# S-1 Corporation and its subsidiaries

Consolidated financial statements
for the years ended December 31, 2017 and 2016
with the independent auditors' report

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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 statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years 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 International Financial Reporting Standards as adopted by Republic of Korea ("K-IFRS"), 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 audits. We conducted our audits 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 audits 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, 2017 and 2016, and its financial performance and cash flows for the years then ended in accordance with K-IFRS

Ernst & Young Han Young

February 27, 2018

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, 2017 and 2016

"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, 2017 and 2016**
(Korean won in thousands)

| | Notes | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | 6,7 | ₩ 171,114,297 | ₩ 144,098,269 |
| Short-term financial assets | 6,7 | 208,406,871 | 98,324,465 |
| Trade and other receivables, net | 6,9 | 147,994,208 | 150,360,780 |
| Accrued income | 6 | 1,608,465 | 493,431 |
| Inventories, net | 10 | 41,173,539 | 35,836,895 |
| Advance payments | | 995,390 | 1,020,517 |
| Prepaid expenses | | 4,025,698 | 4,782,260 |
| Total current assets | | 575,318,468 | 434,916,617 |
| Non-current assets: | | | |
| Long-term financial assets | 6,7 | 7,000 | 8,000 |
| Available-for-sale financial assets | 5,6,8 | 6,291,807 | 5,931,316 |
| Loans and receivables | 6 | 51,381,314 | 48,775,407 |
| Property, plant and equipment, net | 11 | 462,426,324 | 474,898,685 |
| Intangible assets, net | 12 | 458,876,990 | 478,630,845 |
| Other non-current assets | | 10,622 | 11,346 |
| Net employee defined benefit assets | 14 | 10,912,498 | 1,372,513 |
| Deferred income tax assets | 23 | 16,311,957 | 15,831,918 |
| Total non-current assets | | 1,006,218,512 | 1,025,460,030 |
| **Total assets** | | **₩ 1,581,536,980** | **₩ 1,460,376,647** |

(Continued)

**S-1 Corporation and its subsidiaries**
**Consolidated statements of financial position**
**as at December 31, 2017 and 2016 (cont'd)**

(Korean won in thousands)

| | Notes | 2017 | 2016 |
|---|---|---|---|
| **Liabilities** | | | |
| Current liabilities: | | | |
| Trade and other payables | 4,6,13 | ₩ 187,728,536 | ₩ 193,612,021 |
| Value added tax withheld | | 23,103,536 | 19,297,145 |
| Income tax payables | | 24,715,231 | 25,062,384 |
| Advance | | 51,209,891 | 44,887,953 |
| Unearned revenue | | 79,670 | 93,310 |
| Withholdings | | 5,945,555 | 5,077,712 |
| Total current liabilities | | 292,782,419 | 288,030,525 |
| Non-current liabilities: | | | |
| Long-term trade and other payables | 4,6,13 | 7,242,982 | - |
| Deposits received | 4,6 | 43,475,349 | 47,423,756 |
| Provisions | 15 | 5,820,000 | 3,820,000 |
| Other non-current liabilities | | 24,378,727 | 21,156,998 |
| Total non-current liabilities | | 80,917,058 | 72,400,754 |
| **Total liabilities** | | **373,699,477** | **360,431,279** |
| **Equity** | | | |
| Issued capital | 1,16 | 18,999,589 | 18,999,589 |
| Share premium | 16 | 192,913,601 | 192,913,601 |
| Retained earnings | 17 | 1,148,521,529 | 1,040,420,683 |
| Other components of equity | 18 | (152,606,253) | (152,388,505) |
| **Equity attributable to the owners of the parent** | | **1,207,828,466** | **1,099,945,368** |
| **Non-controlling interests** | 28 | **9,037** | **-** |
| **Total equity** | | **1,207,837,503** | **1,099,945,368** |
| **Total liabilities and equity** | | **₩ 1,581,536,980** | **₩ 1,460,376,647** |

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, 2017 and 2016**

(Korean won in thousands except earnings per share amounts)

| | Notes | 2017 | 2016 |
|---|---|---|---|
| Sales | 27 | ₩ 1,942,266,128 | ₩ 1,830,176,817 |
| Cost of sales | 19 | 1,375,981,178 | 1,280,843,141 |
| **Gross profit** | | **566,284,950** | **549,333,676** |
| Selling and administrative expenses | 19,20 | 363,710,593 | 343,655,893 |
| **Operating profit** | | **202,574,357** | **205,677,783** |
| Other non-operating income | 21 | 14,252,274 | 10,986,089 |
| Other non-operating expenses | 21 | 28,847,160 | 32,264,104 |
| Finance income | 22 | 3,489,637 | 1,899,867 |
| Finance costs | 22 | 63,528 | 133,732 |
| **Profit before tax** | | **191,405,580** | **186,165,903** |
| Income tax expense | 23 | 48,079,460 | 45,620,105 |
| **Profit for the year** | | **₩ 143,326,120** | **₩ 140,545,798** |
| **Profit attributable to:** | | | |
| Owners of the parent | | ₩ 143,327,083 | ₩ 140,535,664 |
| Non-controlling interests | | ₩ (963) | ₩ 10,134 |
| **Earnings per share attributable to the equity holders of the Company** | 24 | | |
| Basic earnings per share (Korean won) | | ₩ 4,239 | ₩ 4,157 |
| Diluted earnings per share (Korean won) | | ₩ 4,239 | ₩ 4,157 |

