S-1 Corporation and its subsidiaries

Consolidated financial statements
for the year ended December 31, 2016
with the independent auditors' report

S-1 Corporation

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Independent auditors' report

The Shareholders and Board of Directors
S-1 Corporation

We have audited the accompanying consolidated financial statements of S-1 Corporation (the "Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of income, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors 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 financial position of the Group as at December 31, 2016, and its financial performance and cash flows for the year then ended in accordance with Korean International Financial Reporting Standards.

Other matter
The consolidated financial statements of S-1 Corporation for the year ended December 31, 2015, were audited in accordance with previous auditing standards generally accepted in the Republic of Korea by Samil PricewaterhouseCoopers who expressed an unqualified opinion on those statements on March 16, 2017.

Ernst & Young Han Young

March 16, 2017

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

S-1 Corporation and its subsidiaries

Consolidated financial statements
for the years ended December 31, 2016 and 2015

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

Yook, Hyun Pyo
Chief Executive Officer
S-1 Corporation

S-1 Corporation and its subsidiaries
Consolidated statements of financial position
as at December 31, 2016 and 2015
(Korean won in thousands)

	Notes	2016	2015
Assets			
Current assets:			
Cash and cash equivalents	6,7	\ 144,098,269	\ 125,589,083
Short-term financial assets	6,7	98,324,465	17,466,041
Trade and other receivables, net	6,9	150,360,780	156,811,050
Accrued income	6	493,431	144,078
Inventories, net	10	35,836,895	49,465,038
Advance payments		1,020,517	1,945,995
Prepaid expenses		4,782,260	4,079,804
Other current assets		-	43,378
Total current assets		434,916,617	355,544,467
Non-current assets:			
Long-term financial assets	6,7	8,000	11,894
Available-for-sale financial assets	5,6,8	5,931,316	7,139,577
Loans and receivables	6	48,775,407	49,755,609
Property, plant and equipment, net	11	474,898,685	469,876,935
Intangible assets, net	12	478,630,845	497,892,956
Other non-current assets		11,346	12,071
Net employee defined benefit assets	14	1,372,513	-
Deferred income tax assets	23	15,831,918	14,192,998
Total non-current assets		1,025,460,030	1,038,882,040
Total assets		**\ 1,460,376,647**	**\ 1,394,426,507**

(Continued)

S-1 Corporation and its subsidiaries
Consolidated statements of financial position
as at December 31, 2016 and 2015 (cont'd)

(Korean won in thousands)

	Notes	2016	2015
Liabilities			
Current liabilities:			
Trade and other payables	4,6,13	\ 193,612,021	\ 200,172,791
Value added tax withheld		19,297,145	21,336,031
Income tax payables		25,062,384	44,828,127
Advance		44,887,953	53,223,358
Unearned revenue		93,310	3,240,895
Withholdings		5,077,712	5,506,196
Total current liabilities		288,030,525	328,307,398
Non-current liabilities:			
Net employee defined benefit liabilities	14	-	22,071,671
Deposits received	4,6	47,423,756	46,372,559
Provision	15	3,820,000	-
Other non-current liabilities		21,156,998	17,318,909
Total non-current liabilities		72,400,754	85,763,139
Total liabilities		**360,431,279**	**414,070,537**
Equity			
Issued capital	1,16	18,999,589	18,999,589
Share premium	16	192,913,601	192,913,601
Retained earnings	17	1,040,420,683	920,890,867
Other components of equity	18	(152,388,505)	(152,711,264)
Equity attributable to the owners of the parent		**1,099,945,368**	**980,092,793**
Non-controlling interests	28	**-**	**263,177**
Total equity		**1,099,945,368**	**980,355,970**
Total liabilities and equity		**\ 1,460,376,647**	**\ 1,394,426,507**

The notes are an integral part of the consolidated financial statements.

S-1 Corporation and its subsidiaries
Consolidated statements of income
for the years ended December 31, 2016 and 2015

(Korean won in thousands except earnings per share amounts)

	Notes		2016		2015
Sales	27	\	1,830,176,817	\	1,799,570,545
Cost of sales	19		1,280,843,141		1,263,417,750
Gross profit			**549,333,676**		**536,152,795**
Selling and administrative expenses	19,20		343,655,893		363,594,524
Operating profit			**205,677,783**		**172,558,271**
Other non-operating income	21		10,986,089		18,772,017
Other non-operating expenses	21		32,264,104		33,256,515
Finance income	22		1,899,867		667,491
Finance costs	22		133,732		2,542,815
Profit before tax			**186,165,903**		**156,198,449**
Income tax expense	23		45,620,105		36,811,121
Profit for the year from continuing operations			**140,545,798**		**119,387,328**
Profit for the year from discontinued operations	29		**-**		**36,047,577**
Profit for the year		****	**140,545,798**	****	**155,434,905**
Profit attributable to:					
Owners of the parent					
Profit for the year from continuing operations		\	140,535,664	\	119,359,081
Profit for the year from discontinued operations			-		34,269,951
			140,535,664		153,629,032
Non-controlling interests					
Profit for the year from continuing operations		\	10,134	\	28,247
Profit for the year from discontinued operations			-		1,777,626
			10,134		1,805,873
Earnings per share from continuing and discontinued operations attributable to the equity holders of the Company	24				
Basic earnings per share (Korean won)					
Basic earnings per share from continuing operations		\	4,157	\	3,530
Basic earnings per share from discontinued operations			-		1,014
Diluted earnings per share (Korean won)					
Diluted earnings per share from continuing operations		\	4,157	\	3,530
Diluted earnings per share from discontinued operations			-		1,014

The notes are an integral part of the consolidated financial statements.

S-1 Corporation and its subsidiaries
Consolidated statements of comprehensive income
for the years ended December 31, 2016 and 2015
(Korean won in thousands)

	Notes		2016		2015
Profit for the year		****	**140,545,798**	****	**155,434,905**
Other comprehensive income:					
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):					
Re-measurement gain (loss) on defined benefit plans			19,566,438		(7,844,884)
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):					
Net gain (loss) on valuation of available-for-sale financial assets			614,423		(261,359)
Exchange differences on translation of foreign operations			(88,847)		10,083
Other comprehensive gain (loss) for the year, net of tax			**20,092,014**		**(8,096,160)**
Total comprehensive income for the year, net of tax		****	**160,637,812**	****	**147,338,745**
Total comprehensive income for the year attributable to:					
Equity holders of the parent		\\	160,627,679	\\	145,529,701
Non-controlling interests			10,133		1,809,044
Total comprehensive income for the year attributable to owners of the Parent Company:					
Total comprehensive income for the year from continuing operations		\\	160,627,679	\\	111,259,750
Total comprehensive income for the year from discontinued operations			-		34,269,951

The notes are an integral part of the consolidated financial statements.

S-1 Corporation and its subsidiaries
Consolidated statements of changes in equity
for the years ended December 31, 2016 and 2015

(Korean won in thousands)

	Attributable to the equity holders of the company						
	Issued capital	**Share premium**	**Retained earnings**	**Other components of equity**	**Sub-total**	**Non-controlling interests**	**Total equity**
As at January 1, 2015	**\ 18,999,589**	**\ 192,913,601**	**\ 826,546,336**	**\ (152,459,988)**	**\ 885,999,538**	**\ 42,287,659**	**\ 928,287,197**
Effect of other long-term employee benefits	**-**	**-**	**(12,554,671)**	**-**	**(12,554,671)**	**-**	**(12,554,671)**
Adjusted Equity	**18,999,589**	**192,913,601**	**813,991,665**	**(152,459,988)**	**873,444,867**	**42,287,659**	**915,732,526**
Profit for the year	-	-	153,629,032	-	153,629,032	1,805,873	155,434,905
Net loss on valuation of available-for-sale financial assets	-	-	-	(261,359)	(261,359)	-	(261,359)
Re-measurement loss on defined benefit plans	-	-	(7,848,055)	-	(7,848,055)	3,171	(7,844,884)
Exchange differences on translation of foreign operations	-	-		10,083	10,083	-	10,083
Total comprehensive income for the year	**-**	**-**	**145,780,977**	**(251,276)**	**145,529,701**	**1,809,044**	**147,338,745**
Dividends	-	-	(38,881,775)	-	(38,881,775)	(824,931)	(39,706,706)
Disposal of investments in subsidiaries	-	-	-	-	-	(43,008,595)	(43,008,595)
Total transactions with equity holders of the company	**-**	**-**	**(38,881,775)**	**-**	**(38,881,775)**	**(43,833,526)**	**(82,715,301)**
As at December 31, 2015	**\ 18,999,589**	**\ 192,913,601**	**\ 920,890,867**	**\ (152,711,264)**	**\ 980,092,793**	**\ 263,177**	**\ 980,355,970**
As at January 1, 2016	**\ 18,999,589**	**\ 192,913,601**	**\ 920,890,867**	**\ (152,711,264)**	**\ 980,092,793**	**\ 263,177**	**\ 980,355,970**
Profit for the year	-	-	140,535,664	-	140,535,664	10,134	140,545,798
Net gain on valuation of available-for-sale financial assets	-	-	-	614,423	614,423	-	614,423
Re-measurement gain on defined benefit plans	-	-	19,566,438	-	19,566,438	-	19,566,438
Exchange differences on translation of foreign operations	-	-	-	(88,847)	(88,847)	-	(88,847)
Total comprehensive income for the year	**-**	**-**	**160,102,102**	**525,576**	**160,627,678**	**10,134**	**160,637,812**
Dividends	-	-	(40,572,286)	-	(40,572,286)	-	(40,572,286)
Acquisition of investments in subsidiaries	-	-	-	(202,817)	(202,817)	(273,311)	(476,128)
Total transactions with equity holders of the company	**-**	**-**	**(40,572,286)**	**(202,817)**	**(40,775,103)**	**(273,311)**	**(41,048,414)**
As at December 31, 2016	**\ 18,999,589**	**\ 192,913,601**	**\ 1,040,420,683**	**\ (152,388,505)**	**\ 1,099,945,368**	**\ -**	**\ 1,099,945,368**

The notes are an integral part of the consolidated financial statements.

