49,640
Available-for-sale financial instruments (note 13)	-	566,895	-	641,902
Loans (note 14)	-	555,252	-	512,013
Long-term financial instruments	-	7,008	-	14,874
Others	10,349	-	8,535	-
	<u>₩ 14,586</u>	<u>1,136,789</u>	<u>120,452</u>	<u>1,218,429</u>

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11. Trade and Other Receivables

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

In millions of Korean won

		December 31, 2014			December 31, 2013		
		Gross amounts	Allowance for doubtful accounts	Book value	Gross amounts	Allowance for doubtful accounts	Book value
Current							
Trade accounts receivable	₩	434,308	(2,107)	432,201	602,706	(2,566)	600,140
Other receivables		508,956	-	508,956	421,490	-	421,490
		943,264	(2,107)	941,157	1,024,196	(2,566)	1,021,630
Non-current							
Trade accounts receivable		5,119	-	5,119	1,729	-	1,729
Other receivables		88,719	-	88,719	107,036	-	107,036
		93,838	-	93,838	108,765	-	108,765
	₩	<u>1,037,102</u>	<u>(2,107)</u>	<u>1,034,995</u>	<u>1,132,961</u>	<u>(2,566)</u>	<u>1,130,395</u>

12. Derivatives

(a) Derivatives as of December 31, 2014 and 2013 are as follows:

In millions of Korean won

		December 31, 2014		December 31, 2013	
		Current	Non-current	Current	Non-current
Derivative assets					
Currency swap	₩	-	3,938	7,607	42,980
Interest rate swap		-	3,696	-	6,660
Other derivatives		1,801	-	870	-
	₩	<u>1,801</u>	<u>7,634</u>	<u>8,477</u>	<u>49,640</u>
Derivative liabilities					
Foreign exchange forwards	₩	1,974	-	-	-
Currency swap		-	145,378	49,592	13,284
Other derivatives		1,129	-	597	-
	₩	<u>3,103</u>	<u>145,378</u>	<u>50,189</u>	<u>13,284</u>

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12. Derivatives, Continued

(b) Details of foreign exchange forward contracts as of December 31, 2014 are as follows:

In millions of Korean won and thousands of foreign currencies

Type	Counter party	Maturity	Contract amount				Contract rate of exchange
			Currency	Sell	Currency	Buy	
Cash flow hedge	DNB	2015-01-08	USD	15,668	GBP	10,000	1.5668
Cash flow hedge	ING	2015-01-08	USD	15,731	GBP	10,000	1.5731
Cash flow hedge	DNB	2015-02-09	USD	15,667	GBP	10,000	1.5667
Cash flow hedge	ING	2015-02-09	USD	15,727	GBP	10,000	1.5727
Cash flow hedge	SCOTIA	2015-03-09	USD	15,645	GBP	10,000	1.5645
Cash flow hedge	CBA	2015-03-09	USD	15,726	GBP	10,000	1.5726
Cash flow hedge	SCOTIA	2015-04-09	USD	15,641	GBP	10,000	1.5641
Cash flow hedge	CBA	2015-04-09	USD	15,722	GBP	10,000	1.5722
Cash flow hedge	SOCGEN	2015-05-08	USD	15,662	GBP	10,000	1.5662
Cash flow hedge	CIBC	2015-05-08	USD	15,714	GBP	10,000	1.5714
Cash flow hedge	SOCGEN	2015-06-08	USD	15,727	GBP	10,000	1.5727
Cash flow hedge	CIBC	2015-06-08	USD	15,682	GBP	10,000	1.5682
Cash flow hedge	BAML	2015-07-08	USD	15,650	GBP	10,000	1.5650
Cash flow hedge	LLOYDS	2015-07-08	USD	15,670	GBP	10,000	1.5670
Cash flow hedge	BAML	2015-08-07	USD	15,646	GBP	10,000	1.5646
Cash flow hedge	DNB	2015-08-07	USD	15,569	GBP	10,000	1.5569
Cash flow hedge	RBS	2015-09-08	USD	15,618	GBP	10,000	1.5618
Cash flow hedge	RBS	2015-09-08	USD	15,525	GBP	10,000	1.5525
Cash flow hedge	RBS	2015-10-08	USD	15,615	GBP	10,000	1.5615
Cash flow hedge	CBA	2015-10-08	USD	15,520	GBP	10,000	1.5520
Cash flow hedge	LLOYDS	2015-11-09	USD	15,641	GBP	10,000	1.5641
Cash flow hedge	LLOYDS	2015-12-08	USD	15,638	GBP	10,000	1.5638

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12. Derivatives, Continued

(c) Details of currency swap contracts as of December 31, 2014 are as follows:

In millions of Korean won and thousands of foreign currencies

Type	Counter party	Maturity	Contract amount				Contract interest rate	
			Currency	Sell	Currency	Buy	Sell (%)	Buy (%)
Cash flow hedge	Barclays	2021-02-08	HKD	500,000	USD	64,185	4.38%	5.03%
Cash flow hedge	BNP	2016-02-15	HKD	780,000	USD	100,135	3.40%	3.69%
Cash flow hedge	BNP	2016-02-16	SGD	100,000	USD	78,431	3.15%	4.14%
Cash flow hedge	BNP	2021-03-04	HKD	390,000	USD	50,081	4.50%	5.20%
Cash flow hedge	RBS	2016-05-12	CHF	125,000	USD	140,213	2.64%	3.74%
Cash flow hedge	UBS	2016-05-12	CHF	200,000	USD	224	2.64%	3.74%
Cash flow hedge	UBS	2016-05-25	EUR	100,000	USD	142,850	3.95%	3.43%
Cash flow hedge	Barclays	2016-12-22	HKD	637,000	USD	81,869	3.20%	3.45%
Cash flow hedge	Barclays	2022-02-10	HKD	390,000	USD	50,282	3.95%	4.45%
Cash flow hedge	UBS	2017-03-08	CHF	100,000	USD	109,733	1.88%	3.34%
Cash flow hedge	Barclays	2017-03-08	CHF	200,000	USD	219,467	1.88%	3.34%
Cash flow hedge	UBS	2022-03-28	EUR	50,000	USD	65,075	4.00%	4.55%
Cash flow hedge	HSBC	2016-12-26	KRW	90,000	USD	80,524	3.89%	2.93%
Cash flow hedge	HSBC	2023-01-24	HKD	400,000	USD	51,600	2.85%	3.17%
Cash flow hedge	HSBC	2018-01-22	HKD	400,000	USD	51,600	1.80%	1.98%
Cash flow hedge	DBS	2023-02-04	EUR	37,000	USD	49,765	2.40%	3.19%
Cash flow hedge	Barclays	2025-06-24	EUR	60,000	USD	80,070	3.00%	4.06%
Cash flow hedge	Barclays	2023-07-03	EUR	50,000	USD	65,670	3.09%	4.31%
Cash flow hedge	HSBC	2018-07-03	AUD	55,000	USD	51,260	4.33%	3.05%
Cash flow hedge	RBS	2018-11-29	CHF	200,000	USD	210,970	1.63%	3.16%
Cash flow hedge	BNP	2018-11-29	CHF	40,000	USD	42,194	1.63%	3.17%
Cash flow hedge	HSBC	2019-10-08	AUD	125,000	USD	109,563	4.25%	0.99%
Cash flow hedge	HSBC	2019-10-08	AUD	75,000	USD	65,738	3.78%	1.06%
Cash flow hedge	ANZ	2019-10-08	AUD	150,000	USD	131,475	3.78%	1.01%

12. Derivatives, Continued

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For the years ended December 31, 2014 and 2013

(d) Details of interest swap contracts as of December 31, 2014 are as follows:

In millions of Korean won

Type	Counterparty	Maturity	Contract amount	Contract interest rate per annum	
				Sell (%)	Buy (%)
Cash flow hedge	Barclays	2018-06-07	300,000	3M Libor+100bp	2.18%
Cash flow hedge	Barclays	2018-06-07	200,000	3M Libor+80bp	1.98%

(e) Gain and loss on valuation and transaction of derivatives for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions Korean of won</i>		Net income effects of valuations		Net income effects of transactions		Accumulated other comprehensive income (loss) (*)	
		2014	2013	2014	2013	2014	2013
Currency forward	₩	-	-	-	-	-	-
Currency swap		-	-	841	-	21,308	15,544
Interest rate swap		-	-	-	-	(2,354)	12,162
Other derivatives		(2,020)	6,216	-	780	1,216	13,666
	₩	(2,020)	6,216	841	780	20,170	41,372

(*) The amounts in accumulated other comprehensive income(loss) are net of tax effect amounting to ₩6,241 million and ₩1,737 million for the years ended December 31, 2014 and 2013, respectively.

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13. Available-for-sale Financial Instruments

(a) Details of available-for-sale financial instruments as of December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	Ownership interest(%)	December 31, 2014	December 31, 2013
Equity securities:			
Non-marketable			
Daehan Oil Pipeline Corporation(*1)(*2)	-	₩ -	11,686
Yemen LNG Company Limited(*2)	1.06	90,082	83,882
PETRO ONADO S.A.(*3)	5.64	18,036	17,315
Micronic Korea(*2)(*3)	16.70	841	807
Troika Resource Investment PEF	14.47	44,542	40,187
Global Dynasty Natural Resource PEF(*3)	15.00	4,743	3,374
Marketable:			
EP Energy Corp. (*3)(*4)	12.82	358,921	484,651
Faroe Petroleum plc(*5)	18.00	49,730	-
		<u>₩ 566,895</u>	<u>641,902</u>

(*1) The security is disposed during the year ended December 31, 2014.

(*2) The dividend income associated with Yemen LNG Company Limited and others for the year ended December 31, 2014 is ₩4,807 million.

(*3) Book values of non-marketable securities without a quoted price in an active market and a reliable fair value measurement held by the Group that were measured at cost as of December 31, 2014 and 2013 are ₩23,620 million and ₩546,334 million, respectively.

(*4) EP Energy Corp. was newly listed on NYSE during the year ended December 31, 2014.

(*5) Faroe Petroleum plc is reclassified as an available-for-sale financial instrument due to the Group's loss of its significant influence over the entity.

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13. Available-for-sale Financial Instruments, Continued

(b) The details of available for sales financial instruments as of December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>		<u>2014</u>	<u>2013</u>
Beginning balance	₩	641,902	618,583
Acquisition		11,750	21,750
Disposals		(11,663)	(35,617)
Valuation adjustments(*1)		(183,829)	49,149
Other changes(*2)(*3)		89,070	11,095
Effect of movements in exchange rates		19,665	(23,058)
Carrying book value	₩	<u>566,895</u>	<u>641,902</u>

(*1) Amounts are presented before the effect of deferred income taxes amounting to ₩31,311 million in 2014 and (-)₩16,569 million in 2013, which have been recognized directly in equity. In addition, the amount that was reclassified to profit or loss due to the disposal of the available-for-sale financial assets in 2013 was ₩11,582.

(*2) The Group decided not to participate in a new issuance of stocks of Faroe Petroleum plc in 2014. The Group's shares had decreased from 22.63% to 18% and was reclassified to available-for-sale financial instruments from investments in associate.

(*3) The Group acquired an available-for-sale financial instrument (EP Energy Corp.) by contributing the investment in subsidiary (KNOC EPE Corp.). As a result, the investment in subsidiary was reclassified to an available-for-sale financial instrument during the year ended December 31, 2013. As the transaction lacks commercial substance, it is presented as other changes.

14. Long-term Loans

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

<i>In millions of Korean won</i>		<u>December 31, 2014</u>	<u>December 31, 2013</u>
Loans for tuitions(*1)	₩	314	84
Loans for housing(*2)		88,983	56,825
Loans for vehicles(*3)		484	680
General loans		108,758	115,205
Loans to overseas fields operations		8	20
Loans to related parties(*4)		825,919	731,080
Allowance for doubtful accounts		(469,214)	(391,881)
	₩	<u>555,252</u>	<u>512,013</u>

(*1) The Group provides interest-free loans to employees who worked over a year for their children's tuitions. The loans are repaid from their monthly wages.

(*2) The Group provides loans for housing to employees without housing at market interest rates. The loans are due 5~10 years and repaid by lump sum at maturity.

(*3) The Group provides interest-free loans to overseas secondees who purchase or lease a vehicle. The loans are due when the secondees return to Headquarters.

(*4) The Group provides loans to KC Kazakh B.V. and 17 other related parties at 2.25~9.00% interest rates. The loans are due 5~25 years and the Group recognized related bad debt expenses of ₩69,485 million during the year-ended December 31, 2014. .

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15. Inventories

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

<i>In millions of Korean won</i>	December 31, 2014			December 31, 2013		
	Acquisition cost	Provision for loss on valuation	Carrying amount	Acquisition cost	Provision for loss on valuation	Carrying amount
Raw materials	₩ 6,251	(776)	5,475	8,345	(590)	7,755
Merchandises	15,070	-	15,070	14,128	-	14,128
Work-in-progress	228	-	228	206	-	206
Finished goods	48,359	-	48,359	96,544	-	96,544
Supplies	81,487	-	81,487	68,222	-	68,222
Goods in-transit	1,061	-	1,061	1,103	-	1,103
Total	₩ 152,456	(776)	151,680	188,548	(590)	187,958

The losses on the valuation of inventories charged to cost of sales for the year ended December 31, 2014 and 2013 are ₩186 million and ₩41 million, respectively.

16. Non-Financial Assets

Details of non-financial assets as of December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	December 31, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Advance payments	₩ 115,182	-	330,041	-
Prepaid expenses	79,898	11,671	109,865	32,400
Oil stockpiles	-	3,412,635	-	3,183,974
Non-current assets held for sale (Note 17)	62,212	-	54,719	-
Others	-	-	-	310
	₩ 257,292	3,424,306	494,625	3,216,684

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17. Non-current Assets and Liabilities Held For Sale

Assets and liabilities held for sale as of December 31, 2014 and 2013 are as follows:

In millions of Korean won

	2014				2013			
	KNOC NEMONE (*1)	KNOC NEMTWO (*1)	Disposal of Land and others(*2)	Total	KNOC NEMONE (*1)	KNOC NEMTWO (*1)	KNOC Sumatra Ltd.	Total
Cash and cash equivalents	₩ 90	110	-	200	235	146	-	381
Account receivables and other receivables	-	-	-	-	3,220	2,510	-	5,730
Inventories	-	-	-	-	1,264	1,384	-	2,648
Current non-financial assets	-	-	-	-	32	29	-	61
Long-term account receivables and other receivables	-	-	-	-	4	1	-	5
Property, plant and equipment	-	-	62,012	62,012	-	-	40,675	40,675
Intangible assets other than goodwill	-	-	-	-	-	-	5,219	5,219
Assets held for sale	<u>90</u>	<u>110</u>	<u>62,012</u>	<u>62,212</u>	<u>4,755</u>	<u>4,070</u>	<u>45,894</u>	<u>54,719</u>
Account payables and other payables	17	17	-	34	57	58	-	115
Non-current financial liabilities	<u>26,549</u>	<u>21,727</u>	<u>-</u>	<u>48,276</u>	<u>25,489</u>	<u>20,806</u>	<u>-</u>	<u>46,295</u>
Liabilities held for sale	₩ <u>26,566</u>	<u>21,744</u>	<u>-</u>	<u>48,310</u>	<u>25,546</u>	<u>20,864</u>	<u>-</u>	<u>46,410</u>

(*1) KNOC NEMONE and KNOC NEMTWO, the Group's subsidiaries, have resolved and proceeded to discontinue their operations in 2009 and received approval to close the areas from the government of Indonesia in 2011. KNOC NEMONE completed its tax investigation as of December 31, 2014 and KNOC NEMTWO completed its tax investigation in November 2013. It is expected to complete their liquidations in 2015.

(*2) Disposal of KNOC headquarter building and related assets was approved by the board of directors in April 2012. After its relocation to Ulsan, the Group entered into a sales contract of the properties on November 20, 2014. The sale is expected to be completed by the first half of 2015.