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, 2017 and 2016**

(Korean won in thousands)

| | Notes | 2017 | 2016 |
|---|---|---|---|
| **Profit for the year** | | **₩ 143,326,120** | **₩ 140,545,798** |
| | | | |
| **Other comprehensive income:** | | | |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):* | | | |
| Re-measurement gain on defined benefit plans | | 7,036,562 | 19,566,438 |
| | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):* | | | |
| Net gain on valuation of available-for-sale financial assets | | 45,852 | 614,423 |
| Exchange differences on translation of foreign operations | | (263,600) | (88,847) |
| **Other comprehensive gain for the year, net of tax** | | **6,818,814** | **20,092,014** |
| | | | |
| **Total comprehensive income for the year, net of tax** | | **₩ 150,144,934** | **₩ 160,637,812** |
| | | | |
| Total comprehensive income for the year attributable to: | | | |
| Equity holders of the parent | | ₩ 150,145,897 | ₩ 160,627,679 |
| Non-controlling interests | | (963) | 10,133 |

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, 2017 and 2016**
(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, 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 parent** | **-** | **-** | **(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** |
| **As at January 1, 2017** | **₩ 18,999,589** | **₩ 192,913,601** | **₩ 1,040,420,683** | **₩ (152,388,505)** | **₩ 1,099,945,368** | **₩ -** | **₩ 1,099,945,368** |
| Profit for the year | - | - | 143,327,083 | - | 143,327,083 | (963) | 143,326,120 |
| Net gain on valuation of available-for-sale financial assets | - | - | - | 45,852 | 45,852 | - | 45,852 |
| Re-measurement gain on defined benefit plans | - | - | 7,036,562 | - | 7,036,562 | - | 7,036,562 |
| Exchange differences on translation of foreign operations | - | - | - | (263,600) | (263,600) | - | (263,600) |
| **Total comprehensive income for the year** | **-** | **-** | **150,363,645** | **(217,748)** | **150,145,897** | **(963)** | **150,144,934** |
| Dividends | - | - | (42,262,799) | - | (42,262,799) | - | (42,262,799) |
| Acquisition of investments in subsidiaries | - | - | - | - | - | 10,000 | 10,000 |
| **Total transactions with equity holders of the parent** | **-** | **-** | **(42,262,799)** | **-** | **(42,262,799)** | **10,000** | **(42,252,799)** |
| **As at December 31, 2017** | **₩ 18,999,589** | **₩ 192,913,601** | **₩ 1,148,521,529** | **₩ (152,606,253)** | **₩ 1,207,828,466** | **₩ 9,037** | **₩ 1,207,837,503** |

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, 2017 and 2016**
(Korean won in thousands)

| | Notes | 2017 | 2016 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash flows from operating activities | | ₩ 342,998,269 | ₩ 345,181,337 |
| Profit for the year | | 143,326,120 | 140,545,798 |
| Adjustments | 25 | 243,391,787 | 252,620,254 |
| Working capital adjustments | 25 | (43,719,638) | (47,984,715) |
| Interest received | | 2,281,634 | 1,438,300 |
| Dividend received | | 62,676 | 36,855 |
| Income tax paid | | (51,137,015) | (73,475,627) |
| **Net cash flows from operating activities** | | **294,205,564** | **273,180,865** |
| **Investing activities** | | | |
| Increase in financial instruments | | (110,081,406) | (80,854,530) |
| Acquisition of available-for-sale financial assets | | (300,000) | - |
| Acquisition of property, plant and equipment | | (122,132,708) | (133,605,877) |
| Proceeds from disposal of property, plant and equipment | | 10,147,290 | 159,454 |
| Acquisition of intangible assets | | (257,097) | (221,942) |
| Proceeds from disposal of intangible assets | | 500,000 | - |
| Decrease(increase) in loans and receivables | | (2,600,250) | 980,127 |
| Acquisition of investment in subsidiaries | | 10,000 | |
| **Net cash flows used in investing activities** | | **(224,714,171)** | **(213,542,768)** |
| **Financing activities** | | | |
| Payment of dividends | | (42,262,799) | (40,572,286) |
| Acquisition of investment in subsidiaries | | - | (476,128) |
| **Net cash flows used in financing activities** | | **(42,262,799)** | **(41,048,414)** |
| **Net foreign exchange difference** | | **(212,566)** | **(80,497)** |
| **Net increase in cash and cash equivalents** | | **27,016,028** | **18,509,186** |
| **Cash and cash equivalents as at January 1** | | **144,098,269** | **125,589,083** |
| **Cash and cash equivalents as at December 31** | | **₩ 171,114,297** | **₩ 144,098,269** |

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

## 1. General information

These consolidated financial statements have been prepared for S-1 Corporation (the "Company"), the controlling company in accordance with International Financial Reporting Standards as adopted by Republic of Korea (K-IFRS) 1110 *Consolidated Financial Statements*, and its six subsidiaries (collectively referred to as the "Group").

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, security services and building management services. On January 30, 1996, the Company listed its common shares on the Korea Exchange.

As of December 31, 2017, the Company's issued capital amounts to ₩19,000 million and major shareholders are Secom Co., Ltd. in Japan (25.65%) and affiliates of the Samsung Group (20.57%).

### 1.1 Consolidated subsidiaries

Details of subsidiaries as at December 31, 2017 and 2016 are as follows:

| | | Percentage of ownership | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2017 | | 2016 | | | |
| | Location | Controlling | Non-controlling | Controlling | Non-controlling | Closing month | Main business |
| HTSS (Human Total Security Systems Corp.) | Korea | 100.00% | - | 100.00% | - | December | Security system service |
| S1CRM | Korea | 100.00% | - | 100.00% | - | December | Call center and telemarketing |
| SBSS (Samsung Beijing Security System) | China | 100.00% | - | 100.00% | - | December | Security system service |
| SOCM LLC. | Mongolia | 100.00% | - | 100.00% | - | December | Security system service |
| S-1 Vietnam (S-1 Corporation Vietnam Co., Ltd). | Vietnam | 100.00% | - | - | - | December | Security system service |
| SVIC35 | Korea | 99.00% | 1.00% | - | - | December | New technology investment association |