S-1 Corporation and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2016 and 2015
(Korean won in thousands)

	Notes	2016	2015
Operating activities			
Cash flows from operating activities		\ 345,181,337	\ 360,834,523
Profit for the year		140,545,798	155,434,905
Adjustments	25	252,620,254	199,423,041
Working capital adjustments	25	(47,984,715)	5,976,577
Interest received		1,438,300	1,572,833
Interest paid		-	(2,884,916)
Dividend received		36,855	36,895
Income tax paid		(73,475,627)	(41,657,811)
Net cash flows from operating activities		**273,180,865**	**317,901,524**
Investing activities			
Increase in financial instruments		(80,854,530)	(11,085,446)
Acquisition of property, plant and equipment		(133,605,877)	(137,104,354)
Proceeds from disposal of property, plant and equipment		159,454	103,405
Acquisition of intangible assets		(221,942)	(1,764,763)
Proceeds from disposal of intangible assets		-	25,000
Proceeds from disposal of investment in subsidiaries		-	93,174,194
Decrease in loans and receivables		980,127	24,241,820
Net cash flows from investing activities		**(213,542,768)**	**(32,410,144)**
Financing activities			
Decrease in short-term borrowings		-	(190,000,000)
Payment of dividends		(40,572,286)	(39,706,706)
Acquisition of investment in subsidiaries		(476,128)	-
Net cash flows from financing activities		**(41,048,414)**	**(229,706,706)**
Net foreign exchange difference		**(80,497)**	**6,652**
Net increase in cash and cash equivalents		**18,509,186**	**55,791,326**
Cash and cash equivalents as at January 1		**125,589,083**	**69,797,757**
Cash and cash equivalents as at December 31		**\ 144,098,269**	**\ 125,589,083**

The notes are an integral part of the consolidated financial statements.

1. General information

S-1 Corporation (the "Company") is a controlling company by Korean IFRS 1110 *Consolidated financial statements*. The Company and its four subsidiaries (collectively referred to as the "Group") are subject to consolidation.

The Company was established on November 28, 1977, under the Commercial Code of the Republic of Korea. The Company is mainly engaged in fire, crime and disaster prevention services and security business and building management service. On January 30, 1996, the Company listed its common shares on the Korea Exchange.

As of December 31, 2016, the Company's issued capital is ₩19,000 million and major shareholders are Secom Co., Ltd. in Japan (25.65%) and affiliates of Samsung Group (20.57%).

1.1 Consolidated subsidiaries

Details of subsidiaries as at December 31, 2016 and 2015 are as follows:

		Percentage of ownership					
		2016		2015			
	Location	Controlling	Non-controlling	Controlling	Non-controlling	Closing month	Main business
Human Total Security Systems Corp. (HTSS)	Korea	100.00%	-	100.00%	-	December	Security system service
S1CRM	Korea	100.00%	-	93.40%	6.60%	December	Call center and telemarketing
Samsung Beijing Security Systems (SBSS)	China	100.00%	-	100.00%	-	December	Security system service
SOCM LLC.	Mongolia	100.00%	-	100.00%	-	December	Security system service

Details of assets, liabilities of the consolidated subsidiaries as at December 31, 2016 and 2015 are as follows (Korean won in thousands):

	2016		2015	
	Total assets	Total liabilities	Total assets	Total liabilities
HTSS	₩ 18,476,313	₩ 17,779,467	₩ 14,238,540	₩ 13,096,291
S1CRM	5,800,461	1,400,203	5,507,569	1,520,046
SBSS	9,092,671	6,426,722	8,255,481	5,965,264
SOCM LLC.	195,693	43,867	219,417	178,889

Summarized financial information of the consolidated subsidiaries as at and for the years ended December 31, 2016 and 2015 are as follows (Korean won in thousands):

	2016			2015		
	Sales	Profit for the year	Total comprehensive income (loss)	Sales	Profit (loss) for the year	Total comprehensive income (loss)
SECUI[1]	₩ -	₩ -	₩ -	₩ 44,603,727	₩ 3,319,096	₩ 3,319,096
HTSS	98,495,732	1,170,391	(445,403)	85,596,047	1,032,829	(744,841)
S1CRM	10,220,004	240,542	412,735	10,011,482	427,985	476,027
SBSS	14,260,604	445,653	445,653	13,438,059	808,882	808,882
SOCM LLC.	485,315	130,224	130,224	68,990	(33,752)	(33,752)

[1] Income incurred before SECUI is excluded in the scope of consolidation.

1.2 Changes in Scope for Consolidation

There is no change in scope for consolidation during this year.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of consolidated financial statements preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with Korean International Financial Reporting Standards (KIFRS). The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying financial statements.

The consolidated financial statements have been prepared in accordance with KIFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The nature and the effect of these changes are disclosed below. Although these new standards and amendments were applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

Amendments to KIFRS 1016 and KIFRS 1038 *Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify the principle in KIFRS 1016 *Property, Plant and Equipment* and KIFRS 1038 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are applied prospectively and do not have a material impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

2. Significant accounting policies (cont'd)

2.2 Changes in accounting policy and disclosures (cont'd)

Annual Improvements *2012-2014 Cycle*

These amendments do not have a material impact on the Group's consolidated financial statements. The improvements include:

KIFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in KIFRS 1105. This amendment is applied prospectively.

KIFRS 1107 *Financial Instruments: Disclosures*

(i) Servicing contracts
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset.

(ii) Applicability of the amendments to KIFRS 1107 to condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

KIFRS 1019 *Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located.

KIFRS 1034 *Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report).

Amendments to KIFRS 1001 *Disclosure Initiative*

The amendments to KIFRS 1001 clarify, rather than significantly change, existing KIFRS 1001 requirements. The amendments clarify:

- The materiality requirements in KIFRS 1001
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

(b) New and amended standards not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

2. Significant accounting policies (cont'd)

2.2 Changes in accounting policy and disclosures (cont'd)

KIFRS 1109 *Financial Instruments*

The KASB issued the final version of KIFRS 1109 Financial Instruments that replaces KIFRS 1039 Financial Instruments: Recognition and Measurement and all previous versions. KIFRS 1109 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. KIFRS 1109 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date. The impact on its consolidated financial statements is as follow

• Classification and measurement of financial assets
If new KIFRS 1109 is applied, the Group will classify financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:
1) The Group's business model for managing the financial assets and
2) The contractual cash flow characteristics of the financial assets

For hybrid contracts with financial asset hosts, embedded derivatives are not separated and financial assets are classified in their entirety.

Business model	Principal and interest cash flows	Estimated useful lives
Collection of contractual cash flows	Amortized cost (*1)	Fair value through profit or loss (*2)
Collection and sale of contractual cash flows	Fair value through other comprehensive income (*1)	
Sale and others	Fair value through profit or loss	

(*1) In order to reduce or eliminate an accounting mismatch, the Group may make an irrevocable election to designate assets into fair value measurement at profit or loss.
(*2) For equity instruments other than held-for-trading assets, the Group may make an irrevocable election to designate assets into fair value measurement at other comprehensive income.

The requirements for classifying the financial assets as measured at amortized cost or fair value through other comprehensive income under KIFRS 1109, are more stringent than the requirements of the current KIFRS 1039; as a result, the proportion of financial assets subject to fair value measurement at profit or loss may increase upon adoption of KIFRS 1109.

As at December 31, 2016, the Group has Loans and receivables of ₩ 442,060 million and Available-for-sale financial assets of ₩ 5,931 million.