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18. Investments in Associates and Joint Ventures

(a) Summary of investments in associates and joint ventures

(i) As of December 31, 2014

In millions of Korean won

Entity	Principal activity	Country	Equity interest (%)	Acquisition cost	Book value
<Investments in associates>					
Kernhem B.V.	Exploration and Production(E&P)	Netherlands	36.67	₩ 11,231	10,100
Oilhub Korea Yeosu Co. Ltd.	Storing of oil	Korea	29.00	37,160	36,954
ADA Oil LLP(*1)	E&P	Kazakhstan	12.50	19,291	11,502
Parallel Petroleum LLC(*2)	E&P	United States	10.00	42,172	40,170
				<u>109,854</u>	<u>98,726</u>
<Investments in joint ventures>					
KNOC Inam Ltd.(*3)	Exploration	Malaysia	40.00	-	-
KNOC Kamchatka Petroleum Ltd.(*3)(*4)	Exploration	Cyprus	55.00	1	-
KC karpovsky B.V.(*3)	Exploration	Netherlands	35.00	10	-
KNOC Bazian Ltd.(*3)(*4)	Exploration	Malaysia	66.72	-	-
Dolphin Property Ltd.(*4)	Lease	Nigeria	75.00	66	243
KNOC Nigerian West Oil Company Ltd.(*3)(*4)	Exploration	Nigeria	75.00	66	-
KNOC Nigerian East Oil Company Ltd.(*3)(*4)	Exploration	Nigeria	75.00	66	-
KNOC Aral Ltd.(*3)(*4)	Exploration	Malaysia	51.00	-	-
KNOC kamchatka Co. Ltd.(*3)	Exploration	Cyprus	50.00	7,471	-
KC kazakh B.V.(*3)	Exploration	Netherlands	35.00	249	-
Offshore International Group, Inc.	E&P	United States	50.00	701,551	687,310
KNOC Ferghana Ltd.(*3)	Exploration	Malaysia	50.00	1	-
KNOC Ferghana2 Ltd.(*3)(*4)	Exploration	Malaysia	65.00	-	-
KADOC Ltd.(*3)(*4)	Exploration	Malaysia	75.00	1	-
Korea Oil Terminal Co., Ltd.(*4)	Storing of oil	Korea	51.00	1,267	1,267
Deep Basin Partnership(*4)	E&P	Canada	77.81	54,753	46,489
HKMS Partnership(*4)	Gas processing plant operation	Canada	53.76	26,570	25,202
				<u>792,072</u>	<u>760,511</u>
				₩ <u>901,926</u>	<u>859,237</u>

(*1) Classified as an investment in associate because the Group's associate, Kernhem B.V., holds 75% of the equity interest and by effective equity interest, the Group has the ability to exercise significant influence over the entity.

(*2) Classified as an investment in associate because the Group can designate one director in its board of directors. Despite the percentage of ownership is below 20%, the Group has the ability to exercise significant influence over the entity.

(*3) Joint ventures that have a book value of less than ₩1 million.

(*4) Despite the percentage of ownership of over 50%, the investment is classified as an investment in associate because the Group is unable to exercise control over investees solely and when making significant decisions, the Group requires consents from all the other shareholders in accordance with the agreements made.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

18. Investments in associates and joint ventures, Continued

(a) Summary of investments in associates and joint ventures, continued

(ii) As of December 31, 2013

In millions of Korean won

Entity	Principal activity	Country	Equity interest (%)		Acquisition Cost	Book value
<Investments in associates>						
Kernhem B.V.	Exploration and Production(E&P)	Netherlands	36.67	₩	10,783	12,632
Oilhub Korea Yeosu Co. Ltd.	Storing of oil	Korea	29.00		35,676	38,775
ADA Oil LLP(*1)	E&P	Kazakhstan	12.50		18,521	12,382
Faroe Petroleum plc	E&P	United Kingdom	22.63		157,451	135,205
Parallel Petroleum LLC(*2)	E&P	United States	10.00		40,488	46,529
					<u>262,919</u>	<u>245,523</u>
<Investments in joint ventures>						
KNOC Inam Ltd.(*3)	Exploration	Malaysia	40.00		-	-
KNOC Kamchatka Petroleum Ltd.(*3)(*4)	Exploration	Cyprus	55.00		1	-
KC karpovsky B.V.(*3)	Exploration	Netherlands	35.00		10	-
KNOC Bazian Ltd.(*3)(*4)	Exploration	Malaysia	57.00		-	-
Dolphin Property Ltd.(*3)(*4)	Lease	Nigeria	75.00		63	-
KNOC Nigerian West Oil Company Ltd.(*3)(*4)	Exploration	Nigeria	75.00		63	-
KNOC Nigerian East Oil Company Ltd.(*3)(*4)	Exploration	Nigeria	75.00		63	-
KNOC Aral Ltd.(*3)(*4)	Exploration	Malaysia	51.00		-	-
KNOC kamchatka Co. Ltd.(*3)	Exploration	Cyprus	50.00		7,172	-
KC kazakh B.V.(*3)	Exploration	Netherlands	35.00		239	-
Offshore International Group, Inc.(*4)	E&P	United States	50.00		673,547	672,783
KNOC Ferghana Ltd.(*3)(*4)	Exploration	Malaysia	50.00		1	-
KNOC Ferghana2 Ltd.(*3)(*4)	Exploration	Malaysia	65.00		-	-
KNOC Samsung Lantian Oil Development Co., Ltd.	Production	China	44.00		5,802	6,459
KADOC Ltd.(*3)(*4)	Exploration	Malaysia	75.00		1	-
					<u>686,962</u>	<u>679,242</u>
				₩	<u>949,881</u>	<u>924,765</u>

(*1) Classified as an investment in associate because the Group's associate, Kernhem B.V., holds 75% of the equity interest and by effective equity interest, the Group has the ability to exercise significant influence over the entity.

(*2) Classified as an investment in associate because the Group can designate one director in its board of directors. Despite the percentage of ownership is below 20%, the Group has the ability to exercise significant influence over the entity.

(*3) Joint ventures that have a book value of less than a million of Korean won.

(*4) Despite the percentage of ownership of over 50%, the investment is classified as an investment in associate because the Group is unable to exercise control over investees solely and when making significant decisions, the Group requires consents from all the other shareholders in accordance with the agreements made.

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18. Investments in Associates and Joint Ventures, Continued

(b) Changes in carrying value

(i) For the year ended December 31, 2014

In millions of Korean won

Entity	Beginning balance	Acquisition	Disposals	Dividends received	Share of profit and loss of equity method	Changes in equity adjustments in equity method	Other changes (*1)	Ending balance
<Investment in associates>								
Kernhem B.V.	₩ 12,632	-	-	-	(125)	(2,804)	397	10,100
Oilhub Korea Yeosu Co. Ltd.	38,775	-	-	-	(1,740)	(1,547)	1,466	36,954
ADA Oil LLP	12,382	-	-	-	(2)	(1,335)	457	11,502
Faroe Petroleum plc	135,205	-	(132,162)	-	(2,662)	-	(381)	-
Parallel Petroleum LLC	46,529	-	-	(527)	(7,421)	-	1,589	40,170
	<u>245,523</u>	<u>-</u>	<u>(132,162)</u>	<u>(527)</u>	<u>(11,950)</u>	<u>(5,686)</u>	<u>3,528</u>	<u>98,726</u>
<Investment in joint ventures>								
KNOC Inam Ltd.(*2)	-	-	-	-	-	-	-	-
KNOC Kamchatka Petroleum Ltd.(*2)	-	-	-	-	-	-	-	-
KC karpovsky B.V.(*2)	-	-	-	-	-	-	-	-
KNOC Bazian Ltd.(*2)	-	-	-	-	-	-	-	-
Dolphin Property Ltd.	-	-	-	-	132	101	10	243
KNOC Nigerian West Oil Company Ltd.(*2)	-	-	-	-	-	-	-	-
KNOC Nigerian East Oil Company Ltd.(*2)	-	-	-	-	-	-	-	-
KNOC Aral Ltd.(*2)	-	-	-	-	-	-	-	-
KNOC kamchatka Co. Ltd.(*2)	-	-	-	-	-	-	-	-
KC kazakh B.V.(*2)	-	-	-	-	-	-	-	-
Offshore International Group, Inc.	672,783	-	(14)	-	(12,883)	-	27,424	687,310
KNOC Ferghana Ltd.(*2)	-	-	-	-	-	-	-	-
KNOC Ferghana2 Ltd.(*2).	-	-	-	-	-	-	-	-
KNOC Samsung Lantian Oil Development Co., Ltd.	6,459	-	(6,447)	-	-	-	(12)	-
KADOC Ltd.(*2)	-	-	-	-	-	-	-	-
Korea Oil Terminal Co., Ltd.	-	1,214	-	-	-	-	53	1,267
Deep Basin Partnership	-	52,463	-	(2,213)	(4,488)	-	727	46,489
HKMS Partnership	-	25,459	-	-	(32)	-	(225)	25,202
	<u>679,242</u>	<u>79,136</u>	<u>(6,461)</u>	<u>(2,213)</u>	<u>(17,271)</u>	<u>101</u>	<u>27,977</u>	<u>760,511</u>
₩	<u>924,765</u>	<u>79,136</u>	<u>(138,623)</u>	<u>(2,740)</u>	<u>(29,221)</u>	<u>(5,585)</u>	<u>31,505</u>	<u>859,237</u>

(*1) Others include the effect of exchange rates fluctuations.

(*2) Joint ventures that have book value of less than ₩1 million.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

18. Investments in Associates and Joint Ventures, Continued

(b) Changes in carrying value, continued

(ii) For the year ended December 31, 2013

In millions of Korean won

Entity	Beginning balance	Disposals	Share of profit and loss of equity method (*1)	Changes in equity adjustments in equity method(*2)	Other changes (*2)	Ending Balance
<Investment in associates>						
Kernhem B.V.	₩ 9,317	-	2,221	1,362	(268)	12,632
Oilhub Korea Yeosu Co. Ltd.	39,076	-	(342)	627	(586)	38,775
ADA Oil LLP	11,292	-	680	623	(213)	12,382
Faroe Petroleum plc	131,840	-	2,584	-	781	135,205
Parallel Petroleum LLC	61,298	(17,503)	3,117	-	(383)	46,529
	<u>252,823</u>	<u>(17,503)</u>	<u>8,260</u>	<u>2,612</u>	<u>(669)</u>	<u>245,523</u>
<Investment in joint ventures>						
KNOC Inam Ltd.(*3)	-	-	-	-	-	-
KNOC Kamchatka Petroleum Ltd.(*3)	-	-	-	-	-	-
KC karpovsky B.V.(*3)	-	-	-	-	-	-
KNOC Bazian Ltd.(*3)	-	-	-	-	-	-
Dolphin Property Ltd.(*3)	-	-	-	-	-	-
KNOC Nigerian West Oil Company Ltd.(*3)	-	-	-	-	-	-
KNOC Nigerian East Oil Company Ltd.(*3)	-	-	-	-	-	-
KNOC Aral Ltd.(*3)	-	-	-	-	-	-
KNOC kamchatka Co. Ltd.(*3)	-	-	-	-	-	-
KC kazakh B.V.(*3)	-	-	-	-	-	-
Offshore International Group, Inc.	674,636	(1,397)	9,800	-	(10,256)	672,783
KNOC Ferghana Ltd.(*3)	-	-	-	-	-	-
KNOC Ferghana2 Ltd.(*3)	-	-	-	-	-	-
KNOC Samsung Lantian Oil Development Co., Ltd.	7,334	-	(990)	195	(80)	6,459
KADOC Ltd.(*3)	-	-	-	-	-	-
	<u>681,970</u>	<u>(1,397)</u>	<u>8,810</u>	<u>195</u>	<u>(10,336)</u>	<u>679,242</u>
	₩ <u>934,793</u>	<u>(18,900)</u>	<u>17,070</u>	<u>2,807</u>	<u>(11,005)</u>	<u>924,765</u>

(*1) For the year ended December 31, 2013, the Group recorded additional share of loss of equity method investments amounting to ₩16,899 million on the loans to the investments in associates that have book value of zero as their capital has been completely impaired.

(*2) Others include the effect of exchange rates fluctuations.

(*3) Joint ventures that have book value of less than a million of Korean won.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

18. Investments in Associates and Joint Ventures, Continued

(c) The summary of financial information of major associates and joint ventures

(i) For the year ended December 31, 2014

In millions of Korean won

		2014			
		Total assets	Total liabilities	Revenue	Net income (loss)
<Investment in associates>					
Kernhem B.V.	₩	236,028	228,797	101,795	1,328
Oilhub Korea Yeosu Co. Ltd.		553,185	425,759	49,427	(5,999)
ADA Oil LLP		148,842	134,082	101,795	6,335
Parallel Petroleum LLC		638,274	293,687	139,913	(79,899)
<Investment in joint ventures>					
KNOC Bazian Ltd.		141,801	184,723	-	(3,035)
Dolphin Property Ltd.		328	4	-	1,076
KNOC Nigerian West Oil Company Ltd.		150,644	208,323	-	(6,295)
KNOC Nigerian East Oil Company Ltd.		247,785	310,719	-	(7,141)
KNOC Aral Ltd.		37,910	38,099	-	-
KC kazakh B.V.		625,173	702,563	-	(28,750)
Offshore International Group, Inc.		1,137,593	441,979	373,879	10,374
KNOC Ferghana Ltd.		61,195	66,001	-	(1,417)
KNOC Ferghana2 Ltd.		18,947	20,002	-	(437)
KADOC Ltd.		178,114	195,553	-	(2,788)
Korea Oil Terminal Co., Ltd.		1,791	59	5	(669)
Deep Basin Partnership		211,974	166,670	11,525	(4,489)
HKMS Partnership		70,798	70,865	-	(68)

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

18. Investments in Associates and Joint Ventures, Continued

(c) The summary of financial information of major associates and joint ventures, continued

(ii) For the year ended December 31, 2013

In millions of Korean won

		2013			
		Total assets	Total liabilities	Revenue	Net income (loss)
<Investment in associates>					
Kernhem B.V.	₩	231,267	217,993	-	7,172
Oilhub Korea Yeosu Co. Ltd.		530,333	396,627	36,326	(1,180)
ADA Oil LLP		134,677	116,153	65,171	9,664
Faroe Petroleum plc		802,225	398,933	271,919	(8,867)
Parallel Petroleum LLC		152,525	50,984	22,842	6,251
<Investment in joint ventures>					
KNOC Bazian Ltd.		141,103	179,269	-	(4,235)
Dolphin Property Ltd.		6,334	7,237	571	2,620
KNOC Nigerian West Oil Company Ltd.		144,084	193,152	-	(8,155)
KNOC Nigerian East Oil Company Ltd.		237,336	290,602	-	(2,600)
KNOC Aral Ltd.		36,373	36,555	-	(78)
KC kazakh B.V.		394,271	442,235	-	1,147
Offshore International Group, Inc.		1,219,539	562,101	414,859	53,870
KNOC Ferghana Ltd.		58,750	61,945	-	(1,508)
KNOC Ferghana2 Ltd.		16,128	16,704	-	(349)
KNOC Samsung Lantian Oil Development Co., Ltd.		15,317	636	5,148	(2,250)
KADOC Ltd.		82,363	97,262	-	(10,209)

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

19. Property, Plant and Equipment

- (a) The acquisition cost and net book value of property, plant and equipment as of December 31, 2014 and 2013 are as follows:

- (i) As of December 31, 2014

<i>In millions of Korean won</i>		December 31, 2014				
		Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	503,119	-	-	-	503,119
Buildings		185,121	-	(20,908)	-	164,213
Structures		1,794,803	(127)	(523,184)	-	1,271,492
Machinery		584,474	(4,591)	(311,359)	-	268,524
Vessels		107,199	-	(62,659)	-	44,540
Vehicles		9,096	-	(6,369)	-	2,727
Tools & fixtures		73,890	-	(43,809)	-	30,081
Construction-in-progress		61,962	-	-	-	61,962
Others		57,265	-	(29,758)	-	27,507
Oil & gas properties		21,078,753	(8,116)	(8,533,611)	(1,089,208)	11,447,818
	₩	24,455,682	(12,834)	(9,531,657)	(1,089,208)	13,821,983

- (ii) As of December 31, 2013

<i>In millions of Korean won</i>		December 31, 2013				
		Acquisition cost	Government grants	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	691,425	-	-	(28,620)	662,805
Buildings		108,907	-	(34,728)	(2,526)	71,653
Structures		3,189,387	(125)	(869,453)	(945,524)	1,374,285
Machinery		530,063	(4,703)	(273,663)	-	251,697
Vessels		109,477	-	(59,885)	(8,400)	41,192
Vehicles		10,102	-	(6,505)	(211)	3,386
Tools & fixtures		50,363	-	(39,337)	-	11,026
Construction-in-progress		173,969	-	-	-	173,969
Others		35,649	-	(19,671)	-	15,978
Oil & gas properties		20,769,688	(9,952)	(8,258,523)	(320,718)	12,180,495
	₩	25,669,030	(14,780)	(9,561,765)	(1,305,999)	14,786,486

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

19. Property, Plant and Equipment, Continued

(b) Changes in property, plant and equipment for the years ended December 31, 2014 and 2013 are as follows:

(i) For the year ended December 31, 2014

<i>In millions of Korean won</i>		Beginning balance	Acquisitions	Disposals	Depreciation(*1)	Impairment losses(*2)	Reclassifi- cations	Others (*3)	Ending balance
Land	₩	662,805	20,571	(174,735)	-	(9,764)	(15,770)	20,012	503,119
Buildings		71,653	48,223	(5,829)	(3,868)	(9,444)	56,568	6,910	164,213
Structures		1,374,285	45,719	(7,249)	(55,056)	(149,677)	11,249	52,221	1,271,492
Machinery		251,697	16,866	(4,477)	(29,386)	-	23,500	10,324	268,524
Vessels		41,192	5,934	-	(2,637)	(1,771)	-	1,822	44,540
Vehicles		3,386	550	(11)	(869)	(233)	(137)	41	2,727
Tools & fixtures		11,026	22,218	(8)	(5,403)	(99)	1,887	460	30,081
Construction-in-progress		173,969	59,529	(1,200)	-	-	(170,094)	(242)	61,962
Others		15,978	9,343	(59)	(6,655)	(18)	371	8,547	27,507
Oil & gas properties		12,180,495	2,308,896	(300,185)	(1,388,869)	(775,546)	(469,469)	(107,504)	11,447,818
	₩	<u>14,786,486</u>	<u>2,537,849</u>	<u>(493,753)</u>	<u>(1,492,743)</u>	<u>(946,552)</u>	<u>(561,895)</u>	<u>(7,409)</u>	<u>13,821,983</u>

(*1) Includes depreciation from the discontinued operation amounting to ₩12,228 million.