Details of assets, liabilities of the consolidated subsidiaries as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Total assets | Total liabilities | Total assets | Total liabilities |
| HTSS | ₩ 21,879,663 | ₩ 19,617,447 | ₩ 18,476,313 | ₩ 17,779,467 |
| S1CRM | 6,107,252 | 1,501,768 | 5,800,461 | 1,400,203 |
| SBSS | 9,454,139 | 5,886,830 | 9,092,671 | 6,426,722 |
| SOCM LLC. | 164,724 | 20,088 | 195,693 | 43,867 |
| S-1 Vietnam | 3,265,663 | 1,946,498 | - | - |
| SVIC35 | 968,904 | 65,214 | - | - |

### 1.1 Consolidated subsidiaries (cont'd)

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

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Sales | Profit (loss) for the year | Total comprehensive income (loss) | Sales | Profit (loss) for the year | Total comprehensive income (loss) |
| HTSS | ₩ 115,086,914 | ₩ 859,699 | ₩ 1,565,371 | ₩ 98,495,732 | ₩ 1,170,391 | ₩ (445,403) |
| S1CRM | 10,721,949 | 271,980 | 205,226 | 10,220,004 | 240,542 | 412,735 |
| SBSS | 14,550,280 | 1,073,785 | 1,073,785 | 14,260,604 | 445,653 | 445,653 |
| SOCM LLC. | 224,515 | 8,681 | 8,681 | 485,315 | 130,224 | 130,224 |
| S-1 Vietnam | 3,731,553 | 263,470 | 263,470 | - | - | - |
| SVIC35 | 3,835 | (96,310) | (96,310) | - | - | - |

### 1.2 Changes in scope for consolidation

S-1 Corporation Vietnam Co., Ltd. and SVIC 35 New Technology Business Investment Association were newly acquired and added to the scope of consolidation.

## 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 K-IFRS. 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 K-IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of the 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

#### 2.2.1 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 2017, 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:

### 2.2.1 New and amended standards adopted by the Group (cont'd)

**K-IFRS 1007 *Cash Flow Statements: Disclosure Initiative***
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

**K-IFRS 1012 *Income Taxes-Recognition of deferred tax assets for unrealised 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 deductible temporary difference related to unrealized losses. 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. An entity shall apply these amendments retrospectively. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If an entity applies this relief, it shall disclose that fact.

**Annual Improvements *2014-2016 Cycle***
These amendments do not have a material impact on the Group's consolidated financial statements. The improvements include:

**K-IFRS 1112 *Disclosure of Interests in Other Entities: Classification of scope in disclosure regulation***
The amendments clarify that the disclosure requirements in K-IFRS 1112, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

### 2.2.2 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.

**K-IFRS 1109 *Financial Instruments***
The KASB issued the final version of K-IFRS 1109 *Financial Instruments* that replaces K-IFRS 1039 *Financial Instruments*: *Recognition and Measurement and all previous versions*. K-IFRS 1109 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. K-IFRS 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 K-IFRS 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 life |
|---|---|---|
| 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) An entity may irrevocably designate a financial asset as measured at fair value throught profit or loss if doing so eliminates or reduces an accounting mismatch.

### 2.2.2 New and amended standards not yet adopted (cont'd)

(*2) An entity may make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading.

The requirements for classifying the financial assets as measured at amortized cost or fair value through other comprehensive income (FVOCI) under the standard are more stringent than the requirements of the current K-IFRS 1039; as a result, the increase in the proportion of financial assets subject to fair value through profit or loss (FVTPL) measurement may increase the volatility in profit or loss upon adoption of K-IFRS 1109.

Effects of adopting K-IFRS 1109 on the classification and measurement of financial assets (excluding derivatives) held by the Group as at December 31, 2017 are as follows (Korean won in thousands):

| | Classification | | Amounts | |
|---|---|---|---|---|
| | K-IFRS 1039 | K-IFRS 1109 | K-IFRS 1039 | K-IFRS 1109 |
| Cash and cash equivalents | Loans and receivables | Amortized cost | ₩ 171,114,297 | ₩ 171,114,297 |
| Short-term financial assets | Loans and receivables | Amortized cost | 208,406,871 | 208,406,871 |
| Trade and other receivables | Loans and receivables | Amortized cost | 147,994,208 | 147,994,208 |
| Accrued income | Loans and receivables | Amortized cost | 1,608,465 | 1,608,465 |
| Long-term financial assets | Loans and receivables | Amortized cost | 7,000 | 7,000 |
| Available-for-sale financial assets | Available-for-sale financial assets | FVOCI | 6,291,807 | 6,291,807 |
| Loans and receivables | Loans and receivables | Amortized cost | 51,381,314 | 51,381,314 |
| | | | ₩ 586,803,962 | ₩ 586,803,962 |

*Impairment: financial assets and contract assets*

Under the current K-IFRS 1039, impairment losses are recognized when there is objective evidence of impairment based on an incurred loss model; however, under K-IFRS 1109, impairment losses are recognized on debt instruments, lease receivables, contract assets, loan commitment, and financial guarantee contracts that were accounted for at amortized cost, or FVOCI, based on an expected credit loss impairment model.

K-IFRS 1109 outlines a three-stage model for 12-month expected credit losses, or lifetime expected credit losses based on changes in credit risk since initial recognition of financial assets; as a result, credit losses can be recognized earlier than the current K-IFRS 1039.

| | Classification (*1) | Loss allowance |
|---|---|---|
| Stage 1 | Assets with no significant increase in credit risk since initial recognition (*2) | 12-month expected credit losses: the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. |
| Stage 2 | Assets with significant increase in credit risk since initial recognition | Lifetime expected credit losses: the expected credit losses that result from all possible default events over the expected life of a financial instrument. |
| Stage 3 | Credit-impaired assets | |

(*1) For trade receivables or contract assets in accordance with K-IFRS 1115 Revenue from Contracts with Customers, which does not contain a significant financing component, the Group is to measure the loss allowance at an amount equal to lifetime expected credit losses; however, if it contains a significant financial component, the Group can choose as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. For lease receivables, the Group may choose as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses.