2. Significant accounting policies (cont'd)

2.2 Changes in accounting policy and disclosures (cont'd)

KIFRS 1115 *Revenue from Contracts with Customers*

The amended standard is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The new standard will supersede the following KIFRS: KIFRS 1018 Revenue, KIFRS 1011 Construction Contracts, KIFRS 2031 Revenue-Barter Transactions Involving Advertising Services, KIFRS 2113 Customer Loyalty Programmes, KIFRS 2115 Agreements for the Construction of Real Estate, and KIFRS 2118 Transfers of Assets from Customers. The Group applies KIFRS 1115 beginning on or after January 1, 2018 and will make the amendments retrospectively on the statement of the pervious reporting period, presented for comparative purposes in accordance with KIFRS 1008 Accounting Policies, Changes in Accounting Estimates and Errors. As at January 1, 2017, the Group plans to apply a practical expedient for completed contracts, under which the Group does not restate its financial statements.

The current KIFRS 1018 provides the criteria for the recognition of revenue relating to: sale of goods, rendering of services, interest, royalties, dividends and construction contracts; however, under the new KIFRS 1115, revenue is recognized by applying a five-stage revenue recognition model (① identify a contract with a customer. → ② Identify the performance obligations in the contract. → ③ Determine the transaction price → ④ Allocate the transaction price to the separate performance obligations in the contract. → ⑤ Recognize revenue when the entity satisfies a performance obligation) to its all contracts with customers.

As at December 31, 2016, the Group has not made changes to its internal control procedures or the accounting system related to the adoption of KIFRS 1115, and did not analyze the effect of KIFRS 1115 on its consolidated financial statements.

Amendments to KIFRS 1110 and KIFRS 1028 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between KIFRS 1110 and KIFRS 1028 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in KIFRS 1103, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

Amendments to KIFRS 1007 *Statement of Cash Flows: Disclosure Initiative*

The amendments to KIFRS 1007 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of the amendments will result in additional disclosures provided by the Group.

2. Significant accounting policies (cont'd)

2.2 Changes in accounting policy and disclosures (cont'd)

Amendments to KIFRS 1012 ***Recognition of Deferred Tax Assets for Unrealized Losses***

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have a material impact on the Group.

Amendments to KIFRS 1102 *Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to KIFRS 1102 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

2.3 Consolidation

(a) Subsidiaries

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

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

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

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

If the Group loses control of a subsidiary, any investment retained in the subsidiary is re-measured at its fair value at the date when control is lost and any resulting difference is recognized in profit or loss.

2. Significant accounting policies (cont'd)

2.4 Segment reporting

Information of each operating segment is reported in a manner consistent with the business segment reporting provided to the chief operating decision-maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the each entity operates (the "functional currency'). The consolidated financial statements are presented in Korean won, which is the controlling Group's functional and presentation currency.

(b) Transactions and balances

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

Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

2.6 Financial assets

(a) Classification and measurement

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to maturity financial assets. Regular purchases and sales of financial assets are recognized on trade date.

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

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

2. Significant accounting policies (cont'd)

2.6 Financial assets (cont'd)

(b) Impairment

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

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

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments over three months; or the disappearance of an active market for that financial asset because of financial difficulties. A decline in the fair value of an available-for-sale equity instrument by more than 30% from its cost or a prolonged decline below its cost for more than six months is also objective evidence of impairment.

(c) Derecognition

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

(d) Offsetting of financial instruments

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

2.7 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving-weighted average method.

2. Significant accounting policies (cont'd)

2.8 Property, plant and equipment

Property, plant and equipment is stated at its cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that is directly attributable to the acquisition of the items.
Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Accounts	Estimated useful lives	Accounts	Estimated useful lives
Buildings	10 - 50 years	Security equipment	5 years
Structures	5 - 25 years	Security control equipment	5 years
Vehicles	5 years	Furniture and fixtures	5 years
Others	5 years		

The depreciation method, residual values and useful lives of property, plant and equipment are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

2.9 Government grants

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attaching to it. Government grants related to assets are presented by deducting the grants in arriving at the carrying amount of the assets, and grants related to income are deferred and presented by deducting the related expenses for the purpose of the government grants.

2.10 Intangible assets

(a) Research and development

Research expenditures are recognized as an expense as incurred. Development costs that are individually identifiable and directly related to a new technology or to new products which carry probable future benefits are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the intangible assets so that it will be available for use;
- management intends to complete the intangible assets and use or sell it;
- there is an ability to use or sell the intangible assets;
- it can be demonstrated how the intangible assets will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible assets are available; and
- the expenditure attributable to the intangible assets during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs are recognized as intangible assets and the assets are amortized over their estimated useful lives.

(b) Membership rights

Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to be utilized.

(c) Other intangible assets

Patents, trademarks and software for internal using are recognized at acquisition cost. Amortization is calculated using the straight-line method to allocate the cost over their estimated useful lives of five to ten years. Where an indication of impairment exists, the carrying amounts of other intangible assets are assessed and if the carrying amount exceeds its recoverable amount, it is written down to its recoverable amount.

2. Significant accounting policies (cont'd)

2.10 Intangible assets (cont'd)

(d) Contractual customer relationships and contractual value

The contractual customer relationships and contractual value acquired in a business combination are recognized at fair value on the acquisition date. The customer relationships and contractual value have a definite useful life and are recorded at cost less any accumulated amortization. Such customer relationships and contractual value are amortized on a straight-line basis over the estimated period of ten to fifteen years.

(e) Goodwill

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill arising from the acquisition of subsidiaries and business is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gain (loss) on disposal of entities includes carrying amount of disposed entity's goodwill.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, and the allocation is determined based on the operating segments.

Goodwill is tested for impairment annually or more frequently if there is any indication that it may be impaired. Goodwill is tested for impairment by comparing the carrying amount of the cash generating units or groups of cash-generating units with the recoverable amount, which is the higher of its fair value less costs to sell and its value in use. An impairment loss is immediately recognized and is not subsequently reversed.

2.11 Impairment of non-financial assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets, other than goodwill, that suffered.

2.12 Financial liabilities

(a) Classification and measurement

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as 'trade and other payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

2.13 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

2. Significant accounting policies (cont'd)

2.14 Current and deferred tax

The tax expense for the period consists of current and deferred tax. Tax is recognized on the profit for the period in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

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

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

2.15 Employee benefits

The Group has both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The contributions are recognized as employee benefit expense when an employee has rendered service.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

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

2.16 Share-based payments

Equity-settled share-based payments granted to employees are estimated at the grant date fair value of equity instruments and recognized as employee benefit expenses over the vesting period. The number of equity instruments expected to vest is remeasured with consideration to non-market vesting conditions at the end of the reporting period, with any changes from the original measurement recognized in the profit for the year and equity. When the options are exercised, the Group issues new shares. The proceeds received, net of any directly attributable transaction costs, are recognized as share capital (nominal value) and share premium.

2. Significant accounting policies (cont'd)

2.17 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal activities of the Group. It is stated as net of value added taxes, returns, rebates and discounts, after elimination of intra-company transactions. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods

Revenue from the sale of goods are recognized when products are delivered to the purchaser.

(b) Rendering of services

The Group mainly renders security service. This service is rendered on a fixed contract, and revenue is recognized according to the time passed. For certain services that are rendered, revenue is recognized according to the percentage of completion. The percentage of completion is measured as the costs to date over the total estimated costs.

(c) Interest income

Interest income is recognized using the effective interest method according to the time passed. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognized using the original effective interest rate.

(d) Dividend income

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

2.18 Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases where all the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term.

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases and recognized as lease assets and liabilities at the lower of the fair value of the leased property and the present value of the minimum lease payments on the opening date of the lease period.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straightline basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

2.19 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares are applied when dilutive effects are recognized.

2. Significant accounting policies (cont'd)

2.20 Approval of issuance of the financial statements

The issuance of the December 31, 2016 consolidated financial statements of the Group was approved by the Board of Directors on January 25, 2017, which is subject to change with approval at the annual shareholder's meeting.

3. Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Revenue recognition

Revenue from the rendering of services is recognized under the percentage-of-completion, which revenue is generally recognized based on the costs incurred to date as a percentage of the total estimated costs to be incurred. The current revenue will be impacted in the period by factors such as variability of beginning projects, scope, costs and customer's plan.

(b) Useful lives of property, plant and equipment

The Group determines estimated useful lives of property, plant and equipment and recognizes the amount of depreciation. These estimates are based on life cycle of products and can be affected according to competitors that correspond to change of technology and industry-life cycle. In case that newly estimated useful lives decrease, management will increase the amount of depreciation. Also, the assets that are abandoned, set for held for sale and impaired in techniques can be removed or the value of assets will be reduced.

(c) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 12).

(d) Defined benefit liability

The present value of defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 14).

(e) Income taxes
The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 23).

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

4. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Market risk

i) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the statement of financial position as available-for-sale. The Group's investments in equity of other entities are publicly traded.

The table below summarizes the impact of increases/decreases of the listed shares on the Group's comprehensive income for the year. The analysis is based on the assumption that the equity indexes had increased/decreased by 30% with all other variables held constant.