(*2) Includes impairment losses from discontinued operation amounting to ₩171,006 million.

(*3) Others include the effect of exchange rates fluctuations and others.

(ii) For the year ended December 31, 2013

<i>In millions of Korean won</i>		Beginning balance	Acquisitions	Disposals	Depreciation (*1)	Impairment losses(*2)	Reclassifi- cations	Others (*3)	Ending balance
Land	₩	702,657	425	(1,294)	-	(30,716)	-	(8,267)	662,805
Buildings		75,778	3,117	(130)	(3,471)	(2,711)	-	(930)	71,653
Structures		1,890,298	56,053	(45)	(131,275)	(445,350)	-	4,604	1,374,285
Machinery		279,061	5,324	(221)	(29,429)	-	18	(3,056)	251,697
Vessels		43,976	9,270	-	(2,760)	(9,016)	-	(278)	41,192
Vehicles		3,963	941	(57)	(1,176)	(226)	-	(59)	3,386
Tools & fixtures		11,223	6,829	(1,088)	(5,343)	-	-	(595)	11,026
Construction-in-progress		98,472	113,279	(2,145)	-	-	(31,101)	(4,536)	173,969
Others		14,455	3,514	-	(5,339)	-	6,258	(2,910)	15,978
Oil & gas properties		11,743,512	2,196,031	(189,432)	(1,369,265)	(177,052)	3,402	(26,701)	12,180,495
	₩	<u>14,863,395</u>	<u>2,394,783</u>	<u>(194,412)</u>	<u>(1,548,058)</u>	<u>(665,071)</u>	<u>(21,423)</u>	<u>(42,728)</u>	<u>14,786,486</u>

(*1) Includes depreciation from the discontinued operation amounting to ₩88,090 million.

(*2) Includes impairment losses related to discontinued operation amounting to ₩488,019 million.

(*3) Others include the effect of exchange rates fluctuations and others.

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For the years ended December 31, 2014 and 2013

19. Property, Plant and Equipment, Continued

(c) Details of impairments recognized by segments for the year ended December 31, 2014.

<i>In millions of Korean won</i>	Oil and Gas(*1)	Refinery
Generals		
Type of assets	Oil and gas properties	General assets
Valuation Method	Value in use	Fair value less cost to sell
Assumptions		
Pre-tax discount rate	6.0~17.2%	N/A
Oil prices(*2)	International indices	N/A
Production quantities	Estimated production quantities based on reserve reports	N/A
Recoverable amounts	₩ 813,634	-
Impairment losses(*3)	775,545	171,006
Reason for impairment	Decrease in international oil prices	Decrease in disposable value

(*1) The CGUs of the oil and gas segment are fields or wells and the impairments were recognized for 21 CGUs and individual assets.

(*2) The oil prices are based on the long-term forecasts from globally recognized research institutions.

(*3) The Group recognized impairment losses of the lands, buildings, structures, vessels, vehicles, tools&fixtures and others of the refinery segment amounting to ₩9,764 million, ₩9,444 million, ₩149,677 million, ₩1,771 million, ₩233 million, ₩99 million, and ₩18 million, respectively.

20. Goodwill

(a) Changes in goodwill for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>		2014	2013
Beginning balance	₩	1,406,616	1,467,973
Impairment (*1)		(457,038)	-
Other changes (*2)		(92,529)	(61,357)
Ending balance	₩	857,049	1,406,616

(*1) The Group recognized an impairment loss of ₩457,038 million due to significant decrease in oil prices for goodwill recognized from the acquisition of Dana Petroleum Limited.

(*2) Others include the effect of exchange rate fluctuations.

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For the years ended December 31, 2014 and 2013

20. Goodwill, Continued

- (b) For the purpose of impairment testing, goodwill is allocated to individually operating entities determined to be CGUs. The goodwill amounts as of December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>		December 31, 2014	December 31, 2013
Dana Petroleum Limited operating entities (*1)	₩	475,073	976,136
Harvest Operations Corp. operating entities (*2)		334,201	376,274
Altius Holdings Inc. (*3)			
(a subsidiary of KNOC Kaz B.V.)		47,775	54,206
	₩	<u>857,049</u>	<u>1,406,616</u>

- (*1) Dana Petroleum Limited's recoverable amount is estimated based on the value in use. The value in use is estimated from the cash inflows, which are discounted at 5.57%, derived from the oil production in the long-term production plan indicated in the reserve reports and based on the long-term oil price forecasts by the research institutions. The Group recognized an impairment of goodwill of ₩457,038 million in the consolidated statements of comprehensive loss as other loss based on the value in use of ₩2,247,476 million. The estimation of the value in use is effected by the assumptions used such as the discount rate in the discounted cash flows model. In the case of increase in the discount rate of 0.5%, the value in use decreases by ₩5,727 million and in the case of decrease in the discount rate of 0.5%, the value in use increases by ₩2,773 million.
- (*2) Harvest Operations Corp.'s recoverable amount is estimated based on the fair value less costs of disposal. The Group estimated the fair value less costs of disposal using the market approach valuation technique. The Group used the market multiples as the entity value of a set of comparable companies divided by their reserves and multiplied that multiples to the subsidiaries' reserves from the reserve reports. There is no impairment of goodwill recognized based on the fair value less costs of disposal estimated for each CGU for the year ended December 31, 2014.
- (*3) Altius Holding Inc.'s recoverable amount is estimated based on the value in use. The value in use is estimated from the cash inflows, which are discounted at 14.40%, derived from the oil production in the long-term production plan indicated in the reserve reports and based on the long-term oil price forecasts by the research institutions. There is no impairment of goodwill recognized based on the value in use estimated for each CGU for the year ended December 31, 2014. The estimation of the value in use is effected by the assumptions used such as the discount rate in the discounted cash flows model. In the case of increase in the discount rate of 0.5%, the value in use decreases by ₩10,768 million and in the case of decrease in the discount rate of 0.5%, the value in use increases by ₩10,998 million.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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21. Intangible Assets Other Than Goodwill

- (a) The acquisition cost and net book value of intangible assets other than goodwill as of December 31, 2014 and 2013 are as follows:

(i) As of December 31, 2014

In millions of Korean won

		December 31, 2014			
		Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value
Exploration and evaluation assets	₩	3,067,512	-	(2,235,634)	831,878
Software		30,382	(19,417)	-	10,965
Mining rights		4,120,953	(1,082,023)	(41,803)	2,997,127
Development cost		30,213	(22,322)	-	7,891
Land use right		230	(54)	-	176
Others		54,072	(877)	(50,404)	2,791
	₩	<u>7,303,362</u>	<u>(1,124,693)</u>	<u>(2,327,841)</u>	<u>3,850,828</u>

(ii) As of December 31, 2013

In millions of Korean won

		December 31, 2013			
		Acquisition cost	Accumulated amortization	Accumulated impairment losses	Book value
Exploration and evaluation assets	₩	2,752,754	-	(1,515,696)	1,237,058
Software		25,080	(14,206)	-	10,874
Mining rights		2,980,174	(320,675)	(19,458)	2,640,041
Development cost		28,521	(18,225)	-	10,296
Land use right		221	(47)	-	174
Others		51,816	(713)	(18,297)	32,806
	₩	<u>5,838,566</u>	<u>(353,866)</u>	<u>(1,553,451)</u>	<u>3,931,249</u>

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

21. Intangible Assets Other Than Goodwill, Continued

(b) Changes in intangible assets other than goodwill for the years ended December 31, 2014 and 2013 are as follows:

(i) For the year ended December 31, 2014

In millions of Korean won

		Beginning balance	Acquisi- tions	Disposals	Amorti- zation	Impairment losses and others(*1)	Reclassifi- cations	Others (*2)	Ending balance
Exploration and evaluation assets	₩	1,237,058	371,257	(48,938)	-	(775,318)	-	47,819	831,878
Software		10,874	3,328	-	(3,872)	-	365	270	10,965
Mining rights		2,640,041	6,235	-	(255,367)	(20,626)	501,185	125,659	2,997,127
Development cost		10,296	345	-	(3,199)	-	139	310	7,891
Land use right		174	-	-	(6)	-	-	8	176
Others		32,806	220	-	(165)	(30,035)	-	(35)	2,791
	₩	<u>3,931,249</u>	<u>381,385</u>	<u>(48,938)</u>	<u>(262,609)</u>	<u>(825,979)</u>	<u>501,689</u>	<u>174,031</u>	<u>3,850,828</u>

(*1) Includes the write-off of ₩825,979 million, which are recognized due to failure to find reserves (dry hole cost) in Europe, expired mining rights in Africa and others.

(*2) Others include the effect of exchange rates fluctuations and others.

(ii) For the year ended December 31, 2013

In millions of Korean won

		Beginning balance	Acquisi- tions	Disposals	Amorti- zation	Impairment losses(*1)	Reclassifi- cations	Others (*2)	Ending balance
Exploration and evaluation assets	₩	1,543,611	474,413	(8,654)	-	(546,467)	(15,322)	(210,523)	1,237,058
Software		9,377	4,971	-	(3,410)	-	-	(64)	10,874
Mining rights		2,824,070	8,796	-	(150,899)	(3,471)	(10,878)	(27,577)	2,640,041
Development cost		12,314	1,371	-	(3,277)	-	-	(112)	10,296
Land use right		183	-	-	(6)	-	-	(3)	174
Others		32,763	693	-	(138)	-	-	(512)	32,806
	₩	<u>4,422,318</u>	<u>490,244</u>	<u>(8,654)</u>	<u>(157,730)</u>	<u>(549,938)</u>	<u>(26,200)</u>	<u>(238,791)</u>	<u>3,931,249</u>

(*1) Includes the write-off of ₩549,938 million, which were recognized due to failure to find reserves in United Kingdom and Egypt exploration fields and expired mining rights of Norway exploration fields.

(*2) Others include the reclassification of exploration and evaluation assets and the effect of exchange rates fluctuations and others.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

22. Trade and Other Payables

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

In millions of Korean won

		December 31, 2014		December 31, 2013	
		Current	Non-current	Current	Non-current
Trade accounts payable	₩	391,680	-	294,272	-
Other accounts payable		841,694	248,710	1,020,450	72,025
Accrued expenses		112,605	198,019	121,664	178,970
Deposit received		-	3,964	-	1,933
Others		71,962	2,013	36,899	2,387
	₩	<u>1,417,941</u>	<u>452,706</u>	<u>1,473,285</u>	<u>255,315</u>

23. Financial Liabilities

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

In millions of Korean won

		December 31, 2014		December 31, 2013	
		Current	Non-current	Current	Non-current
Borrowings and bonds payable (note 24)	₩	1,257,794	10,758,604	2,806,362	9,110,228
Derivative liabilities (note 12)		3,103	145,378	50,189	13,284
Asset-Backed Securities		-	544	-	1,183
Financial guarantee		-	364	-	647
	₩	<u>1,260,897</u>	<u>10,904,890</u>	<u>2,856,551</u>	<u>9,125,342</u>

24. Borrowings and Bonds Payables

(a) Details of short-term borrowings as of December 31, 2014 and 2013 are as follows:

In millions of Korean won

	Financial Institutions	Description	Interest rate (%)		2014	2013
Short- term borrowings in foreign currencies	DBS	Borrowings	1ML + 0.37	₩	54,960	-
	Korea Development Bank	Borrowings	LIBOR + 0.75		54,960	-
	Korea Development Bank	Borrowings	LIBOR + 1.30		32,976	-
	Sumitomo Mitsui Bank	Borrowings	LIBOR + 0.70		32,976	-
	Shinhan Bank London	Borrowings	3ML + 2.50		5,512	-
	HSBC	Credit line	-		-	9,520
	Bank of America	Borrowings	LIBOR + 0.80		32,976	63,318
	Korea Development Bank	Borrowings	-		-	84,424
				₩	<u>214,360</u>	<u>157,262</u>

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

24. Borrowings and Bonds Payables, Continued

(b) Details of long-term borrowings as of December 31, 2014 and 2013 are as follows:

In millions of Korean won and thousands of foreign currencies

Financial Institution	Type	Fixed/ Floating	Interest rate (%)	Maturity	Currency Unit	2014		2013	
						Foreign currency	Local currency	Foreign currency	Local currency
Bank of Communications	Bank Borrowings	Floating	-	-	USD	- ₩	-	200,000	211,060
BNP Paribas and others	Bank Borrowings	Floating	1.75 ~ 2.25 + LIBOR	2018.12.31	USD	530,002	582,578	190,117	200,631
Mizuho Corporate Bank	Bank Borrowings	Floating	3ML+0.75	2017.04.05	USD	200,000	219,840	200,000	211,060
CIBC and others	Bank Borrowings	Floating	(*1)	2018.04.30	CAD	617,569	584,542	785,240	778,033
Shinhan Bank and others	Bank Borrowings	Floating	3ML+2.50	2017.08.31	USD	24,070	26,457	20,497	21,630
SAER(*2)	BEP(*3)	Floating	-1.25	N/A(*2)	USD	197,349	216,927	215,547	227,466
SAER(*2)	BEP(*3)	Floating	-2.25	N/A(*2)	USD	204,004	224,241	236,333	249,402
SAER(*2)	General Borrowings	Floating	-	-	USD	-	-	8,520	8,991
Hyundai Heavy Industries, Hanhwa Corp	BEP(*3) General	N/A	Interest free	N/A(*2)	USD	20,640	22,688	44,527	46,989
Jacobs Kernhem	Bank Borrowings	Fixed	-	-	CAD	-	-	12,257	12,144
International B.V	Bank Borrowings	Fixed	8.13	2019.12.04	USD	16,718	18,376	-	-
							1,895,649		1,967,406
Less: discount on bonds payable							(1,247)		(1,916)
							1,894,402		1,965,490
Less: current portion							-		(232,195)
Less: present value discount on current portion							-		192
						₩	1,894,402		1,733,487

(*1) The borrowings under the credit facility are available by way of bankers' acceptances, Canadian prime rate loans, LIBOR based loans, or U.S. base rate loans. The effective interest rate as of December 31, 2014 is 3.41%.

(*2) SAER stands for Special Accounting for Energy and Resources. Loans from SAER included in borrowings have no specific maturity as they were borrowed under the condition that the Group is not obligated to make repayment of the principal and interest until the exploration is proven to be successful.