(*2) For financial instruments with low credit risk at the reporting date, it may be considered that the credit risk did not increase significantly.

### 2.2.2 New and amended standards not yet adopted (cont'd)

Under K-IFRS 1109, the Group is to recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for a financial asset that is considered credit-impaired at initial recognition.

**K-IFRS 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 K-IFRS: K-IFRS 1018 *Revenue*, K-IFRS 1011 *Construction Contracts*, K-IFRS 2031 *Revenue-Barter Transactions Involving Advertising Services*, K-IFRS 2113 *Customer Loyalty Programmes*, K-IFRS 2115 *Agreements for the Construction of Real Estate*, and K-IFRS 2118 *Transfers of Assets from Customers.* The Group applies K-IFRS 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 K-IFRS 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 K-IFRS 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 K-IFRS 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, 2017, the Group has updated its internal management processes and implemented an accounting system in preparation of the adoption of K-IFRS 1115. The financial impacts anticipated on the financial statements are as follows:

***Identifying performance obligations***
The Group provides installation services along with the performance obligations included in the security system services. The installation services are not considered as separately identifiable from other performance obligations within a contract, and therefore have been accounted for as a transfer of a combined contract.

***Determining the transaction price***
The Group accounts for the considerations payable to customers as a deduction from the transaction prices. Also, the allocation of transaction prices on multiple performance obligations identified in a single contract is made based on stand-alone selling prices. The Group estimates the individual selling price from each performance obligation using the expected cost plus a margin approach.

***Others***
The Group recognizes an asset from the costs incurred to fulfil a contract if 1) the costs relate directly to a contract, 2) the costs generate or enhance resources of the Group; and 3) the costs are expected to be recovered. Some of the services the Group provides include payments of incentives and sales commissions when contracts are signed, and the amounts are costs incurred to obtain a contract that would not have been incurred otherwise. These costs are recognized as assets, and amortized over the contract period.

The Group has estimated the financial impact of the adoption of this standard on the beginning balance of the financial statements as at December 31, 2017 and for the year then ended, based on the situation and information available as at December 31, 2017.

The condensed statement of financial position as at December 31, 2017 is as follows (Korean won in millions):

| | Current accounting standard (A) | K-IFRS 1115 (B) | Difference (B-A) |
|---|---|---|---|
| Assets | ₩ 1,581,537 | ₩ 1,667,721 | ₩ 86,184 |
| Liabilities | 373,699 | 407,144 | 33,445 |
| Equity | 1,207,838 | 1,260,577 | 52,739 |

### 2.2.2 New and amended standards not yet adopted (cont'd)

Details of the effects by category for the year ended December 31, 2017, are as follows (Korean won in millions):

| | Assets | Liabilities | Equity |
|---|---|---|---|
| Identifying performance obligation | ₩ 56,822 | ₩ 33,445 | ₩ 23,377 |
| Consideration payable to a customer | 5,562 | - | 5,562 |
| Allocating the transaction price | 2,499 | - | 2,499 |
| Costs to fulfill a contract | 6,786 | - | 6,786 |
| Incremental costs of obtaining a contract | 14,515 | - | 14,515 |
| | ₩ 86,184 | ₩ 33,445 | ₩ 52,739 |

**K-IFRS 1116 *Leases***
K-IFRS 1116 was issued in January 2016 and it replaces K-IFRS 1017 *Leases*, K-IFRS 2104 *Determining whether an Arrangement contains a Lease*, K-IFRS 2015 *Operating Leases-Incentives* and K-IFRS 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. K-IFRS 1116 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under K-IFRS 1017. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under K-IFRS 1116 is not significantly changed from today's accounting under K-IFRS 1017. Lessors will continue to classify all leases using the same classification principle as in K-IFRS 1017 and distinguish between two types of leases: operating and finance leases.

K-IFRS 1116 also requires lessees and lessors to make more extensive disclosures than under K-IFRS 1017. K-IFRS 1116 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies K-IFRS 1115. A lessee can choose to apply the standard using either the full retrospective approach or the modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is assessing the potential effect of the amendments on its consolidated financial statements. The Group will apply these amendments on the required effective date.

**Annual Improvements 2014-2016 Cycle**
These improvements include:

**K-IFRS 1101 *First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters***
Short-term exemptions in paragraphs E3–E7 of K-IFRS 1101 were deleted because they have now served their intended purpose. The amendment is effective from January 1, 2018. This amendment is not applicable to the Group.

**K-IFRS 1028 *Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice***
The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

**2.2.2 New and amended standards not yet adopted (cont'd)**

**K-IFRS 2122** ***Foreign Currency Transactions and Advance Consideration***
The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration.

**K-IFRS 2123** ***Uncertainty over Income Tax Treatments***
K-IFRS 2123 clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under K-IFRS 1012, and provides guidance on the following:

1) Whether tax treatments should be considered collectively
2) Assumptions for taxation authorities' examinations
3) Determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
4) Effect of changes in facts and circumstances

An entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty.

## 2.3 Consolidation

### 2.3.1 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 K-IFRS. Acquisition-related costs are expensed as incurred.

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

Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Group 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.

## 2.4 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

### 2.5.1 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.

### 2.5.2 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

### 2.6.1 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.

### 2.6.2 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.

#### 2.6.3 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.

#### 2.6.4 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.

### 2.8 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 life, as follows:

| Accounts | Estimated useful life | Accounts | Estimated useful life |
|---|---|---|---|
| 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 life 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

#### 2.10.1 Research and development

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

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

### 2.10 Intangible assets (cont'd)

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 life.

#### 2.10.2 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.

#### 2.10.3 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 life 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.

#### 2.10.4 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.

#### 2.10.5 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 an indefinite useful life 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

### 2.12.1 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.

### 2.12.2 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.

## 2.14 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.

## 2.15 Employee benefits (cont'd)

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.