(Korean won in thousands)	Impact on comprehensive income			
	2016		2015	
Equity securities (listed)	₩	1,246,271	₩	1,061,944

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If customers are independently rated, these ratings are used. If there is no independent rating, the credit quality of the customer is evaluated taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilization of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

The Group's maximum exposures of financial assets to credit risk correspond with amount of financial assets excluding equity securities. Details of impaired receivables are described in Note 9.

4. Financial risk management (cont'd)

(c) Liquidity risk

The Group finance team monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

The Group finance team invests surplus cash in interest-bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above- mentioned forecasts.

The following are the contractual maturities of financial liabilities as at December 31, 2016 and 2015 (Korean won in thousands):

	2016			
	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years
Trade and other payables	₩ 193,612,021	₩ -	₩ -	₩ -
Deposits received	-	47,423,756	-	-

	2015			
	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years
Trade and other payables	₩ 200,172,791	₩ -	₩ -	₩ -
Deposits received	-	46,372,559	-	-

(d) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. This ratio is calculated as total liabilities divided by total capital. The gearing ratios as of December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Total liabilities (A)	₩ 360,431,279	₩ 414,070,537
Total equity (B)	1,099,945,368	980,355,970
Debt ratio (A/B)	32.77%	42.24%

5. Fair value

There is no significant change in the business and economic environments that affects the fair value of financial assets and liabilities of the Group during 2016.

(a) Fair value of financial instruments by category

Carrying amount and fair value of financial instruments by category as of December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial instruments (*1):				
Available-for-sale financial assets (*2)	₩ 5,480,526	₩ 5,480,526	₩ 4,669,940	₩ 4,669,940

(*1) Short-term trade receivables and payables whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.
(*2) Equity instruments that do not have a quoted price in an active market are measured at cost because their fair value cannot be measured reliably and excluded from the fair value disclosures.

(b) Financial instruments measured at cost

Details of financial instruments measured at cost as of December 31, 2016 and 2015 are as follows (Korean won in thousands):

	2016	2015
Available-for-sale financial assets:		
Unlisted securities	₩ 258,719	₩ 2,277,566
Investments	192,071	192,071
	₩ 450,790	₩ 2,469,637

The unlisted securities and investments above are measured at cost because the variability of estimated cash flows is significant and the probabilities of the various estimates cannot be reasonably assessed.

(c) Fair value hierarchy

Assets measured at fair value or for which the fair value is disclosed are categorized within the fair value hierarchy, and the defined levels are as follows (Korean won in thousands):

Level 1 - The quoted prices in active markets for identical assets or liabilities
Level 2 - The inputs that are observable for the asset or liability, either directly or indirectly
Level 3 - The inputs for the asset or liability that are not based on observable market data

	2016			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:				
Available-for-sale financial assets	₩ 5,480,526	₩ -	₩ -	₩ 5,480,526

	2015			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:				
Available-for-sale financial assets	₩ 4,669,940	₩ -	₩ -	₩ 4,669,940

6. Category of financial instruments

Details of financial assets and liabilities by categories as at December 31, 2016 and 2015 are as follows (Korean won in thousands):

	2016		
	Loans and receivables	Available-for-sale financial assets	Total
Cash and cash equivalents	₩ 144,098,269	₩ -	₩ 144,098,269
Short-term financial assets	98,324,465	-	98,324,465
Trade and other receivables	150,360,780	-	150,360,780
Accrued income	493,431	-	493,431
Long-term financial assets	8,000	-	8,000
Available-for-sale financial assets	-	5,931,316	5,931,316
Loans and receivables, non-current	48,775,407	-	48,775,407
	₩ 442,060,352	₩ 5,931,316	₩ 447,991,668

	2016	
	Financial liabilities at amortized cost	Total
Trade and other payables	₩ 193,612,021	₩ 193,612,021
Deposits received	47,423,756	47,423,756
	₩ 241,035,777	₩ 241,035,777

	2015		
	Loans and receivables	Available-for-sale financial assets	Total
Cash and cash equivalents	₩ 125,589,083	₩ -	₩ 125,589,083
Short-term financial assets	17,466,041	-	17,466,041
Trade and other receivables	156,811,050	-	156,811,050
Accrued income	144,078	-	144,078
Long-term financial assets	11,894	-	11,894
Available-for-sale financial assets	-	7,139,577	7,139,577
Loans and receivables, non-current	49,755,609	-	49,755,609
	₩ 349,777,755	₩ 7,139,577	₩ 356,917,332

	2015	
	Financial liabilities at amortized cost	Total
Trade and other payables	₩ 200,172,791	₩ 200,172,791
Deposits received	46,372,559	46,372,559
	₩ 246,545,350	₩ 246,545,350

6. Category of financial instruments (cont'd)

Details of gains or losses on financial instruments by category for the year ended December 31, 2016 and 2015 are as follows (Korean won in thousands):

	2016	2015
Available-for-sale financial assets:		
Gain (loss) on valuation (other comprehensive income)	₩ 810,586	₩ (344,801)
Impairment	(2,018,847)	-
Dividend income	36,855	36,895
Loans and receivables:		
Interest income	1,787,653	561,552
Impairment (allowance for doubtful accounts)	(5,383,013)	(4,429,074)
Gain on foreign currency transactions	3,416,623	3,037,323
Loss on foreign currency transactions	(3,182,562)	(2,144,060)
Gain on foreign currency translation	315,436	299,721
Loss on foreign currency translation	(534,740)	(455,952)
Financial liabilities at amortized cost:		
Interest expenses	-	(2,479,392)

Income and loss of financial instruments were presented under continuing operations.

7. Cash and cash equivalents

The book value of cash and cash equivalents as of December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Cash in bank and on hand	₩ 6,831,148	₩ 5,949,522
Short-term bank deposits[1]	137,267,121	119,639,561
	₩ 144,098,269	₩ 125,589,083

[1] Short-term bank deposits include ordinary deposits and time deposits maturing within three months from acquisition date.

Restricted Financial Instruments

As of December 31, 2016, long-term and short-term financial instruments amounting to ₩5,332 million are restricted in use in relation to benefit sharing fund and maintaining deposits for checking accounts.

8. Available-for-sale financial assets

Details of available-for-sale financial assets as of December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Investments	₩ 192,071	₩ 192,071
Equity securities	5,739,245	6,947,506
	₩ 5,931,316	₩ 7,139,577

Changes in available-for-sale financial assets for the years ended December 31, 2016 and 2015, are as follows
(Korean won in thousands):

	2016	2015
Beginning balance	₩ 7,139,577	₩ 7,523,175
Acquisition	-	-
Disposal	-	(23)
Impairment	(2,018,847)	-
Net gains and losses on transfer to equity	810,586	(344,801)
Discontinued operations	-	(38,774)
Ending balance	5,931,316	7,139,577
Less: non-current portion	5,931,316	7,139,577
Current portion	₩ -	₩ -

9. Trade and other receivables

Trade and other receivables as of December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Trade receivables	₩ 153,601,318	₩ 156,160,700
Provision for impairment of trade receivables	(9,066,918)	(6,923,407)
Non-trade receivables	6,212,136	7,582,718
Provision for impairment of non-trade receivables	(385,756)	(8,961)
	₩ 150,360,780	₩ 156,811,050

Movements on provision for impairment of trade and other receivables for the years ended December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Beginning balance	₩ 6,932,368	₩ 7,018,165
Provision for receivables impairment	5,383,013	4,447,966
Written off and others	(2,862,707)	(3,991,630)
Discontinued operations	-	(542,133)
Ending balance	₩ 9,452,674	₩ 6,932,368

The aging analysis of trade and other receivables as of December 31, 2016 and 2015, is as follows (Korean won in thousands):

	2016	2015
Not overdue	₩ 145,340,627	₩ 147,256,861
Overdue but not impaired		
Less than 1 year	5,020,153	9,554,189
More than 1 year	-	-
	₩ 150,360,780	₩ 156,811,050

10. Inventories

Inventories as of December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Supplies and merchandise	₩ 21,691,467	₩ 38,300,137
Security contracts-in-process	13,322,199	10,872,787
Goods in transit	823,229	292,114
	₩ 35,836,895	₩ 49,465,038

The cost of inventories recognized as expense and included in 'cost of sales' amounts to ₩122,742 million (2015: ₩132,257 million).