(*3) BEP stands for Borrowings for Exploration and Production.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

24. Borrowings and Bonds Payables, Continued

(c) Details of bonds payable as of December 31, 2014 and 2013 are as follows:

In millions of Korean won and thousands of foreign currencies

Type	Interest rate (%)	Maturity	Currency Unit	December 31, 2014		December 31, 2013	
				Foreign currency	Local currency	Foreign currency	Local currency
Floating interest rate bonds payables	3ML+0.80	2018.06.07	USD	200,000₩	219,840	200,000'	211,060
	3ML+1.00	2018.06.07	USD	300,000	329,760	300,000	316,590
	3ML+1.50	2018.07.03	AUD	55,000	49,450	55,000	51,698
	3ML+1.20	2018.07.18	USD	330,000	362,736	330,000	348,249
	3ML+2.18	2015.02.03	USD	250,000	274,800	250,000	263,825
	-	-	USD	-	-	455,000	480,162
	-	-	USD	-	-	300,000	316,590
	-	-	JPY	-	-	13,500	135,629
	3ML + 1.08	2019.10.08	AUD	225,000	202,295	-	-
	3ML + 0.35	2017.11.10	USD	100,000	109,920	-	-
Fixed interest rate bonds payables	2.88	2015.11.09	USD	700,000	769,440	700,000	738,710
	4.38	2021.02.08	HKD	500,000	70,850	500,000	68,045
	3.40	2016.02.15	HKD	780,000	110,526	780,000	106,150
	3.15	2016.02.16	SGD	100,000	83,175	100,000	83,275
	4.50	2021.03.04	HKD	390,000	55,263	390,000	53,075
	2.63	2016.05.12	CHF	325,000	361,215	325,000	386,318
	3.95	2016.05.25	EUR	100,000	133,652	100,000	145,626
	4.00	2016.10.27	USD	1,000,000	1,099,200	1,000,000	1,055,300
	3.20	2016.12.22	HKD	637,000	90,263	637,000	86,689
	3.89	2016.12.26	KRW	90,000	90,000	90,000	90,000
	3.95	2022.02.10	HKD	390,000	55,263	390,000	53,075
	1.88	2017.03.08	CHF	300,000	333,429	300,000	356,601
	4.00	2022.03.28	EUR	50,000	66,826	50,000	72,813
	3.13	2017.04.03	USD	1,000,000	1,099,200	1,000,000	1,055,300
	1.80	2018.01.22	HKD	400,000	56,680	400,000	54,436
	2.85	2023.01.24	HKD	400,000	56,680	400,000	54,436
	1.97	2018.01.29	USD	70,000	76,944	70,000	73,871
	2.40	2023.02.04	EUR	37,000	49,451	37,000	53,882
	3.00	2025.06.24	EUR	60,000	80,191	60,000	87,376
	3.09	2023.07.03	EUR	50,000	66,826	50,000	72,813
	1.63	2018.11.29	CHF	240,000	266,743	240,000	285,281
	-	-	KRW	-	-	100,000	100,000
	-	-	USD	-	-	1,000,000	1,055,300
	-	-	HKD	-	-	470,000	63,962
	-	-	USD	-	-	150,000	158,295
	-	-	KRW	-	-	110,000	110,000
	6.88	2017.10.01	USD	492,558	541,420	490,162	517,267
	2.13	2018.05.14	USD	626,228	688,350	625,065	659,630
	2.75	2019.01.23	USD	500,000	549,600	-	-
	4.00	2024.01.23	USD	500,000	549,600	-	-
	3.25	2024.07.10	USD	550,000	604,560	-	-
	2.75	2019.01.23	USD	250,000	274,800	-	-
	4.25	2019.10.08	AUD	125,000	112,387	-	-
					9,941,335		9,821,329
Less: discount on bonds payable					(37,044)		(27,491)
Add: premium on bonds payable					3,345		-
					9,907,636		9,793,838
Less: current portion					(1,044,240)		(2,419,938)
Less: present value discount on current portion					806		2,841
				₩	<u>8,864,202</u>		<u>7,376,741</u>

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

25. Loans from Special Accounting for Energy and Resources (“SAER”)

The Company provides financial loans and related services on behalf of the Ministry of Trade Industry and Energy (formerly the Ministry of Knowledge Economy) of the Republic of Korea to Korean entities engaged in the energy and natural resources sector.

(a) Accounting

The Company recognizes as revenue commissions earned from providing loan services to the above Korean entities in accordance with SAER and does not include on its consolidated financial statements any amount of the loans provided or proceeds thereof, if any (i.e., net presentation). However, the Company presents loans and the borrowings as deductions in the consolidated statements of financial position and discloses related information in notes to the consolidated financial statements.

(b) Purpose and details of lending institution

Loans are provided to the above entities for the purpose of supporting the national energy and natural resource sector, and to stabilize potential volatility in market prices. Classification of business for loans is as follows:

Subsidiary	Details
Petroleum trading	General
Development and crude refineries	General
Exploration	Borrowings for Exploration and Production (no repayment of principal and interest until the exploration is proven to be successful)

Loan applications are reviewed by the Urban Gas Association and Overseas Resources Development Association commissioned by the Minister of Knowledge and Economy, which grants final approval. The Company acts as an agent on behalf of the Minister of Knowledge and Economy to provide loan services to the user entities in accordance with SAER. Furthermore, the Company complies with the terms and conditions prescribed by the Minister of Trade Industry and Energy including the loan period, interest rates, repayment terms of the user and the commissions with respect to loan services.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

25. Loans from Special Accounting for Energy and Resources (“SAER”), Continued

(c) Details of loans

(i) Changes in loans from SAER by user for the year ended December 31, 2014 are as follows:

<i>In millions of Korean won</i>		January 1, 2014	Borrowings	Redemp- -tion	Exemp-tion	Other	December 31, 2014
Petroleum trading	₩	702,878	74,000	(194,247)	-	-	582,631
Development and crude refineries		37,728	-	(8,290)	-	1,210	30,648
Exploration		1,189,318	114,210	(31,344)	(50,781)	80,970	1,302,373
Investment guarantees		142,759	27,716	-	-	7,148	177,623
	₩	<u>2,072,683</u>	<u>215,926</u>	<u>(233,881)</u>	<u>(50,781)</u>	<u>89,328</u>	<u>2,093,275</u>

(ii) Changes in loans from SAER by user for the year ended December 31, 2013 are as follows:

<i>In millions of Korean won</i>		January 1, 2013	Borrowings	Redemp- -tion	Exemp-tion	Other	December 31, 2013
Petroleum trading	₩	804,706	62,000	(163,828)	-	-	702,878
Development and crude refineries		51,595	-	(13,597)	-	(270)	37,728
Exploration		1,195,084	55,801	(46,515)	(10,875)	(4,177)	1,189,318
Investment guarantees		122,789	22,601	-	-	(2,631)	142,759
	₩	<u>2,174,174</u>	<u>140,402</u>	<u>(223,940)</u>	<u>(10,875)</u>	<u>(7,078)</u>	<u>2,072,683</u>

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

25. Loans from Special Accounting for Energy and Resources (“SAER”), Continued

(d) Details of user entities

(i) Changes in loans from SAER by user for the year ended December 31, 2014 are as follows:

<i>In millions of Korean won</i>	January 1, 2014	Borrow -ings	Redemp -tion	Reduc -tion	Other	December 31, 2014
Petroleum trading						
Korea Development Bank	₩ 117,320	10,388	(24,658)	-	-	103,050
Kookmin Bank	62,504	13,659	(14,148)	-	-	62,015
Korea Exchange Bank	25,427	2,184	(2,075)	-	-	25,536
Shinhan Bank	40,129	4,042	(8,344)	-	-	35,827
Citibank Korea Inc.	3,377	-	(1,459)	-	-	1,918
Kyongnam Bank	14,871	617	(844)	-	-	14,644
The Kwangju Bank, Ltd.	7,720	920	(943)	-	-	7,697
The Jeonbuk Bank, Ltd.	20,516	3,702	(1,719)	-	-	22,499
Hana Bank	57,478	20,247	(7,842)	-	-	69,883
Busan Bank	7,838	963	(520)	-	-	8,281
NongHyup Bank	23,821	7,499	(11,882)	-	-	19,438
Woori Bank	9,005	9,779	(676)	-	-	18,108
National Federation of Fisheries Cooperatives	2,277	-	(1,506)	-	-	771
YESCO Co., Ltd.	467	-	(136)	-	-	331
Ko-one Energy Service Co., Ltd.	491	-	(491)	-	-	-
Industrial Bank of Korea	5,534	-	(3,391)	-	-	2,143
Korea Gas Corporation	261,795	-	(92,758)	-	-	169,037
Daehan Oil Pipeline Corporation	42,308	-	(20,855)	-	-	21,453
	<u>702,878</u>	<u>74,000</u>	<u>(194,247)</u>	<u>-</u>	<u>-</u>	<u>582,631</u>
Development and crude refineries						
Samhwan Corporation	4,506	-	-	-	188	4,694
Korea Gas Corporation	17,345	-	(4,328)	-	533	13,550
Hyundai Corporation	7,341	-	(1,832)	-	226	5,735
SK Innovation Co., Ltd.	8,536	-	(2,130)	-	263	6,669
	<u>37,728</u>	<u>-</u>	<u>(8,290)</u>	<u>-</u>	<u>1,210</u>	<u>30,648</u>

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

25. Loans from Special Accounting for Energy and Resources (“SAER”), Continued

(d) Details of user entities, continued

(i) Changes in loans from SAER by user for the year ended December 31, 2014 are as follows, continued:

<i>In millions of Korean won</i>		January 1, 2014	Borrow -ings	Redemp -tion	Reduc -tion	Other	December 31, 2014
Exploration							
Keangnam Enterprises Ltd.	₩	33,370	-	(2)	-	1,389	34,757
Golden E&P		7,165	-	-	-	299	7,464
Kumho Petro Chemical Co., Ltd.		7,707	-	(1)	-	321	8,027
Daesung Industrial Co., Ltd.		25,517	1,097	(2,010)	-	1,022	25,626
Daewoo International Corporation		159,881	20,689	(16,681)	-	30,637	194,526
Daewoo Shipbuilding & Marine Engineering Co., Ltd.		11,397	1,098	-	-	522	13,017
Dong Won Corporation		6,546	-	-	-	272	6,818
Lotte Chemical Corporation		1,431	-	-	-	59	1,490
Majuko. Corp.		2,115	-	-	-	88	2,203
Samsung C&T Corporation		44,885	1,098	(1,887)	(13,150)	1,406	32,352
Samchully Co., Ltd.		19,025	-	-	-	791	19,816
Samhwan Corporation		5,587	-	-	-	232	5,819
Seoul City Gas Co., Ltd.		616	-	(615)	-	(1)	-
Seha Corporation		4,755	-	-	-	198	4,953
Aju Co. Ltd.		5,134	1,098	-	-	262	6,494
KSEnergy Corporation		4,755	-	-	-	198	4,953
Kodeco Energy Co., Ltd.		222,269	-	-	-	9,246	231,515
POSCO		13,593	-	-	-	565	14,158
Korea Gas Corporation		120,678	36,139	(6,284)	(19,373)	9,215	140,375
Korea Electronic Power Corporation		9,270	-	-	-	386	9,656
Hanhwa Corp.		8,485	-	-	-	353	8,838
Hyundai Corporation		6,838	-	(1,397)	-	223	5,664
Hyundai Heavy Industries Co., Ltd.		11,139	-	(1)	-	463	11,601
Hyundai Hysco		20,881	7,669	-	-	1,203	29,753
GS		18,770	-	(4)	-	781	19,547
GS Energy Corporation		47,545	9,881	-	-	2,494	59,920
GS-Caltex Corporation		28,990	-	-	-	1,206	30,196
LG International Corporation		83,851	2,196	(1,986)	(14,600)	5,174	74,635
SK Gas Ltd.		17,356	-	(11)	-	722	18,067
SK Innovation Co., Ltd.		227,140	14,729	(465)	(3,658)	9,912	247,658
SK E&S Co., Ltd.		7,000	18,516	-	-	1,099	26,615
STX Corporation		5,627	-	-	-	233	5,860
		<u>1,189,318</u>	<u>114,210</u>	<u>(31,344)</u>	<u>(50,781)</u>	<u>80,970</u>	<u>1,302,373</u>
Investment risk guarantees							
Korea Export Insurance Corporation		<u>142,759</u>	<u>27,716</u>	<u>-</u>	<u>-</u>	<u>7,148</u>	<u>177,623</u>
	₩	<u>2,072,683</u>	<u>215,926</u>	<u>(233,881)</u>	<u>(50,781)</u>	<u>89,328</u>	<u>2,093,275</u>

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

25. Loans from Special Accounting for Energy and Resources (“SAER”), Continued

(d) Details of user entities, continued

(ii) Changes in loans from SAER by user for the year ended December 31, 2013 are as follows:

<i>In millions of Korean won</i>	January 1, 2013	Borrow -ings	Redemp -tion	Reduc -tion	Other	December 31, 2013
Petroleum trading						
Korea Development Bank	₩ 111,103	10,835	(4,618)	-	-	117,320
Kookmin Bank	51,107	12,950	(1,553)	-	-	62,504
Korea Exchange Bank	23,532	3,730	(1,835)	-	-	25,427
Shinhan Bank	36,228	5,940	(2,039)	-	-	40,129
Citibank Korea Inc.	4,388	-	(1,011)	-	-	3,377
Kyongnam Bank	14,489	972	(590)	-	-	14,871
The Kwangju Bank, Ltd.	9,895	447	(2,622)	-	-	7,720
The Jeonbuk Bank, Ltd.	21,742	-	(1,226)	-	-	20,516
Hana Bank	45,543	13,701	(1,766)	-	-	57,478
Busan Bank	7,405	895	(462)	-	-	7,838
NongHyup Bank	23,932	9,500	(9,611)	-	-	23,821
Woori Bank	6,545	3,030	(570)	-	-	9,005
National Federation of Fisheries Cooperatives	2,388	-	(111)	-	-	2,277
YESCO Co., Ltd.	603	-	(136)	-	-	467
Ko-one Energy Service Co., Ltd.	635	-	(144)	-	-	491
Industrial Bank of Korea	5,534	-	-	-	-	5,534
Korea Gas Corporation	364,265	-	(102,470)	-	-	261,795
Daehan Oil Pipeline Corporation	75,372	-	(33,064)	-	-	42,308
	<u>804,706</u>	<u>62,000</u>	<u>(163,828)</u>	<u>-</u>	<u>-</u>	<u>702,878</u>
Development and crude refineries						
Daesung Industrial Co., Ltd.	1,060	-	(1,084)	-	24	-
Daewoo International Corporation	739	-	(756)	-	17	-
Samhwan Corporation	4,573	-	-	-	(67)	4,506
Seoul City Gas Co., Ltd.	1,024	-	(1,047)	-	23	-
Korea Gas Corporation	22,006	-	(4,500)	-	(161)	17,345
Hyundai Corporation	9,313	-	(1,904)	-	(68)	7,341
LG International Corporation	2,047	-	(2,091)	-	44	-
SK Innovation Co., Ltd.	10,833	-	(2,215)	-	(82)	8,536
	<u>51,595</u>	<u>-</u>	<u>(13,597)</u>	<u>-</u>	<u>(270)</u>	<u>37,728</u>

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For the years ended December 31, 2014 and 2013

25. Loans from Special Accounting for Energy and Resources (“SAER”), Continued

(d) Details of user entities, continued

(ii) Changes in loans from SAER by user for the year ended December 31, 2013 are as follows, continued:

<i>In millions of Korean won</i>		January 1, 2013	Borrow -ings	Redemp -tion	Reduc -tion	Other	December 31, 2013
Exploration							
Keangnam Enterprises Ltd.	₩	33,870	-	-	-	(500)	33,370
Golden E&P		8,333	-	(1,084)	-	(84)	7,165
Kumho Petro Chemical Co., Ltd.		7,822	-	-	-	(115)	7,707
Daesung Industrial Co., Ltd.		28,172	1,599	(3,923)	-	(331)	25,517
Daewoo International Corporation		164,800	206	(2,788)	-	(2,337)	159,881
Daewoo Shipbuilding & Marine Engineering Co., Ltd.		10,723	864	-	-	(190)	11,397
Dong Won Corporation		6,644	-	-	-	(98)	6,546
Lotte Chemical Corporation		1,777	34	(366)	-	(14)	1,431
Majuko. Corp.		1,744	412	-	-	(41)	2,115
Samsung C&T Corporation		42,124	2,699	-	-	62	44,885
Samchully Co., Ltd.		18,498	843	(13)	-	(303)	19,025
Samhwan Corporation		5,671	-	-	-	(84)	5,587
Seoul City Gas Co., Ltd.		9,369	-	(2,018)	(6,921)	186	616
Seoul City Development		17	-	(17)	-	-	-
Seha Corporation		4,826	-	-	-	(71)	4,755
Aju Co. Ltd.		4,366	864	-	-	(96)	5,134
KSEnergy Corporation		4,826	-	-	-	(71)	4,755
Kodeco Energy Co., Ltd.		223,269	-	(9,176)	-	8,176	222,269
Kolon Global		157	-	-	(160)	3	-
POSCO		13,656	144	-	-	(207)	13,593
Korea Gas Corporation		100,481	23,112	(616)	-	(2,299)	120,678
Korea Electronic Power Corporation		9,409	-	-	-	(139)	9,270
Hanhwa Corp.		8,612	-	-	-	(127)	8,485
Hyundai Corporation		12,398	-	(2,764)	(2,816)	20	6,838
Hyundai Heavy Industries Co., Ltd.		11,306	-	-	-	(167)	11,139
Hyundai Hysco		15,651	5,667	-	-	(437)	20,881
GS		18,702	367	(10)	-	(289)	18,770
GS Energy Corporation		26,656	1,966	-	-	18,923	47,545
GS-Caltex Corporation		48,736	-	-	(758)	(18,988)	28,990
LG International Corporation		85,767	1,740	(2,416)	-	(1,240)	83,851
SK Gas Ltd.		17,616	-	(1)	-	(259)	17,356
SK Innovation Co., Ltd.		225,242	13,059	(8,041)	-	(3,120)	227,140
SK E&S Co., Ltd.		4,927	2,225	-	-	(152)	7,000
STX Corporation		5,830	-	(122)	-	(81)	5,627
GS E&R Corp.		13,087	-	(13,160)	(220)	293	-
		<u>1,195,084</u>	<u>55,801</u>	<u>(46,515)</u>	<u>(10,875)</u>	<u>(4,177)</u>	<u>1,189,318</u>
Investment risk guarantees							
Korea Export Insurance Corporation		<u>122,789</u>	<u>22,601</u>	<u>-</u>	<u>-</u>	<u>(2,631)</u>	<u>142,759</u>
	₩	<u>2,174,174</u>	<u>140,402</u>	<u>(223,940)</u>	<u>(10,875)</u>	<u>(7,078)</u>	<u>2,072,683</u>

26. Employee Benefits

The Group sponsors defined contribution plans and defined benefit plans which are subject to the employees' option.