## 2.17 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.

### 2.17.1 Sale of goods

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

### 2.17.2 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.

### 2.17.3 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.

### 2.17.4 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 straight-line 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.

### 2.20 Approval of the financial statements

The issuance of the December 31, 2017 consolidated financial statements of the Group was approved by the Board of Directors on January 25, 2018, which is subject to change upon approval at the annual shareholders' 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.

### 3.1 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.

### 3.1.1 Useful life of property, plant and equipment

The Group determines the estimated useful life 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 the newly estimated useful life 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.

### 3.1.2 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).

#### 3.1.3 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).

#### 3.1.4 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).

*Surtax on undistributed corporate earnings*
The Group shall pay an additional surtax where the use of corporate earnings on qualifying investments, wage increase and dividend payments fall below a certain portion of its taxable income for 3 years from 2015. As the Group considers the surtax on its undistributed earnings when computing its corporate income tax, the Group's income tax may change arising from changes in investment, wage growth, or dividend payouts.

## 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.

### 4.1 Market risk

#### 4.1.1 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 | |
|---|---|---|
| | 2017 | 2016 |
| Equity securities (listed) | ₩ 1,260,027 | ₩ 1,246,271 |

#### 4.1.2 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.

### 4.1.3 Liquidity risk

The Group's 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's 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 followings are the contractual maturities of financial liabilities as at December 31, 2017 and 2016 (Korean won in thousands):

| | 2017 | | | |
|---|---|---|---|---|
| | Less than 1 year | Between 1 and 3 years | Between 3 and 5 years | Over 5 years |
| Trade and other payables | ₩ 187,728,536 | ₩ - | ₩ - | ₩ - |
| Long-term trade and other payables | - | 7,242,982 | - | - |
| Deposits received | - | 43,475,349 | - | - |

| | 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 | - | - |

### 4.1.4 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, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Total liabilities (A) | ₩ 373,699,477 | ₩ 360,431,279 |
| Total equity (B) | 1,207,837,503 | 1,099,945,368 |
| Debt ratio (A/B) | 30.94% | 32.77% |

## 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 2017.

### 5.1 Fair value of financial instruments by category

Carrying amounts and fair values of financial instruments by category as of December 31, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial instruments (*1): | | | | |
| Available-for-sale financial assets (*2) | 5,541,017 | 5,541,017 | ₩ 5,480,526 | ₩ 5,480,526 |

### 5.1 Fair value of financial instruments by category (cont'd)

(*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.

### 5.2 Financial instruments measured at cost

Details of financial instruments measured at cost as of December 31, 2017 and 2016 are as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Available-for-sale financial assets: | | |
| Unlisted securities | ₩ 258,719 | ₩ 258,719 |
| Investments | 492,071 | 192,071 |
| | ₩ 750,790 | ₩ 450,790 |

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.

### 5.3 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

| | 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements: | | | | |
| Available-for-sale financial assets | ₩ 5,541,017 | ₩ - | ₩ - | ₩ 5,541,017 |

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

## 6. Category of financial instruments

Details of financial assets and liabilities by categories as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

| | 2017 | | |
|---|---|---|---|
| | Loans and receivables | Available-for-sale financial assets | Total |
| Cash and cash equivalents | ₩ 171,114,297 | ₩ - | ₩ 171,114,297 |
| Short-term financial assets | 208,406,871 | - | 208,406,871 |
| Trade and other receivables | 147,994,208 | - | 147,994,208 |
| Accrued income | 1,608,465 | - | 1,608,465 |
| Long-term financial assets | 7,000 | - | 7,000 |
| Available-for-sale financial assets | - | 6,291,807 | 6,291,807 |
| Loans and receivables, non-current | 51,381,314 | - | 51,381,314 |
| | ₩ 580,512,155 | ₩ 6,291,807 | ₩ 586,803,962 |

| | 2017 | |
|---|---|---|
| | Financial liabilities at amortized cost | Total |
| Trade and other payables | ₩ 187,728,536 | ₩ 187,728,536 |
| Long-term | | |
| Trade and other payables | 7,242,982 | 7,242,982 |
| Deposits received | 43,475,349 | 43,475,349 |
| | ₩ 238,446,867 | ₩ 238,446,867 |

| | 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 |

## 6. Category of financial instruments (cont'd)

Details of gains or losses on financial instruments by category for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Available-for-sale financial assets: | | |
| Gain on valuation (other comprehensive income) | ₩ 60,491 | ₩ 810,586 |
| Impairment | - | (2,018,847) |
| Dividend income | 62,676 | 36,855 |
| Loans and receivables: | | |
| Interest income | 3,396,668 | 1,787,653 |
| Impairment (allowance for doubtful accounts) | (4,490,782) | (5,383,013) |
| Gain on foreign currency transactions | 2,770,941 | 3,416,623 |
| Loss on foreign currency transactions | (3,557,288) | (3,182,562) |
| Gain on foreign currency translation | 675,497 | 315,436 |
| Loss on foreign currency translation | (815,624) | (534,740) |

## 7. Cash and cash equivalents

The book values of cash and cash equivalents as of December 31, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Cash in bank and on hand | ₩ 7,933,213 | ₩ 6,831,148 |
| Short-term bank deposits (*1) | 163,181,084 | 137,267,121 |
| | ₩ 171,114,297 | ₩ 144,098,269 |

(*1) Short-term bank deposits include ordinary deposits and time deposits maturing within three months from the acquisition date.

*Restricted financial instruments*

As of December 31, 2017, long-term and short-term financial instruments such as benefit sharing funds and deposits for checking accounts, which amount to ₩5,721 million, are restricted for use.