11. Property, plant and equipment

Changes in property, plant and equipment for the years ended December 31, 2016 and 2015, are as follows (Korean won in thousands):

2016	Land	Buildings	Structures	Security equipment	Security control equipment	Vehicles	Furniture and fixtures	Construction in progress	Total
Opening acquisition cost	₩ 56,620,428	₩ 91,194,966	₩ 8,596,362	₩ 735,505,974	₩ 24,545,403	₩ 2,222,205	₩ 61,930,937	₩ 453,400	₩ 981,069,675
Opening accumulated depreciation	-	(25,756,056)	(5,749,650)	(405,097,709)	(22,919,687)	(1,703,100)	(49,966,538)	-	(511,192,740)
Opening net book value	56,620,428	65,438,910	2,846,712	330,408,265	1,625,716	519,105	11,964,399	453,400	469,876,935
Acquisitions	-	-	-	123,585,563	916,898	-	1,209,913	6,640,220	132,352,594
Disposals	-	-	-	(1,582,324)	(42)	(104,914)	(21,789)	-	(1,709,069)
Depreciation	-	(1,895,821)	(375,964)	(113,561,287)	(744,706)	(165,238)	(4,677,025)	-	(121,420,041)
Transfer	-	-	971,600	-	-	-	1,455,249	(6,583,647)	(4,156,798)
Exchange differences	-	-	-	-	(43,603)	-	(1,333)	-	(44,936)
Ending acquisition cost	56,620,428	91,194,966	9,567,962	785,288,105	25,348,114	1,227,521	63,733,841	509,973	1,033,490,910
Ending accumulated depreciation	-	(27,651,877)	(6,125,614)	(446,437,888)	(23,593,851)	(978,568)	(53,804,427)	-	(558,592,225)
Ending net book value	₩ 56,620,428	₩ 63,543,089	₩ 3,442,348	₩ 338,850,217	₩ 1,754,263	₩ 248,953	₩ 9,929,414	₩ 509,973	₩ 474,898,685

2015	Land	Buildings	Structures	Security equipment	Security control equipment	Vehicles	Furniture and fixtures	Construction in progress	Total
Opening acquisition cost	₩ 56,518,201	₩ 91,194,966	₩ 9,114,299	₩ 677,746,868	₩ 24,315,431	₩ 2,629,856	₩ 68,552,051	₩ 2,316,677	₩ 932,388,349
Opening accumulated depreciation	-	(23,857,897)	(5,769,806)	(361,158,411)	(22,354,125)	(1,866,566)	(51,952,574)	-	(466,959,379)
Opening net book value	56,518,201	67,337,069	3,344,493	316,588,457	1,961,306	763,290	16,599,477	2,316,677	465,428,970
Acquisitions	-	-	827,145	122,737,279	216,532	45,715	2,052,998	12,314,903	138,194,572
Disposals	-	-	(184,892)	(2,004,991)	-	(61,182)	(499,860)	-	(2,750,925)
Depreciation	-	(1,898,159)	(430,619)	(106,912,480)	(566,888)	(312,675)	(6,009,066)	-	(116,129,887)
Transfer	102,227	-	91,500	-	-	85,258	3,303,634	(14,178,180)	(10,595,561)
Exchange differences	-	-	-	-	14,766	-	554	-	15,320
Discontinued operations	-	-	(800,915)	-	-	(1,301)	(3,483,338)	-	(4,285,554)
Ending acquisition cost	56,620,428	91,194,966	8,596,362	735,505,974	24,545,403	2,222,205	61,930,937	453,400	981,069,675
Ending accumulated depreciation	-	(25,756,056)	(5,749,650)	(405,097,709)	(22,919,687)	(1,703,100)	(49,966,538)	-	(511,192,740)
Ending net book value	₩ 56,620,428	₩ 65,438,910	₩ 2,846,712	₩ 330,408,265	₩ 1,625,716	₩ 519,105	₩ 11,964,399	₩ 453,400	₩ 469,876,935

Depreciation expense of ₩117,625 million (2015: ₩110,791 million) has been charged to ‘cost of sales’ and ₩3,795 million (2015: ₩5,339 million) to ‘selling and administrative expenses’.

12. Intangible assets

Changes in intangible assets for the years ended December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016				
	Goodwill	Industrial property	Development costs	Other	Total
As at January 1	₩ 328,092,729	₩ 316,606	₩ 229,292	₩ 169,254,329	₩ 497,892,956
Increase[1]	-	79,432	-	4,288,662	4,368,094
Impairment	-	-	-	(117,393)	(117,393)
Disposal	-	-	-	-	-
Amortization	-	(52,697)	(196,997)	(23,263,084)	(23,512,778)
Exchange differences	-	-	-	(34)	(34)
As at December 31	₩ 328,092,729	₩ 343,341	₩ 32,295	₩ 150,162,480	₩ 478,630,845

[1] Includes amounts of reclassification from 'construction in progress'.

	2015				
	Goodwill	Industrial property	Development costs	Other	Total
As at January 1	₩ 328,092,729	₩ 514,749	₩ 695,312	₩ 191,772,201	₩ 521,074,991
Increase[1]	-	140,225	-	12,536,146	12,676,371
Impairment	-	-	-	(223,657)	(223,657)
Disposal	-	-	-	(3,078,143)	(3,078,143)
Amortization	-	(91,790)	(414,252)	(30,746,112)	(31,252,154)
Exchange differences	-	-	-	23	23
Discontinued operations	-	(246,578)	(51,768)	(1,006,129)	(1,304,475)
As at December 31	₩ 328,092,729	₩ 316,606	₩ 229,292	₩ 169,254,329	₩ 497,892,956

[1] Includes amounts of reclassification from 'construction in progress'.

Amortization of ₩443 million (2015: ₩439 million) is included in the 'cost of sales' and ₩23,070 million (2015: ₩30,813 million) in the 'selling and administrative expenses'.

Total research and development costs that the Group recognized as expenses are ₩17,572 million (2015: ₩18,593 million).

12. Intangible assets (cont'd)

Impairment tests for goodwill

As of December 31, 2016, the Group has goodwill arising from the acquisition of business at 2014. The goodwill is allocated to groups of cash-generating units by which the management monitors it.

(Korean won in thousands)		2016
Building management	₩	328,092,729

The Group tests annually for impairment. The recoverable amount of the Group's of cash generating units is estimated using calculation of value in use. The calculation of value in use, based on five-year financial budget approved by management, used pre-tax cash flow estimation. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the cash-generating units operate. In addition, a constant growth rate assumption is used for perpetual cash flow calculation. The key assumptions used for value-in-use calculations in 2016 are as follows:

	2016
Operating profit rate of cash sales compare to total sales	11.67 ~ 12.59%
Revenue growth rate[1]	3.67 ~ 5.53%
Permanent growth rate	1.00%
Discount rate before tax[2]	11.57%

[1] Weighted average revenue growth rate used to extrapolate cash flows for next five years is measured based on the historical growth rate.
[2] Pre-tax discount rate applied to the cash flow projections.

The Group determined budgeted sales growth rate based on past performance and its expectations of market development.

The impairment test suggests that the carrying value of cash generating units does not exceed the recoverable amount.

13. Trade and other payables

Trade and other payables as of December 31, 2016 and 2015, are as follows (Korean won in thousands):

		2016		2015
Trade payables	₩	92,004,007	₩	95,082,559
Non-trade payables		28,003,134		37,567,699
Accrued expenses		73,604,880		67,522,533
	₩	193,612,021	₩	200,172,791

14. Net defined benefit liabilities (assets)

Defined benefit plans that the Group operates are final salary pension plans, which provide benefits to employees in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on employees' length of service and their salary in the final years leading up to retirement. The benefit payments are from trustee administered funds.

Net defined benefit liabilities (assets) recognized in the statements of financial position as of December 31, 2016 and 2015, is as follows (Korean won in thousands):

	2016	2015
Present value of defined benefit liabilities	₩ 270,647,342	₩ 280,085,108
Fair value of plan assets[1]	(272,019,855)	(258,013,437)
Liability (asset) in the statements of financial position	₩ (1,372,513)	₩ 22,071,671

[1] Contribution to the National Pension Fund of ₩389 million (2015: ₩411 million), is included in the fair value of plan assets.

Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Beginning balance	₩ 280,085,108	₩ 269,207,123
Current service cost	38,052,735	37,633,239
Interest expense	6,516,787	7,728,832
Past service cost and losses on settlement	(1,056,038)	(3,970,570)
Remeasurements:		
Actuarial gains and losses arising from changes in demographic assumptions	6,797,055	(1,340)
Actuarial gains and losses arising from changes in financial assumptions	(28,972,184)	13,565,837
Actuarial gains arising from experience adjustments	(4,993,645)	(5,221,105)
Payments from plans:		
Benefit payments	(25,782,476)	(30,277,313)
Obligations from subsidiaries and others	-	30,101
Discontinued operations	-	(8,609,696)
Ending balance	₩ 270,647,342	₩ 280,085,108

14. Net defined benefit liabilities (assets) (cont'd)

Changes in the fair value of plan assets for the years ended December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Beginning balance	₩ 258,013,437	₩ 253,161,693
Interest income	5,532,693	6,757,216
Remeasurements:		
Return on plan assets (excluding amounts included in interest income)	(1,301,816)	(1,941,699)
Contributions: Employers	36,091,096	31,529,521
Payments from plans: Benefit payments	(26,315,555)	(26,832,373)
Obligations from subsidiaries and others	-	(1,825)
Discontinued operations	-	(4,659,096)
Ending balance	₩ 272,019,855	₩ 258,013,437

Plan assets as of December 31, 2016 and 2015, consist of as follows (Korean won in thousands):

	2016			
	Quoted price	Unquoted price	Total	Composition
Cash and cash equivalents	₩ 271,631,199	₩ -	₩ 271,631,199	99.86%
Others	-	388,656	388,656	0.14%
	₩ 271,631,199	₩ 388,656	₩ 272,019,855	100.00%

	2015			
	Quoted price	Unquoted price	Total	Composition
Cash and cash equivalents	₩ 257,602,902	₩ -	₩ 257,602,902	99.84%
Others	-	410,535	410,535	0.16%
	₩ 257,602,902	₩ 410,535	₩ 258,013,437	100.00%

The principal actuarial assumptions as of December 31, 2016 and 2015, are as follows:

	2016	2015
Discount rate	2.40%~2.50%	2.30%~2.40%
Salary growth rate	4.23%~5.00%	5.00%~5.24%

The sensitivity of the defined benefit obligations as of December 31, 2016, to changes in the weighted principal assumptions is (in percentage, %):

	Effect on defined benefit obligation		
	Changes in principal assumption	Increase in principal assumption	Decrease in principal assumption
Discount rate	1.00%	9% decrease	11% increase
Salary growth rate	1.00%	11% increase	9% decrease

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Expected contributions to post-employment benefit plans for the year ended December 31, 2017 are ₩32,948 million.

14. Net defined benefit liabilities (assets) (cont'd)

Expected maturity analysis of undiscounted pension benefits as of December 31, 2016, is as follows (Korean won in thousands):

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 10 years	Total
Pension benefits	₩ 15,604,369	₩ 19,396,962	₩ 61,589,726	₩ 134,170,630	₩ 230,761,687

The weighted average duration of the defined benefit obligations is 10.08 years.

Recognized expense related to the defined contribution plan for the year ended December 31, 2016, is ₩3,990 million (2015: ₩2,317 million).

15. Commitments and contingencies

(a) As of December 31, 2016, eleven civil suits claiming total of ₩8,237 million are filed against the Group relating to the compensation for damage from security services and unjust enrichment, is pending, and in court. In connection with certain suits, liabilities are included in the statement of financial position. The management believes the outcome of civil suits will not impact the financial position of the Group.

(b) The Group has a technical assistance agreement with Secom Co., Ltd. in Japan for licensing and technical assistance on the security business. Under the agreement, the Group pays royalties to Secom Co., Ltd. in Japan amounting to 0.65% of the some system security service sales.

(c) As of December 31, 2016, the Group has a general loan agreement with a maximum limit of ₩30 billion, a bank overdraft facility agreement with a maximum limit of ₩10 billion and a daily loan agreement with a maximum limit of ₩30 billion with Woori Bank and others. The Group also has agreement with Woori Bank in relation to the opening of letters of credit amounting to US$ 5,000 thousand. Also, the Group has a purchase loan use agreement with maximum limit of ₩80 billion with Hana Bank. It also has a B2B plus agreement with maximum limit of ₩50 billion with Woori Bank and has an electronic loans agreement secured by accounts receivable with a maximum limit of ₩5 billion with Shinhan Bank.

(d) The Group is provided with performance guarantees and construction warranty guarantees amounting to ₩88.2 billion by Seoul Guarantee Insurance and others.

16. Issued capital and share premium

The Group's number of authorized shares is 80 million shares and the par value per share is ₩500. As of December 31, 2016, total number of common shares issued is 37,999,178 shares.

Details of issued capital and share premium as of December 31, 2016, are as follows (Korean won in thousands, except for number of shares):

Number of common shares outstanding[1]	Issued capital	Share premium	Total
33,810,239	₩ 18,999,589	₩ 192,913,601	₩ 211,913,190

[1]Difference with number of common shares outstanding and the number of common shares issued is due to 4,188,939 shares of treasury share.

17. Retained earnings

Retained earnings as of December 31, 2016 and 2015, consist of (Korean won in thousands):

	2016	2015
Legal reserves[1]	₩ 9,499,794	₩ 9,499,794
Discretionary reserves	818,954,334	688,954,334
Unappropriated retained earnings	211,966,555	222,436,739
	₩ 1,040,420,683	₩ 920,890,867

[1] The Commercial Code of the Republic of Korea requires the Group to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital share. The reserve is not available for the payment of cash dividends, but may be transferred to capital share or used to reduce accumulated deficit, if any, with the ratification of the Group's majority shareholders.

18. Other components of equity

Other components of equity as of December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Accumulated other comprehensive income :		
Change in value of available-for-sale financial assets	₩ 3,775,238	₩ 3,160,814
Currency translation differences	(120,488)	(31,641)
Other :		
Treasury share	(155,751,107)	(155,751,107)
Others	(292,148)	(89,330)
	₩ (152,388,505)	₩ (152,711,264)

19. Expenses by nature

Expenses by nature for the years ended December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Purchase of merchandise	₩ 122,742,245	₩ 132,257,179
Labor expenses	589,986,399	571,876,714
Depreciation and amortization	144,932,819	146,039,490
Outside order expenses	435,418,072	392,123,113
Commission expenses and royalties	26,099,882	23,790,811
Advertising expenses and sales commission expenses	31,479,229	33,245,231
Communication expenses	31,437,894	29,772,185
Transportation expenses	17,377,895	17,835,843
Others	225,024,599	280,071,708
	₩ 1,624,499,034	₩ 1,627,012,274

Expenses by nature were presented under continuing operations.

20. Selling and administrative expenses

Selling and administrative expenses for the years ended December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Labor expenses	₩ 174,201,298	₩ 176,000,129
Development costs[1]	17,572,165	18,593,293
Depreciation and amortization	26,025,495	33,912,077
Commission expenses and royalties	16,298,670	15,346,625
Advertising expenses and sales commission expenses	28,537,468	31,276,326
Communication expenses	4,372,991	11,046,828
Insurance expenses	6,574,543	6,241,274
Transportation expenses	8,356,336	8,718,018
Rental expenses	10,814,167	9,096,249
Bad debts expenses	5,383,013	4,429,074
Others	45,519,747	48,934,631
	₩ 343,655,893	₩ 363,594,524

Selling and administrative expenses were presented under continuing operations.

[1] Depreciation and amortization costs of ₩839 million (2015: ₩925 million) are included in development costs.

21. Other non-operating income and expenses

Details of other non-operating income and other non-operating expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in thousands):

	2016	2015
Other non-operating income		
Dividend income	₩ 36,855	₩ 36,895
Gain on disposal of property, plant and equipment	90,738	86,688
Gain on foreign currency transactions	3,304,409	2,931,384
Gain on foreign currency translation	315,436	299,721
Others	7,238,651	15,417,329
	₩ 10,986,089	₩ 18,772,017
Other non-operating expenses		
Donations	₩ 2,990,503	₩ 3,047,690
Loss on obsolescence of inventories	16,908,106	20,033,388
Impairment loss on available-for-sale financial assets	2,018,847	-
Loss on disposal of property, plant and equipment	1,640,353	2,470,292
Loss on disposal of intangible assets	-	3,053,143
Impairment loss on intangible assets	117,393	223,657
Loss on foreign currency transactions	3,048,830	2,080,637
Loss on foreign currency translation	534,740	455,952
Others	5,005,332	1,891,756
	₩ 32,264,104	₩ 33,256,515

Other non-operating income and expenses were presented under continuing operations.

22. Finance income and costs

Finance income and costs for the years ended December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Finance income		
Interest income	₩ 1,787,653	₩ 561,552
Gain on foreign currency transactions	112,214	105,939
	₩ 1,899,867	₩ 667,491
Finance costs:		
Interest expenses	₩ -	₩ 2,479,392
Loss on foreign currency transactions	133,732	63,423
	₩ 133,732	₩ 2,542,815

Finance income and costs were presented under continuing operations.