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(a) Defined contribution pension plan

The Group operates a defined contribution plan ("DC plan") which is subject to the employees' option. Contributions to the DC plan are separately managed by the plan's administrator. When employees terminate their employment before the benefits have vested, the Group's obligation to make contribution to the plan decreases on a pro rata basis.

(b) Defined benefit pension plan

The latest actuarial calculation on both plan assets and defined benefit obligation was performed as of December 31, 2014. The Group uses the projected unit credit method to determine the present value of its defined benefit obligations and the related current service costs.

(i) The components of defined benefits liabilities as of December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>		December 31, 2014	December 31, 2013	January 1, 2013
Present value of defined benefit obligation from funded plans	₩	60,501	162,126	171,594
Fair value of plan assets		(46,469)	(155,374)	(132,021)
Net liabilities incurred from defined benefit plans	₩	14,032	6,752	39,573

(ii) Changes in the present value of defined benefit obligations for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>		2014	2013
Beginning balance	₩	162,126	171,594
Current service cost		11,554	10,968
Interest cost		7,059	7,530
Remeasurement components		25,560	(15,347)
Actual payments		(39,779)	(8,037)
Effect of movement in exchange rates		(4,248)	(6,765)
Others		-	2,183
Decrease upon disposal of subsidiary (*)		(101,771)	-
Ending balance	₩	60,501	162,126

(*) Related to the disposal of a subsidiary as disclosed in note 7.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

26. Employee benefits, Continued

(b) Defined benefit pension plan, continued

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

<i>In millions of Korean won</i>		2014	2013
Beginning balance	₩	155,374	132,021
Expected return on plan assets		6,471	5,835
Actuarial gains		1,736	11,559
Benefit paid by the plan		(39,779)	(8,012)
Contributions paid into the plan		18,527	21,784
Effect of movement in exchange rates		(3,614)	(7,813)
Decrease upon disposal of subsidiary (*)		(92,246)	-
Ending balance	₩	46,469	155,374

(*) Related to the disposal of a subsidiary as disclosed in note 7.

(iv) Details of the fair value of plan assets as of December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	Expected rate of return		Fair value of plan assets	
	2014	2013	2014	2013
Equity instruments	-	4.0%~5.0%	₩ -	60,169
Debt instruments	-	4.0%~5.0%	-	25,787
Others(*1)	5.35%	4.0%~5.0%	46,469	69,418
Weighted average of expected rate of return(*2)	5.35%	4.0%~5.0%	46,469	155,374

(*1) Others are comprised of GCI, MIS, retirement insurance and transfer from national pension.

(*2) The expected rate of return is calculated based on the weighted average of expected rate of returns for each type of assets. The management evaluates the expected rate of returns based on the historical rate of return trends and the analysis of the predicted market during the period when the defined benefits liabilities exist.

(v) Principal assumptions on actuarial valuation as of December 31, 2014 and 2013 are as follows:

	2014	2013
Discount rate	4.38%	4.80%~5.35%
Weight average expected rate of return	5.35%	4.00%~5.00%
Future salary and benefit levels	5.42%	3.50%~4.00%

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26. Employee benefits, Continued

(b) Defined benefit pension plan, continued

(vi) Details of expenses relating to defined benefit plans for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014	2013
Current service cost	₩ 11,554	10,968
Interest cost	7,059	7,530
Expected return on plan assets	(6,471)	(5,835)
Allowance for subsidiaries	-	(79)
Transfer from other account	(385)	(306)
Other	(448)	-
	<u>₩ 11,309</u>	<u>12,278</u>

Expenses described above are recognized as the following items in the financial statements.

<i>In millions of Korean won</i>	2014	2013
Cost of sales	₩ 2,571	2,335
Selling and administrative expenses	5,842	6,465
Others	385	306
Loss from discontinued operation	2,896	3,478
	<u>₩ 11,694</u>	<u>12,584</u>

(vii) Remeasurement component recognized in other comprehensive income for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014	2013
Actuarial gains and losses	₩ (25,560)	15,347
Return on plan assets	1,736	11,559
	<u>₩ (23,824)</u>	<u>26,906</u>

In addition, the amounts recongized for the year ended December 31, 2014 are included in retained earnings. The actuarial gains and losses amounting to ₩18,343 million (net of deferred tax amounting to ₩5,481 million) and ₩24,340 million (net of deferred tax amounting to ₩2,566 million) have been recognized as other comprehensive income for the years ended December 31, 2014 and 2013, respectively.

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For the years ended December 31, 2014 and 2013

27. Provisions

(a) Provisions as of December 31, 2014 and 2013 are as follows:

(i) As of December 31, 2014

<i>In millions of Korean won</i>		Current	Non-current	Total
Decommissioning cost(*1)	₩	2,937	2,354,849	2,357,786
Social Overhead Capital(*2)		249,791	109,323	359,114
Allowance for salaries		2,428	-	2,428
Provision for litigations(*3)		3,313	57,871	61,184
Others(*4)		-	1,030	1,030
	₩	<u>258,469</u>	<u>2,523,073</u>	<u>2,781,542</u>

(*1) The Group recognized provisions for future dismantling, removing and restoring obligations of wells and related facilities. Most of the costs incur at or after the completion of production and the management recognized its best estimations as provisions.

(*2) The Group is committed to providing construction services with regards to the Kurdish regional government's Social Overhead Capital to obtain rights on certain exploratory areas (see note 44 for further discussion). This commitment has been classified as a provision due to its uncertain timing of related cash outflows.

(*3) During 2014, the Group lost in the first trial in connection with litigations filed by Hanhwa Corp. and Hyundai Heavy Industries claiming refunds of the acquisition costs and premium paid to the Group to acquire interests in Yemen 4 oil field. The Group plans to appeal to the decision and proceed to a second trial, and estimated the expected future cash outflows as the litigation amount and recognized litigation provisions accordingly.

(*4) The reclassifications from non-current to current amounted to W189,284 million and W144,774 million for the years ended December 31, 2014 and 2013, respectively.

(ii) As of December 31, 2013

<i>In millions of Korean won</i>		Current	Non-current	Total
Decommissioning cost	₩	-	2,276,237	2,276,237
Social Overhead Capital		270,366	276,201	546,567
Provision for litigations		3,468	-	3,468
Others		1,562	326	1,888
	₩	<u>275,396</u>	<u>2,552,764</u>	<u>2,828,160</u>

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

27. Provisions, Continued

(b) Changes in provisions for the years ended December 31, 2014 and 2013 are as follows:

(i) For the year ended December 31, 2014

<i>In millions of Korean won</i>		Beginning balance	Provision	Accretion expenses	Payment	Others(*)	Ending Balance
Decommissioning cost	₩	2,276,237	29,548	112,151	(115,575)	55,425	2,357,786
Social Overhead Capital		546,567	905	16,637	(220,668)	15,673	359,114
Allowance for salaries		-	2,326	-	-	102	2,428
Provision for litigations		3,468	55,451	-	-	2,265	61,184
Others		1,888	-	-	(16)	(842)	1,030
	₩	<u>2,828,160</u>	<u>88,230</u>	<u>128,788</u>	<u>(336,259)</u>	<u>72,623</u>	<u>2,781,542</u>

(*) Others include the effect of exchange rates fluctuations and others.

(ii) For the year ended December 31, 2013

<i>In millions of Korean won</i>		Beginning balance	Provision	Accretion expenses	Payment	Others(*)	Ending Balance
Decommissioning cost	₩	2,090,104	58,621	96,181	(24,552)	55,883	2,276,237
Social Overhead Capital		576,891	-	17,988	(31,880)	(16,432)	546,567
Provision for litigations		3,766	-	-	-	(298)	3,468
Others		5,676	-	-	(3,820)	32	1,888
	₩	<u>2,676,437</u>	<u>58,621</u>	<u>114,169</u>	<u>(60,252)</u>	<u>39,185</u>	<u>2,828,160</u>

(*) Others include the effect of exchange rates fluctuations and others.

28. Current Non-Financial Liabilities

Details of current non-financial liabilities as of December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>		2014	2013
Advance receipts	₩	15,204	4,432
Unearned revenue		26,017	26,744
Withholdings		43,797	47,178
Non-current liabilities held for sale (note 17)		48,310	46,410
	₩	<u>133,328</u>	<u>124,764</u>

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29. Issued Capital

The Company's total issued capital is invested solely by the Korean government in accordance with the Korean National Oil Corporation Act and the authorized issued capital is ₩13 trillion as of December 31, 2014. The changes in issued capital for the year ended December 31, 2014 are as follows:

In millions of Korean won

<u>Date</u>	<u>Description</u>	<u>Amount</u>
Beginning balance		₩ 10,030,493
2014. 02. 27	Contribution for oil stockpiling business	994
2014. 05. 22	Contribution for oil stockpiling business	38,460
2014. 12. 17	Contribution for oil stockpiling business	21,973
Ending balance		₩ 10,091,920

30. Accumulated Deficit

(a) Details of accumulated deficit as December 31, 2014 and 2013 are as follows:

In millions of Korean won

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Legal reserve (*1)	₩ 929,848	869,743
Reserve for business expansion (*2)	895,310	835,206
Undisposed accumulated deficit	(4,002,470)	(2,218,319)
Accumulated deficit	₩ (2,177,312)	(513,370)

(*1) In accordance with the Commercial Act in the Republic of Korea, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of issued capital. The legal reserve cannot be used as a source for cash dividends and may only be used to offset an accumulated deficit.

(*2) The Korea National Oil Corporation Act requires the Company to appropriate, from retained earnings, an amount equal to at least 20% of net income for each accounting period as a reserve for business expansion until the reserve equals issued capital after having appropriated retained earnings for the legal reserve. This reserve cannot be used as a source for cash dividends and may only be used to offset an accumulated deficit.

(b) Changes in accumulated deficit for the years ended December 31, 2014 and 2013 are as follows:

In millions of Korean won

	<u>2014</u>	<u>2013</u>
Beginning balance	₩ (513,370)	201,543
Net loss for the year attributed to owner of the Company	(1,602,523)	(728,861)
Dividends	(43,072)	(10,393)
Changes in equity method retained earnings	(4)	-
Remeasurement components of defined benefits plan	(18,343)	24,341
Accumulated deficit	₩ (2,177,312)	(513,370)

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

31. Separate Statement of Appropriation of Retained Earnings

Separate statements of appropriation of retained earnings of the Company for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014	2013
I. Retained Earnings(Undisposed Deficit) before appropriations		
Unappropriated retained earnings carried over from prior years	₩ -	-
Net income (loss)	(2,700,907)	162,167
Remeasurement components	(12,927)	1,114
	<u>(2,713,834)</u>	<u>163,281</u>
II. Appropriations of retained earnings		
Legal appropriated retained earnings	-	60,105
Other reserves	-	60,105
Dividends	-	43,071
	<u>-</u>	<u>163,281</u>
III. Disposal of undisposed deficit		
Transfer from legal reserves	929,848	-
Transfer from other reserves	895,310	-
	<u>1,825,158</u>	<u>-</u>
IV. Undisposed deficit to be carried forward to the subsequent year	₩ <u>(888,676)</u>	<u>-</u>

For the year ended December 31, 2014, the Company's retained earnings are expected to be appropriated on February 27, 2015. For the year ended December 31, 2013, the Company's retained earnings were appropriated on February 27, 2014.

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32. Other Components of Equity

(a) Other components of equity as of December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>		December 31, 2014	December 31, 2013
Other capital surpluses(*)	₩	24,954	24,954
Accumulated other comprehensive income		(382,458)	(79,395)
	₩	<u>(357,504)</u>	<u>(54,441)</u>

(*) All other capital surpluses are gains from assets contributed.

(b) Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>		2014			
		Losses on valuation of available-for- sales financial instruments	Equity adjustments in equity method - debit	Exchange difference on translation of foreign operations	Gains on valuation of derivative instruments
					Total
Beginning balance	₩	53,029	(8,045)	(159,954)	35,575
Losses on valuation of available-for- sales financial instruments		(152,518)	-	-	-
Equity adjustments in equity method - debit		-	(5,478)	-	-
Exchange difference on translation of foreign operations		-	-	(165,237)	-
Gain on valuation of derivative instruments		-	-	-	20,170
Ending balance	₩	<u>(99,489)</u>	<u>(13,523)</u>	<u>(325,191)</u>	<u>55,745</u>
					<u>(382,458)</u>

<i>In millions of Korean won</i>		2013			
		Gains on valuation of available-for- sales financial instruments	Equity adjustments in equity method - debit	Exchange difference on translation of foreign operations	Gains on valuation of derivative instruments
					Total
Beginning balance	₩	31,977	(9,453)	92,714	(5,797)
Gains on valuation of available-for- sales financial instruments		21,052	-	-	-
Equity adjustments in equity method - debit		-	1,408	-	-
Exchange difference on translation of foreign operations		-	-	(252,668)	-
Gain on valuation of derivative instruments		-	-	-	41,372
Ending balance	₩	<u>53,029</u>	<u>(8,045)</u>	<u>(159,954)</u>	<u>35,575</u>
					<u>(79,395)</u>

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33. Revenue

Details of domestic and overseas sales for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014			2013		
	Domestic	Overseas	Total	Domestic	Overseas	Total
Sales of goods and finished goods	₩ 397,570	3,641,906	4,039,476	471,378	4,483,646	4,955,024
Revenues from services provided	33,707	210,992	244,699	15,278	219,793	235,071
Interest income	2,128	-	2,128	2,555	-	2,555
Income on government grants	3,326	-	3,326	6,031	-	6,031
Others	1,534	66,955	68,489	2,957	63,844	66,801
	₩ 438,265	3,919,853	4,358,118	498,199	4,767,283	5,265,482

34. Other Non-operating Income and Expenses

(a) Details of other income for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014	2013
Gain on exemption of debt	₩ 96,534	18,836
Compensation and indemnity	38	3
Rental income	171	135
Other income from overseas fields	23,633	13,408
Others	19,093	5,998
	₩ 139,469	38,380

(b) Details of other expenses for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014	2013
Accrual for provisions	₩ 167,602	95,663
Other bad debt expense	69,486	28,323
Donations	2,725	6,302
Other expenses from overseas fields	6,011	7,593
Others	21,036	6,985
	₩ 266,860	144,866

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35. Other Profit and Loss

Details of other profit and loss for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014	2013
Gains on disposal of property, plant and equipment	₩ 377,791	31,831
Gains on disposal of intangible assets other than goodwill	1,704	8
Gains on transactions of derivatives(*)	-	780
Gains on valuation of derivatives(*)	774	8,851
Gains on foreign currency translation(*)	7,899	5,028
Gains on foreign currency transactions(*)	63,193	79,873
Other gains	51,058	21,826
Losses on disposal of property, plant and equipment	(14,376)	(3,075)
Losses on disposal of intangible assets other than goodwill	(41,987)	-
Losses on valuation of derivatives(*)	(774)	(6,445)
Impairment losses on property, plant and equipment	(775,546)	(177,052)
Impairment losses and write-off of intangible assets other than goodwill	(1,283,017)	(549,938)
Losses on foreign currency translation(*)	(29,551)	(5,426)
Losses on foreign currency transactions(*)	(55,465)	(83,258)
Other losses	(21,644)	(1,598)
	₩ (1,719,941)	(678,595)

(*) Gains and losses related to operating activities.