## 8. Available-for-sale financial assets

Details of available-for-sale financial assets as of December 31, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Investments | ₩ 492,071 | ₩ 192,071 |
| Equity securities | 5,799,736 | 5,739,245 |
| | ₩ 6,291,807 | ₩ 5,931,316 |

Changes in available-for-sale financial assets for the years ended December 31, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Beginning balance | ₩ 5,931,316 | ₩ 7,139,577 |
| Acquisition | 30,000 | - |
| Disposal | - | - |
| Impairment | - | (2,018,847) |
| Net gains and losses on transfer to equity | 60,491 | 810,586 |
| Ending balance | 6,291,807 | 5,931,316 |
| Less: non-current portion | 6,291,807 | 5,931,316 |
| Current portion | ₩ - | ₩ - |

## 9. Trade and other receivables

Trade and other receivables as of December 31, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Trade receivables | ₩ 156,027,732 | ₩ 153,601,318 |
| Provision for impairment of trade receivables | (11,664,086) | (9,066,918) |
| Non-trade receivables | 3,993,422 | 6,212,136 |
| Provision for impairment of non-trade receivables | (362,860) | (385,756) |
| | ₩ 147,994,208 | ₩ 150,360,780 |

Movements on provision for impairment of trade and other receivables for the years ended December 31, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Beginning balance | ₩ 9,452,674 | ₩ 6,932,368 |
| Provision for receivables impairment | 4,490,782 | 5,383,013 |
| Written off and others | (1,916,510) | (2,862,707) |
| Ending balance | ₩ 12,026,946 | ₩ 9,452,674 |

The aging analysis of trade and other receivables as of December 31, 2017 and 2016, is as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Not overdue | ₩ 142,518,479 | ₩ 145,340,627 |
| Overdue but not impaired | | |
| Less than 1 year | 5,475,729 | 5,020,153 |
| More than 1 year | - | - |
| | ₩ 147,994,208 | ₩ 150,360,780 |

## 10. Inventories

Inventories as of December 31, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Supplies and merchandise | ₩ 28,182,942 | ₩ 21,691,467 |
| Security contracts-in-process | 12,703,708 | 13,322,199 |
| Goods in transit | 286,889 | 823,229 |
| | ₩ 41,173,539 | ₩ 35,836,895 |

The cost of inventories recognized as expense and included in 'cost of sales' amounts to ₩151,104 million (2016: ₩122,742 million).

## 11. Property, plant and equipment

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

| 2017 | 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 | ₩ 9,567,962 | ₩ 785,288,105 | ₩ 25,348,114 | ₩ 1,227,521 | ₩ 63,733,841 | ₩ 509,973 | ₩ 1,033,490,910 |
| Opening accumulated depreciation | - | (27,651,877) | (6,125,614) | (446,437,888) | (23,593,851) | (978,568) | (53,804,427) | - | (558,592,225) |
| Opening 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 |
| Acquisitions | - | - | - | 112,483,081 | 894,012 | - | 3,364,847 | 5,623,686 | 122,365,626 |
| Disposals | (2,198,827) | (3,133,702) | - | (1,377,496) | - | (15,209) | (34,707) | - | (6,759,941) |
| Depreciation | - | (1,860,008) | (386,811) | (116,981,519) | (595,780) | (106,808) | (4,330,765) | - | (124,261,691) |
| Transfer | - | - | 457,860 | - | - | 44,592 | 1,062,426 | (5,274,706) | (3,709,828) |
| Exchange differences | - | - | - | - | (103,449) | - | (3,078) | - | (106,527) |
| Ending acquisition cost | 54,421,601 | 85,806,021 | 10,025,822 | 822,744,068 | 26,075,279 | 1,219,394 | 67,059,532 | 858,953 | 1,068,210,670 |
| Ending accumulated depreciation | - | (27,256,642) | (6,512,425) | (489,769,785) | (24,126,233) | (1,047,866) | (57,071,395) | - | (605,784,346) |
| Ending net book value | ₩ 54,421,601 | ₩ 58,549,379 | ₩ 3,513,397 | ₩ 332,974,283 | ₩ 1,949,046 | ₩ 171,528 | ₩ 9,988,137 | ₩ 858,953 | ₩ 462,426,324 |

| 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 |

Depreciation expense of ₩120,803 million (2016: ₩117,625 million) has been charged to 'cost of sales' and ₩3,459 million (2016: ₩3,795 million) to selling and administrative expenses.

## 12. Intangible assets

Changes in intangible assets for the years ended December 31, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Goodwill | Industrial property | Development costs | Other | Total |
| As at January 1 | ₩ 328,092,729 | ₩ 343,341 | ₩ 32,295 | ₩ 150,162,480 | ₩ 478,630,845 |
| Increase (*1) | - | 74,245 | - | 3,899,357 | 3,973,602 |
| Disposal | - | - | - | (511,000) | (511,000) |
| Amortization | - | (55,971) | (32,277) | (23,123,013) | (23,211,261) |
| Exchange differences | - | - | - | (5,196) | (5,196) |
| As at December 31 | ₩ 328,092,729 | ₩ 361,615 | ₩ 18 | ₩ 130,422,628 | ₩ 458,876,990 |

(*1) Includes amounts reclassified from 'construction in progress'.

| | 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 reclassified from 'construction in progress'.

Amortization of ₩366 million (2016: ₩443 million) is included in the 'cost of sales' and ₩22,845 million (2016: ₩23,070 million) in the 'selling and administrative expenses'.

Total research and development costs that the Group recognized as expenses are ₩17,798 million (2016: ₩17,572 million).