23. Income tax

Income tax expense for the years ended December 31, 2016 and 2015, consists of (Korean won in thousands):

	2016	2015
Current income tax:		
Current tax on profits for the year	₩ 52,620,052	₩ 60,297,843
Adjustments in respect of prior years	1,135,657	(393,672)
Total current tax	53,755,709	59,904,171
Deferred income tax due to temporary differences	(1,638,921)	(7,865,052)
Deferred income tax due to discontinued operations	-	496,193
Deferred income tax charged to equity	(6,496,683)	2,523,650
Income tax expenses from discontinued operations	₩ -	₩ 18,247,841
Income tax expenses from continuing operations	45,620,105	36,811,121

The tax on the Group's profit before tax differs from the theoretical amount as follows (Korean won in thousands):

	2016	2015
Profit before tax	₩ 186,165,903	₩ 156,198,449
Tax calculated at statutory tax rates	44,810,235	37,460,012
Tax effects of:		
Non-taxable income	(2,677)	(110,391)
Non-deductible expenses	312,550	235,083
Tax credit	(606,457)	(491,735)
Adjustment in respect of prior years	1,106,454	(281,848)
Income tax expenses[1]	₩ 45,620,105	₩ 36,811,121
Effective tax rate[2]	24.51%	23.57%

[1] Income tax expenses were presented under continuing operations.
[2] Income tax expense/net income before tax

23. Income tax (cont'd)

Changes in the temporary differences and related deferred tax assets and liabilities are as follows (Korean won in thousands):

2016	Temporary differences			Deferred tax assets (liabilities)	
	Beginning	Increase (Decrease)	Ending	Beginning	Ending
Allowance for doubtful accounts	₩ 2,467,772	₩ 4,201,613	₩ 6,669,385	₩ 597,201	₩ 1,613,991
Accrued income	(144,078)	(349,353)	(493,431)	(34,218)	(118,614)
Accrued expenses	28,470,279	3,236,599	31,706,878	6,882,981	7,659,856
Defined benefit liability	250,191,787	(9,708,754)	240,483,033	60,101,300	57,620,045
Pension plan assets	(235,178,782)	1,712,571	(233,466,211)	(56,569,220)	(56,047,142)
Deferred sales	(3,165)	-	(3,165)	-	-
Land	(138,365)	-	(138,365)	(33,484)	(33,484)
Depreciation	(71,126)	58,617	(12,509)	13,651	26,624
Impairment of available-for-sale securities	507,873	2,018,847	2,526,720	122,905	611,466
Gain on valuation of available-for-sale securities	(4,169,940)	-	(4,169,940)	(1,009,125)	(1,009,125)
Payables for donation	1,380,000	(1,000,000)	380,000	333,960	91,960
Other non-current liabilities	17,318,909	3,838,089	21,156,998	4,191,176	5,104,732
Provision	-	3,820,000	3,820,000	-	924,440
Others[1]	(1,540,220)	(1,875,264)	(3,415,484)	(404,127)	(612,831)
	₩ 59,090,944	₩ 5,952,965	₩ 65,043,909	₩ 14,192,998	₩ 15,831,918

2015	Temporary differences			Deferred tax assets (liabilities)	
	Beginning	Increase (Decrease)	Ending	Beginning	Ending
Allowance for doubtful accounts	₩ 5,030,595	₩ (2,562,823)	₩ 2,467,772	₩ 1,215,058	₩ 597,201
Accrued income	(760,272)	616,194	(144,078)	(168,848)	(34,218)
Bad debts expense	708,834	(708,834)	-	-	-
Accrued expenses	23,308,025	5,162,254	28,470,279	5,624,029	6,882,981
Defined benefit liability	235,198,573	14,993,214	250,191,787	56,435,645	60,101,300
Pension plan assets	(231,487,819)	(3,690,963)	(235,178,782)	(55,619,279)	(56,569,220)
Deferred sales	(1,583)	(1,582)	(3,165)	(2,499)	-
Land	(138,365)	-	(138,365)	(33,484)	(33,484)
Depreciation	6,381,693	(6,452,819)	(71,126)	1,562,562	13,651
Purchase securities with lower price	1,476,800	(1,476,800)	-	357,386	-
Impairment of available-for-sale securities	1,482,219	(974,346)	507,873	348,290	122,905
Gain on valuation of available-for-sale securities	(4,514,741)	344,801	(4,169,940)	(1,092,567)	(1,009,125)
Payables for donation	-	1,380,000	1,380,000	-	333,960
Other non-current liabilities	16,562,891	756,018	17,318,909	4,008,220	4,191,176
Others[1]	(53,090,879)	51,550,659	(1,540,220)	(6,306,566)	(404,127)
	₩ 155,971	₩ 58,934,973	₩ 59,090,944	₩ 6,327,947	₩ 14,192,998

[1] The Group has not recognized deferred income tax as the related temporary difference arising from investments in subsidiaries will not reverse with low possibility of dividend payout and disposal of investments in the foreseeable future. As of December 31, 2016, total temporary difference which is not recognized as deferred tax liabilities is ₩3,785 million.

23. Income tax (cont'd)

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 55,224,809	₩ 57,413,897
Deferred tax asset to be recovered within 12 months	9,312,607	7,826,851
	64,537,416	65,240,748
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	₩ (48,638,204)	₩ (50,999,494)
Deferred tax liability to be recovered within 12 months	(67,294)	(48,256)
	(48,705,498)	(51,047,750)
Deferred tax assets (liabilities), net	₩ 15,831,918	₩ 14,192,998

Details of deferred income tax charged to equity are as follows (Korean won in thousands):

	2016	2015
Change in value of available-for-sale financial assets	₩ (196,163)	₩ 83,442
Remeasurement of net defined benefit liabilities	(6,300,520)	2,440,208
	₩ (6,496,683)	₩ 2,523,650

24. Earnings per share

Basic earnings per ordinary share for the years ended December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Profit from continuing operation attributable to owners of the Parent company	₩ 140,535,664	₩ 119,359,081
Profit from discontinued operation attributable to owners of the Parent company	-	34,269,951
Profit attributable to owners of the Parent Company	140,535,664	153,629,032
Weighted average number of ordinary shares outstanding[1]	33,810,239	33,810,239
Basic earnings per share (in Korean won)		
Basic earnings per share from continuing operations	₩ 4,157	₩ 3,530
Basic earnings per share from discontinued operations	-	1,014

[1]Weighted average number of ordinary shares outstanding = Total issued shares – weighted average number of treasury shares

2016: 37,999,178 - 4,188,939 = 33,810,239
2015: 37,999,178 - 4,188,939 = 33,810,239

Diluted earnings per share for the years ended December 31, 2016, and 2015, is as follows:

	2016	2015
Profit from continuing operation attributable to owners of the Parent company	₩ 140,535,664	₩ 119,359,081
Profit from discontinued operation attributable to owners of the Parent company	-	34,269,951
Profit attributable to owners of the Parent Company	₩ 140,535,664	₩ 153,629,032
Weighted average number of ordinary shares for diluted earnings per share	33,810,239	33,810,239
Diluted earnings per share (in Korean won)		
Diluted earnings per share from continuing operations	₩ 4,157	₩ 3,530
Diluted earnings per share from discontinued operations	-	1,014

25. Cash generated from operations

Cash generated from operations for the years ended December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Adjustments for:		
Depreciation, amortization	₩ 144,932,819	₩ 147,382,042
Loss from valuation of inventories	-	463,974
Loss on obsolescence of inventories	12,802,875	-
Severance benefits	37,980,791	34,634,285
Loss on foreign currency translation	534,740	455,952
Gain on foreign currency translation	(315,436)	(299,721)
Loss on disposal of property, plant and equipment	1,640,353	2,735,080
Gain on disposal of property, plant and equipment	(90,738)	(87,560)
Impairment loss of intangible assets	117,393	223,657
Loss on disposal of intangible assets	-	3,053,143
Bad debt expenses	5,383,013	4,447,966
Impairment loss on available-for-sale financial assets	2,018,847	-
Interest expenses	-	2,479,392
Interest income	(1,787,653)	(1,494,628)
Dividend	(36,855)	(36,895)
Income taxes	45,620,105	55,058,962
Gain on disposal of investments in subsidiaries	-	(49,592,608)
Miscellaneous loss	3,820,000	-
	₩ 252,620,254	₩ 199,423,041
Changes in operating assets and liabilities:		
Trade receivables	₩ (526,457)	₩ (3,106,450)
Other receivables	1,331,855	(6,312,404)
Advance payments	911,256	56,055
Prepaid expenses	(702,916)	1,504,352
Value added tax prepaid	1,831	518,810
Inventories, net	763,160	(3,221,339)
Other non-current assets	726	790,809
Trade payables	(2,969,058)	13,043,322
Other payables	(2,194,176)	13,732,678
Advance	(8,316,026)	16,010,814
Unearned revenue	(3,147,585)	3,431,653
Value added tax withheld	(2,041,255)	1,817,784
Withholdings	(427,339)	538,434
Net employee defined benefit liabilities	(35,558,017)	(34,942,535)
Deposits received	1,658,275	1,358,576
Other non-current liabilities	3,144,383	756,018
Others	86,628	-
	₩ (47,984,715)	₩ 5,976,577

26. Related party transaction

The related party as of December 31, 2016 and 2015, are as follows:

Significant influence on the Company	Secom Co., Ltd. In Japan
Others	Samsung conglomerate entities

Sales and purchases with subsidiaries and others for the years ended December 31, 2016 and 2015, are as follows (Korean won in thousands):