36. Finance Income

(a) Details of finance income for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014	2013
Interest income	₩ 34,635	52,747
Dividend income	4,807	43,216
Gains on disposal of financial assets	2,894	21,058
Gains on valuation of derivatives financial instruments	-	5,303
Gains on settlement of derivatives financial instruments	926	-
Gains on disposal of financial liabilities	-	3,885
Gains on foreign currency translation	11,535	4,757
Gains on foreign currency transaction	25,161	23,801
	₩ 79,958	154,767

(b) Interest income included in finance income for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014	2013
Cash and cash equivalents	₩ 13,660	17,043
Loans and receivables	20,975	35,704
	₩ 34,635	52,747

37. Finance Costs

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For the years ended December 31, 2014 and 2013

(a) Details of finance costs for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014	2013
Interest expense	₩ 394,661	444,928
Losses on valuation of derivatives financial instruments	2,020	1,494
Losses on settlement of derivatives financial instruments	85	-
Losses on foreign currency translation	148,903	87,106
Losses on foreign currency transaction	23,080	28,259
Other financial costs	52,289	64,216
	₩ 621,038	626,003

(b) Interest expenses included in finance costs for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014	2013
Short-term borrowings	₩ 2,489	17,330
Long-term borrowings	51,828	71,455
Bonds	332,761	280,795
Derivative liabilities	22,426	62,512
Other financial liabilities	16,981	44,834
	426,485	476,926
Less: capitalized costs of borrowing	(31,824)	(31,998)
	₩ 394,661	444,928

The annual weighted average costs of capital of the borrowings are 3.25~4.73% and 3.24~9.17% for the years ended December 2014 and 2013, respectively.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

38. Income Tax Benefit

- (a) The components of income tax benefit for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014	2013
Current income tax	₩ 275,487	311,279
Deferred tax directly charged to equity	30,571	(20,872)
Changes in deferred taxes arising from temporary differences	(1,091,145)	(225,866)
Adjustment for prior periods	100,752	(105,588)
Income tax benefit	₩ <u>(684,335)</u>	<u>(41,047)</u>

- (b) Reconciliations of expected income tax benefit computed by applying the statutory income tax rate to loss before income taxes to the actual income tax benefit for the years ended December 31, 2014 and 2013 are as followings:

<i>In millions of Korean won</i>	2014	2013
Loss before income tax	₩ (1,957,121)	(82,785)
Benefits at the statutory income tax rate (24.2%)(*)	₩ (473,623)	(20,034)
Adjustments		
Adjustments to prior year tax return	2,644	(86,958)
Non-taxable income	(22,944)	(215)
Non-deductible expenses	46,103	22,938
Temporary differences not recognized in deferred tax assets	(28,664)	41,014
Effect from tax deduction and reduction	(4,335)	(99,023)
Effect from temporary differences not recognized in prior years	(19,791)	(27,047)
Differences in tax rates in overseas entities	(196,066)	70,524
Effect of changes in tax rates	12,341	57,754
Income tax benefit	₩ <u>(684,335)</u>	<u>(41,047)</u>
Effective tax benefit rate	% -	-

(*) The applicable statutory tax rate for the years ended December 31, 2014 and 2013 is 24.2%, which is the Korea statutory corporate income tax rate where the Company is domiciled. Additionally, the effective tax rates are not calculated for 2014 and 2013 as the Group incurred a loss before income tax for the both years.

- (c) Income tax recognized as accumulated other comprehensive income for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014	2013
Income tax recognized as accumulated other comprehensive income (loss)		
Gain on valuation of available-for-sale financial instruments	₩ 31,311	(16,569)
Net change in the unrealized fair value of derivatives using cash flow hedge accounting	(6,241)	(1,737)
Remeasurement components	5,481	(2,566)
Equity adjustments arising from investments in equity-method investees	20	-
	₩ <u>30,571</u>	<u>(20,872)</u>

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38. Income Tax Benefit, Continued

- (d) Changes in deferred income tax assets (liabilities) recognized in the statements of financial position for the years ended December 31, 2014 and 2013 are as follows:

- (i) For the year ended December 31, 2014

In millions of Korean won

	2014				
	Beginning balance	Amounts recognized in profit or loss	Amounts recognized in other comprehensive income	Others	Ending balance
Deferred income tax on temporary differences					
Contributions for construction	₩ 1,168	(72)	-	45	1,141
Investment in associates and others	59,498	49,192	-	4,623	113,313
Financial guarantee liabilities	3,568	(815)	-	113	2,866
Allowance for doubtful accounts	92,950	20,341	-	4,755	118,046
Available-for-sale financial instruments	(14,312)	(2,384)	31,311	668	15,283
Intangible assets	23,022	(1,572)	-	889	22,339
Impairment losses for intangible assets	37,990	10,106	-	2,022	50,118
Accrued expense	47,159	606	-	1,988	49,753
Asset retirement obligation	29,422	5,096	-	1,446	35,964
Property, plant and equipment	4,548	7,021	-	496	12,065
Land	(100,408)	34,411	-	(2,675)	(68,672)
Gain (loss) on valuation of derivatives	1,565	(37)	(6,051)	(201)	(4,724)
Defined benefit liabilities	(2,228)	(2,049)	4,127	(2)	(152)
Others	(8,508)	2,653	-	(240)	(6,095)
Deferred assets of subsidiaries	183,344	472,165	1,184	(94,763)	561,930
Differences in fair value and book value from business combination and others	(947,844)	209,638	-	(30,278)	(768,484)
Deferred tax liabilities of subsidiaries	(892,358)	256,274	-	(25,932)	(662,016)
	₩ (1,481,424)	1,060,574	30,571	(137,046)	(527,325)
Deferred tax assets	₩ 354,969				903,176
Deferred tax liabilities	₩ (1,836,393)				(1,430,501)

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For the years ended December 31, 2014 and 2013

38. Income Tax Benefit, Continued

- (d) Changes in deferred income tax assets (liabilities) recognized in the statements of financial position for the years ended December 31, 2014 and 2013 are as follows, continued:

(ii) For the year ended December 31, 2013

In millions of Korean won

	2013				
	Beginning balance	Amounts recognized in profit or loss	Amounts recognized in other comprehensive income (loss)	Others	Ending balance
Deferred income tax on temporary differences					
Contributions for construction	₩ 477	698	-	(7)	1,168
Investment in associates and others	16,152	43,584	-	(238)	59,498
Financial guarantee liabilities	4,335	(703)	-	(64)	3,568
Allowance for doubtful accounts	79,135	14,982	-	(1,167)	92,950
Available-for-sale financial instruments	(2,893)	1	(11,894)	474	(14,312)
Intangible assets	19,235	4,071	-	(284)	23,022
Impairment losses for intangible assets	69,448	(30,434)	-	(1,024)	37,990
Accrued income	29,054	(28,626)	-	(429)	(1)
Accrued expense	8,555	38,730	-	(126)	47,159
Asset retirement obligation	21,077	8,656	-	(311)	29,422
Property, plant and equipment	(17,172)	21,467	-	253	4,548
Land	(99,438)	(2,437)	-	1,467	(100,408)
Gain (loss) on valuation of derivatives	17,498	(9,213)	(6,705)	(15)	1,565
Defined benefit liabilities	(3,350)	1,416	(356)	62	(2,228)
Others	(21,115)	12,829	-	(221)	(8,507)
Deferred assets of subsidiaries	116,082	52,823	(1,917)	16,356	183,344
Differences in fair value and book value from business combination and others	(967,112)	4,635	-	14,633	(947,844)
Deferred tax liabilities of subsidiaries	(1,018,234)	140,614	-	(14,738)	(892,358)
	₩ (1,748,266)	273,093	(20,872)	14,621	(1,481,424)
Deferred tax assets	₩ 236,537				354,969
Deferred tax liabilities	₩ (1,984,803)				(1,836,393)

39. Expenses Classified by Nature

- (a) Expenses classified by nature for the year ended December 31, 2014 are as follows:

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For the years ended December 31, 2014 and 2013

<i>In millions of Korean won</i>	Selling and administrative expenses	Cost of sales	Total
Changes in inventories - merchandise	₩ -	(926)	(926)
Changes in inventories - finished goods	-	50,017	50,017
Changes in inventories - other inventories	-	(6,839)	(6,839)
Purchases of inventories	-	9,857	9,857
Raw materials used	-	211,270	211,270
Salaries	124,172	119,759	243,931
Severance and retirement benefits	5,842	3,268	9,110
Employee benefits	21,832	8,404	30,236
Insurance	5,070	40,828	45,898
Depreciation	12,970	1,467,545	1,480,515
Amortization	7,018	255,591	262,609
Commissions and fees	57,724	81,407	139,131
Advertising	1,873	534	2,407
Education and training	5,786	16,883	22,669
Vehicle maintenance	1,658	260	1,918
Books and printing	1,138	30	1,168
Business development	431	99	530
Rent	11,489	57,941	69,430
Communications	1,701	1,074	2,775
Transport	-	106,175	106,175
Taxes and dues	4,347	111,424	115,771
Supplies	2,877	3,812	6,689
Utilities	809	71,381	72,190
Repairs	8,690	258,066	266,756
Research and development	7,523	2,452	9,975
Travel	4,341	1,374	5,715
Clothing expenses	381	226	607
Investigation and analysis	9	1,119	1,128
Association fee	873	16	889
Bad debt expenses	570	-	570
Sales commission	136,398	995	137,393
Others	19,856	565,831	585,687
	₩ 445,378	3,439,873	3,885,251

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For the years ended December 31, 2014 and 2013

39. Expenses Classified by Nature, Continued

(b) Expenses classified by nature for the year ended December 31, 2013 are as follows:

<i>In millions of Korean won</i>	Selling and administrative expenses	Cost of sales	Total
Changes in inventories - merchandise	₩ -	307,817	307,817
Changes in inventories - finished goods	-	78,172	78,172
Raw materials used	-	394,728	394,728
Contributions for employees' welfare business	2,519	1,543	4,062
Salaries	113,212	135,366	248,578
Severance and retirement benefits	6,465	2,484	8,949
Employee benefits	23,010	6,070	29,080
Insurance	4,357	50,065	54,422
Depreciation	7,152	1,452,816	1,459,968
Amortization	6,482	151,248	157,730
Commissions and fees	80,951	73,776	154,727
Advertising	1,910	766	2,676
Education and training	6,554	21,026	27,580
Vehicle maintenance	1,317	2,009	3,326
Books and printing	1,310	34	1,344
Business development	448	121	569
Rent	10,400	59,115	69,515
Communications	2,006	1,328	3,334
Transport	-	35,228	35,228
Taxes and dues	3,135	138,870	142,005
Supplies	3,902	4,548	8,450
Utilities	837	102,023	102,860
Repairs	9,388	254,056	263,444
Research and development	18,427	3,011	21,438
Travel	5,338	1,020	6,358
Clothing expenses	8	198	206
Investigation and analysis	10	252	262
Association fee	782	17	799
Sales commission	189,771	43,290	233,061
Others	14,049	258,213	272,262
	₩ 513,740	3,579,210	4,092,950

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

40. Categories of financial instruments

(a) Details of current financial assets by category as of December 31, 2014 and 2013 are as follows:

(i) As of December 31, 2014

<i>In millions of Korean won</i>		Loans and receivables	Hedging financial assets	Total
Cash and cash equivalents	₩	508,506	-	508,506
Derivative assets		-	1,801	1,801
Short-term financial instruments		2,436	-	2,436
Others		10,349	-	10,349
		<u>521,291</u>	<u>1,801</u>	<u>523,092</u>
Trade and other receivables		<u>941,157</u>	<u>-</u>	<u>941,157</u>
	₩	<u>1,462,448</u>	<u>1,801</u>	<u>1,464,249</u>

(ii) As of December 31, 2013

<i>In millions of Korean won</i>		Loans and receivables	Hedging financial assets	Total
Cash and cash equivalents	₩	966,032	-	966,032
Derivative assets		-	8,477	8,477
Short-term financial instruments		103,440	-	103,440
Others		8,535	-	8,535
		<u>1,078,007</u>	<u>8,477</u>	<u>1,086,484</u>
Trade and other receivables		<u>1,021,630</u>	<u>-</u>	<u>1,021,630</u>
	₩	<u>2,099,637</u>	<u>8,477</u>	<u>2,108,114</u>

The fair values of the financial assets listed above measured at amortized costs do not significantly differ from their book values.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

40. Categories of Financial Instruments, Continued

(b) Details of non-current financial assets by category as of December 31, 2014 and 2013 are as follows:

(i) As of December 31, 2014

<i>In millions of Korean won</i>		Loans and receivables	Available-for-sale financial instruments	Hedging financial assets	Total
Available-for-sale financial instruments	₩	-	566,895	-	566,895
Loans		555,252	-	-	555,252
Derivative assets		-	-	7,634	7,634
Long-term financial instruments		7,008	-	-	7,008
		<u>562,260</u>	<u>566,895</u>	<u>7,634</u>	<u>1,136,789</u>
Trade and other receivables		<u>93,838</u>	<u>-</u>	<u>-</u>	<u>93,838</u>
	₩	<u>656,098</u>	<u>566,895</u>	<u>7,634</u>	<u>1,230,627</u>

(ii) As of December 31, 2013

<i>In millions of Korean won</i>		Loans and receivables	Available-for-sale financial instruments	Hedging financial assets	Total
Available-for-sale financial instruments	₩	-	641,902	-	641,902
Loans		512,013	-	-	512,013
Derivative assets		-	-	49,640	49,640
Long-term financial instruments		14,873	-	-	14,873
		<u>526,886</u>	<u>641,902</u>	<u>49,640</u>	<u>1,218,428</u>
Trade and other receivables		<u>108,765</u>	<u>-</u>	<u>-</u>	<u>108,765</u>
	₩	<u>635,651</u>	<u>641,902</u>	<u>49,640</u>	<u>1,327,193</u>

The fair values of the financial assets listed above measured at amortized costs do not significantly differ from their book values.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

40. Categories of financial instruments, Continued

(c) Details of current financial liabilities by category as of December 31, 2014 and 2013 are as follows:

(i) As of December 31, 2014

<i>In millions of Korean won</i>		Financial liabilities with amortized cost	Hedging financial liabilities	Total
Short-term borrowings	₩	214,360	-	214,360
Long-term borrowings		-	-	-
Bonds payable		1,043,434	-	1,043,434
Derivative liabilities		-	3,103	3,103
		<u>1,257,794</u>	<u>3,103</u>	<u>1,260,897</u>
Trade and other payables		<u>1,417,941</u>	<u>-</u>	<u>1,417,941</u>
	₩	<u>2,675,735</u>	<u>3,103</u>	<u>2,678,838</u>

(ii) As of December 31, 2013

<i>In millions of Korean won</i>		Financial liabilities with amortized cost	Hedging financial liabilities	Total
Short-term borrowings	₩	157,262	-	157,262
Long-term borrowings		232,003	-	232,003
Bonds payable		2,417,097	-	2,417,097
Derivative liabilities		-	50,189	50,189
		<u>2,806,362</u>	<u>50,189</u>	<u>2,856,551</u>
Trade and other payables		<u>1,473,285</u>	<u>-</u>	<u>1,473,285</u>
	₩	<u>4,279,647</u>	<u>50,189</u>	<u>4,329,836</u>

The fair values of the financial liabilities listed above measured at amortized costs do not significantly differ from their book values.