*Impairment tests for goodwill*

As of December 31, 2017, the Group has goodwill which arose from the acquisition of a business in 2014. Details of goodwill allocated to groups of cash generating units under the management's control are as follows (Korean won in thousands):

| | 2017 |
|---|---|
| Building management | ₩ 328,092,729 |

The Group tests annually for impairment. The recoverable amount of the groups of cash generating units is estimated using the calculation of value in use. The calculation of value in use, based on a 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 the perpetual cash flow calculation. The key assumptions used for value-in-use calculations in 2017 are as follows:

## 12. Intangible assets (cont'd)

| | 2017 |
|---|---|
| Operating profit rate of cash sales to total sales | 8.7 ~ 10.4% |
| Revenue growth rate (*1) | 3.7 ~ 5.7% |
| Perpetual growth rate | 1.00% |
| Discount rate before tax (*2) | 12.04% |

(*1) Weighted average revenue growth rate used to extrapolate cash flows for the 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 performances and its expectations of the 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, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Trade payables | ₩ 83,582,163 | ₩ - | ₩ 92,004,007 | ₩ - |
| Non-trade payables | 37,312,247 | - | 28,003,134 | - |
| Accrued expenses | 66,834,126 | 7,242,982 | 73,604,880 | - |
| | ₩ 187,728,536 | ₩ 7,242,982 | ₩ 193,612,021 | ₩ - |

## 14. Net defined benefit liabilities (assets)

Defined benefit plans that the Group operates are pension plans based on the final salary of employees, and provide a guaranteed amount of pensions to employees. The level of benefits provided depends on the length of service and the final salary of employees. The benefit payments are from separately administered funds.

Net defined benefit liabilities (assets) recognized in the statements of financial position as of December 31, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Present value of defined benefit liabilities | ₩ 273,540,168 | ₩ 270,647,342 |
| Fair value of plan assets (*1) | (284,452,666) | (272,019,855) |
| Liability (asset) in the statements of financial position | ₩ (10,912,498) | ₩ (1,372,513) |

(*1) Contribution to the National Pension Fund of ₩361 million (2016: ₩389 million), is included in the fair value of plan assets.

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

Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Beginning balance | ₩ 270,647,342 | ₩ 280,085,108 |
| Current service cost | 34,740,167 | 38,052,735 |
| Interest expense | 6,545,650 | 6,516,787 |
| Past service cost and losses on settlement | - | (1,056,038) |
| Remeasurements: | | |
| Actuarial gains and losses arising from changes in demographic assumptions | (1,435,223) | 6,797,055 |
| Actuarial gains and losses arising from changes in financial assumptions | (9,898,176) | (28,972,184) |
| Actuarial gains arising from experience adjustments | 417,679 | (4,993,645) |
| Payments from plans: | | |
| Benefit payments | (27,274,277) | (25,782,476) |
| Obligations from subsidiaries and others | (202,994) | - |
| Ending balance | ₩ 273,540,168 | ₩ 270,647,342 |

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

| | 2017 | 2016 |
|---|---|---|
| Beginning balance | ₩ 272,019,855 | ₩ 258,013,437 |
| Interest income | 6,102,235 | 5,532,693 |
| Remeasurements: | | |
| Return on plan assets (excluding amounts included in interest income) | (1,658,915) | (1,301,816) |
| Contributions: Employers | 31,654,233 | 36,091,096 |
| Payments from plans: Benefit payments | (23,664,742) | (26,315,555) |
| Obligations from subsidiaries and others | - | - |
| Ending balance | ₩ 284,452,666 | ₩ 272,019,855 |

Plan assets as of December 31, 2017 and 2016, consist of the following (Korean won in thousands):

| | 2017 | | | |
|---|---|---|---|---|
| | Quoted price | Unquoted price | Total | Composition |
| Cash and cash equivalents | ₩ 284,091,310 | ₩ - | ₩ 284,091,310 | 99.87% |
| Others | - | 361,356 | 361,356 | 0.13% |
| | ₩ 284,091,310 | ₩ 361,356 | ₩ 284,452,666 | 100.00% |

| | 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% |

The principal actuarial assumptions as of December 31, 2017 and 2016, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Discount rate | 2.80% ~ 2.90% | 2.40%~2.50% |
| Salary growth rate | 4.21% ~ 5.00% | 4.23%~5.00% |

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

The sensitivity of the defined benefit obligations as of December 31, 2017, to changes in the weighted principal assumptions is as follows (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 | 10% increase |
| Salary growth rate | 1.00% | 10% 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 ₩37,578 million.

Expected maturity analysis of undiscounted pension benefits as of December 31, 2017, 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 | ₩ 17,771,000 | ₩ 21,041,946 | ₩ 68,400,738 | ₩ 147,070,858 | ₩ 254,284,542 |

The weighted average duration of the defined benefit obligations is 9.63 years.

Recognized expense related to the defined contribution plan for the year ended December 31, 2017, is ₩5,391 million (2016: ₩3,990 million).

## 15. Commitments and contingencies

(a) As of December 31, 2017, eighteen civil suits with claims totaling ₩83,638 million are filed against the Group relating to the compensation for damages from security services and unjust enrichment. 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 a portion of sales from system security services.

(c) As of December 31, 2017, the Group has a standard loan agreement with the maximum limit of ₩20 billion, a daily loan agreement with the maximum limit of ₩30 billion with Woori Bank and others. The Group also has an agreement with Woori Bank in relation to the opening of letters of credit amounting to US$ 5,000 thousand. Also, the Group has a purchasing loan agreement with the maximum limit of ₩80 billion with Hana Bank. It also has a B2B plus agreement with the maximum limit of ₩30 billion with Woori Bank and has an electronic loan agreement secured by accounts receivable with the maximum limit of ₩5 billion with Shinhan Bank.

(d) The Group is provided with performance guarantees and construction warranty guarantees amounting to ₩73.1 billion by Seoul Guarantee Insurance and others as at December 31, 2017.

## 16. Issued capital and share premium

The number of authorized shares in accordance with the Group's article of incorporation is 80 million shares and the par value per share is ₩500. As of December 31, 2017, the total number of common shares issued is 37,999,178 shares.

Details of issued capital and share premium as of December 31, 2017, 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) The difference between the number of common shares outstanding and the number of common shares issued is due to 4,188,939 shares of treasury stock.