2016	Sales	Purchases	Other income	Other expense
Significant influence on the Company:				
Secom Co., Ltd. In Japan	₩ -	₩ -	₩ -	₩ 4,824,893
Others:				
Samsung Electronics Co., Ltd	283,491,146	23,678,266	-	-
Samsung Life Insurance Co., Ltd	76,074,903	8,291,818	5,422,349	1,415,609
Samsung Display Co., Ltd	47,763,490	11,016	-	-
Other conglomerate entities	241,137,432	71,983,351	30,991	10,201,555
	₩ 648,466,971	₩ 103,964,451	₩ 5,453,340	₩ 16,442,057

2015	Sales	Purchases	Other income	Other expense
Significant influence on the Company:				
Secom Co., Ltd. In Japan	₩ -	₩ -	₩ -	₩ 4,760,252
Others				
Samsung Electronics Co., Ltd	253,382,919	30,464,537	-	-
Samsung Life Insurance Co., Ltd	81,078,868	7,387,644	5,910,594	1,317,948
Samsung Display Co., Ltd	65,378,391	21,560	-	-
Other conglomerate entities	249,122,584	94,013,878	27,181	9,506,766
	₩ 648,962,762	₩ 131,887,619	₩ 5,937,775	₩ 15,584,966

Outstanding balances with related parties as at December 31, 2016 and 2015 are as follows (Korean won in thousands):

	2016					
	Receivables			Payables		
	Trade receivables	Loans	Other receivables[1]	Trade payables	Borrowings	Other payables
Significant influence on the Company:				-		
Secom Co., Ltd. In Japan	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 2,404,055
Others:						
Samsung Electronics co., Ltd	35,161,658	-	110,855	2,703,591	-	245,138
Samsung Life Insurance co., Ltd	394,009	-	293,132,500	-	-	59,891
Samsung Display co., Ltd	3,994,978	-	6,000	-	-	2,277
Other conglomerate entities	28,080,380	-	6,916,250	2,551,501	-	14,510,710
	₩ 67,631,025	₩ -	₩ 300,165,605	₩ 5,255,092	₩ -	₩ 17,222,071

[1] Other receivables of other related parties comprise plan assets of ₩271,631 million and leasehold deposits of ₩21,502 million, in relation to Samsung Life Insurance Co., Ltd.

26. Related party transaction (cont'd)

	2015					
	Receivables			Payables		
	Trade receivables	Loans	Other receivables[1]	Trade payables	Borrowings	Other payables
Significant influence on the Company:						
Secom Co., Ltd. In Japan	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 2,398,852
Others:						
Samsung Electronics Co., Ltd	31,423,260	-	204,974	1,936,721	-	107,549
Samsung Life Insurance Co., Ltd	553,584	-	279,635,776	18,767	-	58,461
Samsung Display Co., Ltd	20,174,184	-	5,000	12,524	-	633
Other conglomerate entities	35,199,438	-	7,426,309	21,334,443	-	336,284
	₩ 87,350,466	₩ -	₩ 287,272,059	₩ 23,302,455	₩ -	₩ 2,901,779

[1] Other receivables of other related parties comprise plan assets of ₩257,603 million and leasehold deposits of ₩22,033 million, in relation to Samsung Life Insurance Co., Ltd.

Dividend paid to Secom Co., Ltd. in Japan, a related party of the Group, amounts to ₩11,697 million for the year ended December 31, 2016 (2015: ₩11,209 million). Dividends paid to other related parties amount to ₩9,379 million (2015: ₩8,988 million). Also there are no fund transactions with other related parties for the years ended December 31, 2016 and 2015.

The Group entered into a technical assistance agreement with Secom Co., Ltd. in Japan, which has significant influence on the Company.

	Related product	Provided by	Fee
Technical assistance	Security system	Secom Co., Ltd. in Japan	0.65% of the some sales

As of December 31, 2016, there are no payment guarantees and collaterals provided by the Group regarding the related parties.

Key management consists of registered executive officers who have authority and responsibility in the planning, operations and control of the business of the Group. The compensation paid or payable to key management for employee services for the years ended December 31, 2016 and 2015, consists of (Korean won in millions):

	2016	2015
Salaries and other short-term employee benefits	₩ 4,406	₩ 4,559
Post-employment benefits	835	937
Other long-term benefits	1,727	2,624
	₩ 6,968	₩ 8,120

27. Segment information

The Group's management who makes strategic decision sets the segments. By the management, the Group has three operating segments.

The following table presents segment revenue from external customers for the years ended December 31, 2016 and 2015 (Korean won in thousands):

	2016				
	Security system service	Building management service	Call center & telemarketing	Consolidated adjustments	Total
Sales Total	₩ 1,487,395,982	₩ 444,147,752	₩ 10,220,004	₩ (111,586,921)	₩ 1,830,176,817
Internal	101,366,917	-	10,220,004	(111,586,921)	-
External	1,386,029,065	444,147,752	-	-	1,830,176,817
Operating profit	166,773,699	38,584,496	225,281	94,307	205,677,783
Total assets	923,074,694	537,394,365	5,800,461	(5,892,873)	1,460,376,647
Non-current assets					
Property, plant and equipment and intangible assets	513,136,340	440,159,923	233,267	-	953,529,530
Increase and decrease in property, plant and equipment and intangible assets	(4,917,230)	(9,278,001)	(45,130)	-	(14,240,361)
Depreciation and amortization	131,140,026	13,729,089	63,704	-	144,932,819

	2015				
	Security system service	Building management service	Call center & telemarketing	Consolidated adjustments	Total
Sales Total	₩ 1,465,420,950	₩ 422,463,730	₩ 10,011,482	₩ (98,325,617)	₩ 1,799,570,545
Internal	88,314,135	-	10,011,482	(98,325,617)	-
External	1,377,106,815	422,463,730	-	-	1,799,570,545
Operating profit	135,861,558	36,159,671	460,603	76,440	172,558,272
Total assets	854,035,951	540,657,332	5,507,569	(5,774,345)	1,394,426,507
Non-current assets					
Property, plant and equipment and intangible assets	518,053,570	449,437,924	278,397	-	967,769,891
Increase and decrease in property, plant and equipment and intangible assets	4,602,988	(18,245,079)	(55,501)	-	(13,697,592)
Depreciation and amortization	124,940,549	21,022,939	76,001	-	146,039,489

Operating segments were presented under continuing operations.

Revenues of major customers accounting for more than 10% of the Group's revenue amount to ₩283,491 million and ₩253,383 million for the years ended December 31, 2016 and 2015, respectively.

28. Information About Non-controlling Interests

(a) Changes in Accumulated Non-controlling Interests

The profit or loss allocated to non-controlling interests and accumulated non-controlling interests of subsidiaries that are material to the Group for the years ended December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016					
	Accumulated non-controlling interests at the beginning of the year	Profit or loss allocated to non-controlling interests	Dividends paid to non-controlling interests	Others	Discontinued operations	Accumulated non-controlling interests at the end of the year
S1CRM[1]	₩ 263,177	₩ 10,134	₩ -	₩ (273,311)	₩ -	₩ -

[1] In 2016, the Group acquired all the non-controlling interests of S1CRM.

	2015					
	Accumulated non-controlling interests at the beginning of the year	Profit or loss allocated to non-controlling interests	Dividends paid to non-controlling interests	Others	Discontinued operations	Accumulated non-controlling interests at the end of the year
SECUI[1]	₩ 42,055,900	₩ 1,777,626	₩ (824,931)	₩ -	₩ (43,008,595)	₩ -
S1CRM	231,759	28,247	-	3,171	-	263,177

[1] The Group disposed the entire shares of SECUI in 2015.

(b) Summarized Financial Information on Subsidiaries

There are no subsidiaries with non-controlling interests that are material to the Group.

29. Discontinued Operations

The Group decided to sell the security solution development & supply segment with the approval of the management on September 7, 2015. Completion date for the transaction is September 8, 2015. The profit and loss on the related operations are presented as discontinued operations. The comparative financial statements are restated.

Financial information before completion of sell of the security solution development & supply segment, are as follows:

Profit and loss from discontinued operations for the years ended December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Revenue	₩ -	₩ 40,949,810
Expense	-	(36,247,000)
Profit before tax of discontinued operations	-	4,702,810
Tax expense	-	(1,036,037)
Profit after tax of discontinued operations	-	3,666,773
Pre-tax gains recognized on the re-measurement of assets of disposal group	-	49,592,608
Tax expense	-	(17,211,804)
After tax gains recognized on the re-measurement of assets of disposal group	-	32,380,804
Profit for the year from discontinued operations	₩ -	₩ 36,047,577

Cash flows from discontinued operations for the years ended December 31, 2016 and 2015, are as follows (Korean won in thousands):

	2016	2015
Cash flows from operating activities	₩ -	₩ 6,432,848
Cash flows from investing activities	-	88,121,475
Cash flows from financing activities	-	(1,724,931)
Exchange losses on cash and cash equivalents	-	-
Net cash flows	₩ -	₩ 92,829,392