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For the years ended December 31, 2014 and 2013

40. Categories of financial instruments, Continued

(d) Details of non-current financial liabilities by category as of December 31, 2014 and 2013 are as follows:

(i) As of December 31, 2014

<i>In millions of Korean won</i>		Financial liabilities with amortized cost	Hedging financial liabilities	Total
Long-term borrowings	₩	1,894,403	-	1,894,403
Bonds payable		8,864,202	-	8,864,202
Derivative liabilities		-	145,378	145,378
Others		908	-	908
	₩	10,759,513	145,378	10,904,891
Trade and other payables		452,706	-	452,706
	₩	11,212,219	145,378	11,357,597

(ii) As of December 31, 2013

<i>In millions of Korean won</i>		Financial liabilities with amortized cost	Hedging financial liabilities	Total
Long-term borrowings	₩	1,733,488	-	1,733,488
Bonds payable		7,376,741	-	7,376,741
Derivative liabilities		-	13,284	13,284
Others		1,830	-	1,830
	₩	9,112,059	13,284	9,125,343
Trade and other payables		255,315	-	255,315
	₩	9,367,374	13,284	9,380,658

The fair values of the financial liabilities listed above measured at amortized costs do not significantly differ from their book values.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

40. Categories of financial instruments, Continued

(e) Net gains or losses by financial instruments for the years ended December 31, 2014 and 2013 are as follows

<i>In millions of Korean won</i>	<u>2014</u>	<u>2013</u>
Financial assets at fair value through profit or loss (derivatives):		
Gain (loss) on valuation, net	₩ (1,346)	5,303
Loans and receivables:		
Interest income	34,635	52,747
Gain (loss) on foreign currency transactions, net	2,081	(4,457)
Gain (loss) on foreign currency translation, net	(34,151)	3,931
Available-for-sale financial investments:		
Dividend income	4,807	43,216
Gain on disposal	2,894	21,058
Other comprehensive income (loss), net of tax	(152,518)	21,052
Hedge financial assets:		
Loss on transaction	(54)	-
Loss on foreign currency translation, net	(12,264)	-
Other comprehensive income, net of tax	1,216	6,942
Financial liabilities at fair value through profit or loss (derivatives):		
Loss on valuation, net	(674)	(1,494)
Other financial liabilities with amortized cost:		
Interest cost	(394,661)	(444,927)
Gain (loss) on foreign currency translations, net	87,987	(106,751)
Gain on redemption of financial liabilities	-	3,885
Other financial cost	(52,289)	(64,216)
Hedge financial liabilities:		
Gain on transactions	895	-
Gain(loss) on foreign currency translation, net	(178,939)	20,471
Other comprehensive income, net of tax	18,954	34,430
	₩ <u>(673,427)</u>	<u>(408,810)</u>

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40. Categories of financial instruments, Continued

(f) Offsetting of financial assets and financial liabilities

As of December 31, 2014 and 2013, financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

(i) As of December 31, 2014

In millions of Korean won

Type of assets	Gross amounts recognized as financial instruments	Gross amounts of recognized financial instruments set off in the statement of financial	Net amounts of financial instruments presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net Amounts
				Financial instruments	Cash collateral received or pledged	
Financial assets						
Derivatives	₩ 9,435	-	9,435	(7,634)	-	1,801
Financial liabilities						
Derivatives	(148,481)	-	(148,481)	7,634	-	(140,847)

(ii) As of December 31, 2013

In millions of Korean won

Type of assets	Gross amounts recognized as financial instruments	Gross amounts of recognized financial instruments set off in the statement of financial	Net amounts of financial instruments presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net Amounts
				Financial instruments	Cash collateral received or pledged	
Financial assets						
Derivatives(*)	₩ 58,118	-	58,118	(58,118)	-	-
Financial liabilities						
Derivatives(*)	(63,473)	-	(63,473)	58,118	-	(5,355)

(*) Some of derivative contracts are made under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counter party on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances (i.e. when a default occurs), all standing transactions under the agreement are terminated, the termination value is assessed and only a single amount is payable in settlement of all transactions.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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41. Risk Management

(a) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and capital ratios in order to support its business and maximize the owners' value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain the sound capital structure, the Group may adjust the dividend payment to the owner, reduce issued capital, issue new shares, raise funds from bond offerings and dispose Group's non-core assets. No changes were made in the objectives, policies or processes for managing capital for the year ended December 31, 2014.

The Group's debt-to-equity ratio as of December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>		December 31, 2014	December 31, 2013
Total borrowings and debt instruments	₩	12,016,399	11,916,591
Cash and cash equivalents		(508,506)	(966,032)
Net borrowings and debt securities		11,507,893	10,950,559
Total equity		8,369,669	10,283,882
Net borrowings and debt securities-to-equity ratio		137.50%	106.48%

(b) Financial risk management

The Group is exposed to various risks related to its financial instruments such as market risk (currency risk, interest rate risk and price risk) and credit risk.

(i) Risk management structure

The board of directors is responsible for implementing and monitoring the Group's risk management structure and the management regularly updates the policies for each risk and confirms the validity of the policies. The purpose of the risk management policies is to identify the risks that could potentially affect the Group's financial results and reduce, to an acceptable level, avoid or eliminate those risks. The policies are reviewed regularly to reflect the current market conditions and the Group's activities. The Group makes constant efforts to improve the policies by monitoring on real time basis and with support from the outside experts. The audit committee oversees the Group's compliance to the risk management policies and procedures and reviews the efficiency of the structure.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

41. Risk Management, Continued

(b) Financial risk management, continued

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, investment securities, derivatives and financial guarantee contracts.

Credit risk also arises from transactions with financial institutions, and such transactions include transactions of cash and cash equivalents, various deposits, and financial instruments such as derivative contracts. The Group manages its exposure to this credit risk by only entering into transactions with banks that have high international credit ratings. The Group implements a credit risk management policy under which the Group only transacts business with counterparties that have a certain level of credit rate evaluated based on financial condition, historical experience, and other factors.

Book values of the financial assets represent the maximum amounts exposed to the credit risk. Details of the Group's level of maximum exposure to credit risk as of December 31, 2014 and December 31, 2013 are as follows:

<i>In millions of Korean won</i>		December 31, 2014	December 31, 2013
Cash and cash equivalents	₩	508,506	966,032
Derivatives assets		9,435	58,118
Available-for-sale financial investments		566,895	641,902
Loans and receivables(*)		1,610,039	1,765,689
Financial guarantee contracts		68,215	65,491

(*) Comprised of loans, account receivables and non-trade receivables.

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For the years ended December 31, 2014 and 2013

41. Risk Management, Continued

(b) Financial risk management, continued

(ii) Credit risk, continued

Details of maturities for loans and receivables and their impaired amounts as of December 31, 2014 and December 31, 2013 are as follows:

<i>In millions of Korean won</i>	December 31, 2014		December 31, 2013	
	Balance	Impairment	Balance	Impairment
Not past due	₩ 1,915,383	(469,215)	1,957,045	(391,881)
0 ~ 30 days	115,417	-	8,550	-
31 ~ 60 days	13,703	-	101,846	-
More than 61 days	36,858	(2,107)	92,695	(2,566)
	<u>₩ 2,081,361</u>	<u>(471,322)</u>	<u>2,160,136</u>	<u>(394,447)</u>

Details of changes in allowance for impairment of loans and receivables for the years ended December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>	2014	2013
Beginning balance	₩ 394,447	357,121
Impairment	70,055	28,323
Write-off	(24,411)	(4,237)
Others (*)	31,231	13,240
Ending balance	<u>₩ 471,322</u>	<u>394,447</u>

(*) Others include the effect of exchange rates fluctuations and others.

Aging of past due but not impaired financial assets as of December 31, 2014 and 2013 are as follows:

① As of December 31, 2014

<i>In millions of Korean won</i>	Book value	Less than 6 months	6~12 Months	1~2 years	2~5 years	More than 5 years
Loans and receivables	₩ 163,871	128,868	20,107	14,896	-	-

② As of December 31, 2013

<i>In millions of Korean won</i>	Book value	Less than 6 months	6~12 Months	1~2 years	2~5 years	More than 5 years
Loans and receivables	₩ 200,525	112,975	1,172	86,197	181	-

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

41. Risk Management, Continued

(b) Financial risk management, continued

(iii) Market risk

① Crude oil price risk

Crude oil price risk is the risk that the profit or cash flows will fluctuate due to changes in the international market prices of crude oil. The Group utilizes derivative instrument contracts for expected price volatility in the international market to hedge the crude oil price risk and to maintain the level of profitability. With all other variables held constant, the changes in Group's profit before tax for the years ended December 31, 2014 and 2013 from crude oil price fluctuations are as follows:

<i>In millions of Korean won</i>		2014		2013	
		Increase by 10%	Decrease by 10%	Increase by 10%	Decrease by 10%
Increase (decrease) of profit before tax	₩	320,030	(320,030)	393,755	(393,755)

② Interest rate risk

The Group is exposed to interest rate risk due to its borrowings with floating interest rates. Assuming a 100 basis points increase or decrease in interest rates as of December 31, 2014, the Group's total equity and its profit or loss will also increase or decrease.

Except for the effect of derivative transactions, this analysis considers the Group's total exposed risks associated with the fluctuation in interest rate. This analysis assumes that all other variables are held constant and the same method is applied as the method used in the prior periods. The details of increase or decrease in the total equity and profit or loss are as follows:

<i>In millions of Korean won</i>		For the year ended December 31, 2014		For the year ended December 31, 2013	
		Increase by 1%	Decrease by 1%	Increase by 1%	Decrease by 1%
Increase (decrease) of profit before tax	₩	(32,354)	32,354	(35,116)	35,116

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For the years ended December 31, 2014 and 2013

41. Risk Management, Continued

(b) Financial risk management, continued

(iii) Market risk, continued

③ Foreign currency risk

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The Group is exposed to currency risk from the sales, purchases and borrowings not in United States dollar. The Group reduces currency risk from fluctuations in foreign exchange rates by carrying out interest swap and currency swap transactions.

Without considering the effect of the derivatives aforementioned, the Group's exposures to foreign currency risk as of December 31, 2014 and 2013 are as follows:

In thousands of foreign currencies and millions of Korean won

	Currency unit	December 31, 2014		December 31, 2013	
		Foreign currencies	Equivalent Korean won	Foreign currencies	Equivalent Korean won
Financial assets					
denominated in foreign currencies	KRW	438,015 ₩	438,015	649,477 ₩	649,477
Financial liabilities					
denominated in foreign currencies	KRW	120,254	120,254	415,387	415,387
	EUR	297,001	396,947	297,050	432,582
	SGD	100,537	83,622	100,692	83,851
	HKD	3,497,000	495,525	3,967,000	539,869
	CHF	865,000	961,387	865,000	1,028,200
	JPY	13,500,000	124,219	13,500,000	135,629
	AUD	55,000	49,450	55,009	51,706
	GBP	16	27	11	19
	CAD	-	-	1,009	1,000
	NOK	-	-	13	2
		₩	2,231,431	₩	2,688,245

The exchange rates applied for the years ended and as of December 31, 2014 and 2013 are as follows:

In US dollar per one foreign currency

	Average exchange rates		Ending exchange rates	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
KRW	0.0009	0.0009	0.0009	0.0009
EUR	1.3281	1.3274	1.2159	1.3799
SGD	0.7890	0.7992	0.7566	0.7891
HKD	0.1289	0.1289	0.1289	0.1290
CHF	1.0932	1.0785	1.0111	1.1264
JPY	0.0094	0.0103	0.0083	0.0095
AUD	0.9013	0.9683	0.8179	0.8907
GBP	1.6480	1.5629	1.5561	1.6494
CAD	0.9058	0.9437	0.8611	0.9389
NOK	-	0.1655	-	0.1644

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

41. Risk Management, Continued

(b) Financial risk management, continued

(iii) Market risk, continued

③ Foreign currency risk, continued

The Company and its subsidiaries use various functional currencies depending on their primary economic environment in which the entities operate. The functional currencies of the main subsidiaries, Harvest Operations Corp., Dana Petroleum Limited, KNOC Kaz B.V. are CAD, GBP and KZT, respectively. A sensitivity analysis below indicates the effect on the Group's profit before tax from the fluctuations in each function currency exchange rate. As of December 31, 2014 and 2013, the effect of a 5% increase or decrease in each functional currency exchange rate on profit before tax assuming all other variables held constant is as follows:

<i>In millions of Korean won</i>		2014		2013	
		Increase by 5%	Decrease by 5%	Increase by 5%	Decrease by 5%
Increase (decrease) of profit before tax	KRW	15,888	(15,888)	(16,145)	16,145
	HKD	(24,776)	24,776	(28,037)	28,037
	CHF	(48,069)	48,069	(53,378)	53,378
	EUR	(19,119)	19,119	(22,441)	22,441
	Others	(9,645)	9,645	(14,040)	14,040

(iv) Liquidity risk

The details of contractual maturities of financial liabilities and other contractual obligations as of December 31, 2014 are as follows:

<i>In millions of Korean won</i>		Book value	Contractual cash flows(*1)	Less than 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years(*2)
Short-term borrowings	₩	214,360	215,936	215,936	-	-	-
Bonds payable		9,907,636	11,100,081	1,337,804	2,219,437	5,662,759	1,880,081
Long-term borrowings		1,894,403	2,444,871	53,615	53,615	1,569,568	768,073
Trade and other payables		1,870,647	1,870,647	1,672,628	-	-	198,019
Derivatives liabilities		148,481	148,481	3,103	62,698	65,073	17,607
Financial guarantee contracts(*3)		364	68,215	68,215	-	-	-
	₩	14,035,891	15,848,231	3,351,301	2,335,750	7,297,400	2,863,780

(*1) Contractual cash flows include the estimated interest payments but exclude the effects of offsetting contracts.

(*2) Loans from Special Accounting for Energy and Resources ("SAER") included in borrowings have no specific maturity as they were borrowed under the condition that the Group is not obligated to make repayment of the principal and interest until the exploration is proven to be successful

(*3) Maximum amounts possible in relation to the financial guarantee contracts are allocated to the earliest period.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

41. Risk Management, Continued

(b) Financial risk management, continued

(iv) Liquidity risk, continued

The Group had a working capital (current assets minus current liabilities) deficit of ₩1,252,334 million as of December 31, 2014. The Group's management currently anticipates that the net proceeds from the sale of non-core assets, expected future capital contributions from the Government and the cash flows that the Group generates from its operations, together with its existing cash and cash equivalents and credit sources, will be sufficient to meet its currently anticipated needs for working capital, capital expenditures and business expansion throughout the foreseeable future.

(v) Other price risk

Other price risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of changes in market prices other than interest rate risk and foreign currency risk. The Group's marketable available-for-sale equity securities are exposed to market price risk arising from the fluctuation in the price of the securities. However, the Group's management believes that the effect of the fluctuation in the price of the securities on the financial statements is not significant.

(c) Fair value measurement

(i) Fair value and book value of financial assets and liabilities as of December 31, 2014 and 2013 are as follows:

<i>In millions of Korean won</i>		December 31, 2014		December 31, 2013	
Type		Book value	Fair value	Book value	Fair value
Assets recognized at fair value					
Available-for-sale financial assets	₩	543,275	543,275	95,568	95,568
Currency swap		3,938	3,938	50,587	50,587
Interest rate swap		3,696	3,696	6,660	6,660
Other derivatives		1,801	1,801	870	870
Investments in associates and joint ventures(*)		71,691	71,691	-	-
	₩	<u>624,401</u>	<u>624,401</u>	<u>153,685</u>	<u>153,685</u>
Liabilities recognized at fair value					
Interest rate swap	₩	1,974	1,974	-	-
Currency swap		145,378	145,378	62,876	62,876
Other derivative liabilities		1,129	1,129	597	597
	₩	<u>148,481</u>	<u>148,481</u>	<u>63,473</u>	<u>63,473</u>

(*)The investments in joint ventures for Deep Basin Partnership and HKMS Partnership held by the Group are measured at the fair value at each financial statement date using the hypothetical liquidation book value to estimate the Group's interests in the net assets of the joint ventures. It measures the residual interests after the fulfillment of the partner's rights to better reflect the economic interests based on the agreements.

The fair values of the financial assets and liabilities measured at amortized costs do not significantly differ from their book values.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

41. Risk Management, Continued

(c) Fair value measurement, continued

(ii) Fair value hierarchy

Fair values of financial instruments by hierarchy level as of December 31, 2014 are as follows:

<i>In millions of Korean won</i>		December 31, 2014			
Type		Level 1	Level 2	Level 3	Total
Financial assets at fair value					
Available-for-sale financial assets	₩	408,651	-	134,624	543,275
Investments in associates and joint ventures(*)		-	-	71,691	71,691
Derivative assets		-	9,435	-	9,435
		408,651	9,435	206,315	624,401
Financial liabilities at fair value					
Derivative liabilities		-	148,481	-	148,481

(*) The investments in joint ventures for Deep Basin Partnership and HKMS Partnership, the Group applied a hypothetical liquidation book value method to calculate its equity share of net income for each reporting period.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES
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For the years ended December 31, 2014 and 2013

42. Related Parties

(a) The Group's major related parties as of December 31, 2014 are as follows:

Type	Related party
Associates	Kernhem B.V.
	Oilhub Korea Yeosu Co., Ltd.
	ADA Oil LLP
	Faroe Petroleum plc(*1)
	Parallel Petroleum LLC
Joint ventures	KNOC Inam Ltd
	KNOC Kamchatka Petroleum Ltd.
	KC Karpovsky B.V.
	KNOC Bazian Ltd.
	Dolphin Property Ltd.
	KNOC Nigerian West Oil Company Ltd.
	KNOC Nigerian East Oil Company Ltd.
	KNOC Aral Ltd.
	KNOC Kamchatka Co. Ltd
	KC Kazakh B.V.
	Offshore International Group, Inc.
	KNOC Ferghana Ltd.
	KNOC Ferghana2 Ltd.
	KNOC Samsung Lantian Oil Development Co., Ltd.(*2)
	KADOC Ltd.
	Korea Oil Terminal Co., Ltd.
	Deep Basin Partnership
	HKMS Partnership

(*1) The Investment in Faroe Petroleum plc is reclassified as available-for-sale financial instruments for the year ended December 31, 2014

(*2) The investments were disposed during the year ended December 31, 2014

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

42. Related Party Disclosures, Continued

- (b) The Group's related parties' transactions mostly consist of loans to joint ventures and associates for their business operation purpose and the Group recognizes related interests and bad debt expenses. The Group determines the interest rate of the loans with the consideration of the country risk premium of the associates and joint ventures and other risk related to the associates and joint ventures.
- (c) Significant transactions with related parties for the years ended December 31, 2014 and 2013 are as follows:

In millions of Korean won	Transaction	Sales and others		Purchases and others	
		2014	2013	2014	2013
Joint ventures					
KC karpovsky B.V.	Other bad debt expenses	₩ -	-	2,864	-
KC kazakh B.V	Interest on loans	579	-	-	-
KNOC Aral Ltd.	Other bad debt expenses	-	-	-	14,710
KNOC Bazian Ltd.	Other bad debt expenses	-	-	66,621	-
KNOC Ferghana Ltd.	Other bad debt expenses	-	-	-	13,567
KNOC Nigerian West Oil Company Ltd.	Interest on loans	2,297	7,553	-	-
KNOC Nigerian East Oil Company Ltd.	Interest on loans	2,594	4,849	-	-
KNOC Samsung Lantian Oil Development Co., Ltd.	Interest on loans	-	5	-	-
Offshore International Group	Interest on loans	202	249	-	-
KADOC Ltd.	Interest on loans	2,164	1,743	-	-
		7,836	14,399	69,485	28,277
Associates					
ADA Oil LLP	Interest on loans	263	272	-	-
	Revenues from other services	3,120	-	-	-
Kernhem B.V.	Interest on loans	1,587	1,306	-	-
Oilhub Korea Yeosu Co., Ltd.	Rental/service revenue	1,347	191	-	-
	Lease	-	-	12,756	11,834
		6,317	1,769	12,756	11,834
		₩ 14,153	16,168	82,241	40,111

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

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For the years ended December 31, 2014 and 2013

42. Related Party Disclosures, Continued

- (d) The outstanding receivables and payables, except for the loans, arising from the transactions with related parties as of December 31, 2014 and 2013 are as follows:

In millions of Korean won

<i>In millions of Korean won</i>		Receivables		Payables	
	Transaction	2014	2013	2014	2013
Joint ventures					
Dolphin Property Ltd.	Accrued interest	₩ -	3,331	-	-
KC kazakh B.V	Accrued interest	2,106	1,442	-	-
KNOC Bazian Ltd.	Accrued interest	-	2,642	-	-
KNOC Nigerian West Oil Company Ltd.	Accrued interest	18,955	15,897	-	-
KNOC Nigerian East Oil Company Ltd.	Accrued interest	19,171	15,806	-	-
Offshore International Group	Accrued interest	-	427	-	-
KADOC Ltd.	Accrued interest	5,189	2,814	-	-
		45,421	42,359	-	-
Associates					
ADA Oil LLP	Accrued interest	1,476	1,153	-	-
	Account receivables	56	-	-	-
Kernhem B.V.	Accrued interest	5,816	9,482	-	-
Oilhub Korea Yeosu Co., Ltd.	Account payables	-	-	-	1,393
Parallel Petroleum LLC	Accrued interest	134	-	-	-
		7,482	10,635	-	1,393
		₩ 52,903	52,994	-	1,393

- (e) The loans to related parties as of December 31, 2014 and 2013 are as follows:

In millions of Korean won

	2014	2013
Joint ventures		
KNOC Kamchatka Petroleum Ltd.	₩ 83	-
KNOC Bazian Ltd.	-	60,948
Dolphin Property Ltd.	-	4,578
KNOC Nigerian West Oil Company Ltd.	24,277	23,565
KNOC Nigerian East Oil Company Ltd.	29,137	28,312
KC kazakh B.V.	133,723	95,284
Offshore International Group	-	4,738
KNOC Ferghana2 Ltd.	12,061	10,207
KADOC Ltd.	98,430	51,993
	297,711	279,625
Associates		
Kernhem B.V.	48,082	46,162
ADA Oil LLP	10,913	10,477
	58,995	56,639
	₩ 356,706	336,264

The Group made additional loans and repayments and recognized other bad debt expenses amounting to ₩87,912 million, ₩5,309 million and ₩66,849 million, respectively, for the year ended December 31, 2014. In addition, The Group recognized provision for loans due to equity method valuation amounting to ₩13,364 million and a decrease in provision for loans due to the effect of exchange rates fluctuations amounting to ₩15,117 million.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

42. Related Party Disclosures, Continued

- (f) As of December 31, 2014, the Group has provided the guarantees to related parties as follows:

In thousands of US dollars

Description	Guarantee amount	Beneficiary	Loan amount	Financial institution	Contract date
Guarantee of payment of borrowing	\$ 22,194	KC Caspian Explorer LLP (a subsidiary of KC kazakh B.V.)	\$ 62,283	Banc of America Leasing&Capital, LLC and others	2012.08.31

- (g) The compensation to the key management personnel of the Group for the years ended December 31, 2014 and 2013 are as follows:

In millions of Korean won

	2014	2013
Salaries	₩ 840	613
Severance and retirement benefits	45	53
	₩ 885	666

43. Additional Cash Flow Statement Information

- (a) Non-Cash Transactions

Significant non-cash investment and finance transactions excluded from statements of cash flows for the years ended December 31, 2014 and 2013 are as follows:

In millions of Korean won

Transactions	2014	2013
Replacement of current portion of bonds payables	₩ 1,043,434	2,417,094
Replacement of current portion of long-term borrowings	-	232,003

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44. Contingencies and Commitments

(a) Details of the Group's significant pending litigations as of December 31, 2014 are as follows:

In thousands of USD and CAD

Plaintiff	Defendant	Description	Amount	Process
KNOC	Nigerian government	Claiming the validity of the exploration right in OPL 321 and 323(*1)	-	In third trial process
Offshore Exploration & Production LLC	KNOC	Refund of the purchase price paid by the plaintiff for equity interest(*2)	USD 28,300	In arbitration process
AAA, DR.Owolabi	KNOC	Claiming compensation for cooperation in the process of acquiring Nigerian mining rights(*3)	USD 100,000	In first trial process
Trinidad	Harvest Operations Corp.	Claiming compensation for monetary damages from termination of rig usage(*4)	CAD 15,649	In first trial process

(*1) In January 2009, the Group was notified by the President of the Federal Republic of Nigeria about the voidance of the allocation of OPL 321 and 323. The Nigerian Federal High Court granted a judgment in favor of the Group in August 2009. This judgment has been appealed by the Nigerian Government and in April 2012, the appeal was allowed by the Nigerian Court of Appeals setting aside the Nigerian Federal High Court's judgment. The Group filed an appeal at the Supreme Court of Nigeria against the judgment of the Nigerian Court of Appeals. The book value of the related assets is ₩93,785 million but the Group did not recognize a provision as the Group believes that the favorable outcome of the litigation is more likely than not.

(*2) The Group objected to the release of certain funds from escrow accounts that the Group and the plaintiff had established, seeking instead to require the plaintiff to pay for indemnification for certain breaches of the representations and warranties. The plaintiff sued the Group in the United States District Court for the Southern District of New York (SDNY), seeking a judgment requiring the escrow agent to release the funds at issue from escrow. On December 3, 2013, the arbitral tribunal issued an interim award requiring the plaintiff to pay the interim award with funds other than those in escrow. The Group has sought confirmation of the arbitral interim awards, while the plaintiff has countered with a request that the court vacated the awards. The Group did not recognize a provision because the Group does not expect any outflow of resources embodying economic benefits that will require to settle the obligation from the result of this litigation.

(*3) This litigation was instituted at the High Court of Lagos State alleging that the Group entered into a secretive remunerative agreement and paying the brokerage and other fees due to the plaintiffs for sponsoring its acquisitions of OPL 321 and OPL 323. The plaintiff claimed general damages for the plaintiff's loss of the business associated with the defendant's acquisition of the right to OPL 321 and OPL 323. The Group did not recognize a provision as the Group believes that it is more likely than not that its defenses against the suit will be successful.

(*4) The management of Harvest Operations Corp. has estimated the settlement costs to be CAD 3.5 million and recognized a provision for the estimated settlement.

Except as noted above, the Group does not believe it has a present obligation and has not recognized any provisions for these lawsuits.

KOREA NATIONAL OIL CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

44. Contingencies and Commitments, Continued

- (b) As of December 31, 2014 the Group has received guarantees provided by non-related parties for the Group's obligations and indebtedness as follows:

In millions of Korean won and thousands of foreign currencies

Provider	Description	Reporting Currency Amounts	Contractual Currency Unit	Contractual Currency Amounts	Description of guarantee
BBVA Colombia	Performance guarantee	₩ 12,842	USD	11,683	Fulfillment and correct execution of the contractual obligations for Colombia CPO 2 and CPE 7
Bank of Tokyo Mitsubishi UFJ	Performance guarantee	3,018	USD	2,746	Bank guarantee on exploration operation expenses for Malaysia 2B
Sumitomo Bank	Guarantee for payment in foreign currency	219,840	USD	200,000	Others
Sumitomo Bank	Guarantee for payment in foreign currency	109,920	USD	100,000	Others

- (c) A summary of the Group's significant contractual obligations and estimated commitments as of December 31, 2014 is as follows:

<i>In millions of Korean won</i>	Contractual cash flows	Less than 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years
Purchase commitments(*1)	₩ 130,129	44,727	28,610	28,396	28,396
Decommissioning and environment liabilities	2,687,491	55,484	98,000	414,754	2,119,253
Others(*2)	786,300	291,080	216,861	115,916	162,443
	₩ 3,603,920	391,291	343,471	559,066	2,310,092

(*1) Includes drilling commitments and others.

(*2) Includes SOC commitments, operating leases and others.

- (d) The Group, in relation to the acquisition of Dana Petroleum Limited's equity interest, has provided a guarantee for any potential environmental and bodily damages during the exploration and production activities by Dana Petroleum Norway AS to the Norwegian government.

- (e) In 2007 and 2008, the Group and Korean Consortium entered into an agreement (Production Sharing Contract) for the exploration and production of oil fields located in Iraq, with the Kurdish regional government (KRG), in accordance with the local Kurdish oil exploration laws. In 2008, the Iraqi federal government announced that such agreement in the region without obtaining proper approval from the federal government would be invalid to the Group and other participating companies in the region. The Group was advised by legal consultants in the UK and in Iraq that there is no legal basis on the alleged nullity of the agreement by the Iraqi government.

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44. Contingencies and Commitments, Continued

- (f) In 2009, the Group entered into an exclusive agreement with the Kurdish regional government (“KRG”) to obtain rights on five exploratory areas. In consideration of obtaining these rights, the Group committed to pay ₩2.0 trillion (USD 1.9 billion) of construction services for the government’s Social Overhead Capital (SOC).

However, the agreement was amended twice until 2012. The Group’s rights on three exploratory areas, including Qush Tappa, were terminated and the Group’s ₩2.0 trillion (USD 1.9 billion) commitment was reduced to ₩867 billion (USD 825 million). In addition, the quantity of return-guaranteed crude oil was reduced.

The Group recorded mining rights in relation to this agreement and the carrying amount as of December 31, 2014 is ₩1,272,948 million. In addition, the Group recorded a current and non-current provision in relation to this agreement and the carrying amounts as of December 31, 2014 are ₩249,791 million and ₩109,322 million, respectively, which represent that the Company’s estimated obligation of expected payments for KRG’s SOC construction.

- (g) In January, 2015, the Group received an advance notice of taxation from National Tax Service for the overseas loans for consumption of stockpile oil for the income tax expense of ₩477,577 million. In relation to this decision, the judgment on propriety before tax levying is currently in progress as of the date when the financial statements were authorized for issuance. The Group cannot estimate the timing of the judgment and the completion of the appeal and believes that the final decision to levy the tax is unlikely.

- (h) As of December 31, 2014, other significant commitments and contingencies of the Company’s subsidiaries are as follows:

- (i) Harvest Operations Corp. and its subsidiaries

On April 30, 2010, Harvest entered into a credit facility maturing on April 30, 2017 for ₩947 billion (CAD 1.0 billion) with the Canadian Imperial Bank of Commerce and other financial institutions. Under the credit facility covenants, Harvest should comply with the required pre-defined financial ratios every quarter and it has complied with the required pre-defined financial ratios as of September 30, 2014. In October 2010, Harvest issued senior notes amount of ₩550 billion (USD 500 million) (maturing: October 1, 2017). The senior notes are unconditionally guaranteed by Harvest and all of its wholly-owned subsidiaries as the incurrence of additional secured indebtedness and dividend payments to the stockholder may be restricted in violation of the covenants associated with the notes.

In addition, the Company provided a payment guarantee on the global bonds issued by Harvest Operations Corps., its subsidiary, on May 2013 for the principal amount of ₩692 billion (USD 630 million) and their corresponding interest. The payment guarantee is effective until the maturity date (May 14, 2018) of the bonds.

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44. Contingencies and Commitments, Continued

(ii) Dana Petroleum Limited and its subsidiaries

Dana entered into credit facilities agreements in a form of syndicated loan for up to ₩1.1 trillion (USD 1.0 billion). The Company has drawn borrowings amounting to ₩254 billion (USD 231 million) as of September 30, 2014 and its stand by L/C open amount is approximately ₩167 billion (USD 152 million). In relation to the credit facilities, certain financial ratios, total reserve values and cash flows are required to be in compliance with debt covenants and its oil and certain gas properties have been pledged as collateral.

In addition, the Company provided a performance guarantee of ₩70 billion (USD 63.8 million) to Dana Petroleum Limited to the participant of Bittern oil field, Hess, for the expenses that will incur for restoration of the sites, decommissioning, dismantling and removal of the facilities and structures.

(i) As of December 31, 2014, the Group's significant commitments with the financial institutions are as follows:

In millions of Korean won and in thousands of US dollar

Detail of contract	Financial institutions		Reporting currency amount	Contractual currency unit	Credit line amount
Trade finance	Deutsche Bank	₩	483,648	USD	440,000
	DBS(*)		329,760	USD	300,000
	ING(*)		109,920	USD	100,000
	Hongkong and Shanghai Banking Corporation(*)		109,920	USD	100,000
	Korea Development Bank		274,800	USD	250,000
	Bank of America(*)		175,872	USD	160,000
	Royal Bank of Scotland(*)		164,880	USD	150,000
		₩	<u>1,648,800</u>		<u>1,500,000</u>
Financial loans	BNP Paribas	₩	549,600	USD	500,000
	DBS(*)		329,760	USD	300,000
	Mizuho Bank		219,840	USD	200,000
	Bank of America(*)		175,872	USD	160,000
	ING(*)		109,920	USD	100,000
	Royal Bank of Scotland(*)		164,880	USD	150,000
	Hongkong and Shanghai Banking Corporation(*)		109,920	USD	100,000
	Credit.Agricole		109,920	USD	100,000
	Bank of Tokyo-Mitsubishi UFJ		54,960	USD	50,000
		₩	<u>1,824,672</u>		<u>1,660,000</u>

(*) A portion of or all of lines of credit for trade finance and financial loans have been integrated and the integrated line of credit is ₩890 billion (USD 810 million).

45. Date of Authorization for Issue

The Group's financial statements as of and for the year ended December 31, 2014 were authorized for issuance on February 27, 2015 at the board of directors' meeting.