## 17. Retained earnings

Retained earnings as of December 31, 2017 and 2016, consist of the followings (Korean won in thousands):

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Legal reserves (*1) | ₩ | 9,499,794 | ₩ | 9,499,794 |
| Discretionary reserves | | 908,954,333 | | 818,954,334 |
| Unappropriated retained earnings | | 230,067,402 | | 211,966,555 |
| | ₩ | 1,148,521,529 | ₩ | 1,040,420,683 |

(*1) In accordance with the Korean Commercial Code, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of paid-in capital. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to capital.

## 18. Other components of equity

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

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Accumulated other comprehensive income: | | | | |
| Change in value of available-for-sale financial assets | ₩ | 3,821,091 | ₩ | 3,775,238 |
| Currency translation differences | | (384,089) | | (120,488) |
| Other: | | | | |
| Treasury share | | (155,751,107) | | (155,751,107) |
| Others | | (292,148) | | (292,148) |
| | ₩ | (152,606,253) | ₩ | (152,388,505) |

## 19. Expenses by nature

Expenses by nature for the years ended December 31, 2017 and 2016, are as follows (Korean won in thousands):

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Purchase of merchandise | ₩ | 151,104,246 | ₩ | 122,742,245 |
| Labor expenses | | 626,333,084 | | 589,986,399 |
| Depreciation and amortization | | 147,472,952 | | 144,932,819 |
| Outside order expenses | | 460,526,514 | | 435,418,072 |
| Commission expenses and royalties | | 32,284,873 | | 26,099,882 |
| Advertising expenses and sales commission expenses | | 38,657,360 | | 31,479,229 |
| Communication expenses | | 33,964,752 | | 31,437,894 |
| Transportation expenses | | 18,340,582 | | 17,377,895 |
| Others | | 231,007,408 | | 225,024,599 |
| | ₩ | 1,739,691,771 | ₩ | 1,624,499,034 |

## 20. Selling and administrative expenses

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

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Labor expenses | ₩ | 182,785,815 | ₩ | 174,201,298 |
| Development costs (*1) | | 17,797,822 | | 17,572,165 |
| Depreciation and amortization | | 25,746,369 | | 26,025,495 |
| Commission expenses and royalties | | 17,076,833 | | 16,298,670 |
| Advertising expenses and sales commission expenses | | 36,152,791 | | 28,537,468 |
| Communication expenses | | 4,328,068 | | 4,372,991 |
| Insurance expenses | | 6,844,729 | | 6,574,543 |
| Transportation expenses | | 8,693,831 | | 8,356,336 |
| Rental expenses | | 11,214,677 | | 10,814,167 |
| Bad debts expenses | | 4,490,782 | | 5,383,013 |
| Others | | 48,578,876 | | 45,519,747 |
| | ₩ | 363,710,593 | ₩ | 343,655,893 |

(*1) Depreciation and amortization costs of ₩558 million (2016: ₩839 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, 2017 and 2016 are as follows (Korean won in thousands):

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Other non-operating income: | | | | |
| Dividend income | ₩ | 62,676 | ₩ | 36,855 |
| Gain on disposal of property, plant and equipment | | 6,328,834 | | 90,738 |
| Gain on foreign currency transactions | | 2,677,972 | | 3,304,409 |
| Gain on foreign currency translation | | 675,497 | | 315,436 |
| Others | | 4,507,295 | | 7,238,651 |
| | ₩ | 14,252,274 | ₩ | 10,986,089 |
| Other non-operating expenses: | | | | |
| Donations | ₩ | 1,891,000 | ₩ | 2,990,503 |
| Loss on obsolescence of inventories | | 15,883,693 | | 16,908,106 |
| Loss on disposal of property, plant and equipment | | 2,941,485 | | 1,640,353 |
| Loss on disposal of intangible assets | | 11,000 | | - |
| Impairment loss on intangible assets | | - | | 117,393 |
| Impairment loss on available-for-sale financial assets | | - | | 2,018,847 |
| Loss on foreign currency transactions | | 3,493,760 | | 3,048,830 |
| Loss on foreign currency translation | | 815,624 | | 534,740 |
| Others | | 3,810,598 | | 5,005,332 |
| | ₩ | 28,847,160 | ₩ | 32,264,104 |

## 22. Finance income and costs

Finance income and costs for the years ended December 31, 2017 and 2016, are as follows (Korean won in thousands):

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Finance income: | | | | |
| Interest income | ₩ | 3,396,668 | ₩ | 1,787,653 |
| Gain on foreign currency transactions | | 92,969 | | 112,214 |
| | ₩ | 3,489,637 | ₩ | 1,899,867 |
| Finance costs: | | | | |
| Loss on foreign currency transactions | ₩ | 63,528 | ₩ | 133,732 |
| | ₩ | 63,528 | ₩ | 133,732 |

## 23. Income tax

Income tax expense for the years ended December 31, 2017 and 2016, consists of the following (Korean won in thousands):

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Current income tax: | | | | |
| Current tax on profits for the year | ₩ | 48,592,742 | ₩ | 52,620,052 |
| Adjustments in respect of prior years | | 2,201,638 | | 1,135,657 |
| Total current tax | | 50,794,380 | | 53,755,709 |
| Deferred income tax due to temporary differences | | (480,039) | | (1,638,921) |
| Deferred income tax charged to equity | | (2,234,881) | | (6,496,683) |
| Income tax expenses from continuing operations | ₩ | 48,079,460 | ₩ | 45,620,105 |

## 23. Income tax (cont'd)

The reconciliation between income tax expense at the effective income tax rate and accounting profit before income tax at the Korea statutory rate for the years ended December 31, 2017 and 2016 is as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Profit before tax | ₩ 191,405,580 | ₩ 186,165,903 |
| Tax calculated at statutory tax rates | 45,542,583 | 44,810,235 |
| Tax effects of: | | |
| Non-taxable income | (6,953) | (2,677) |
| Non-deductible expenses | 715,110 | 312,550 |
| Tax credit | (274,052) | (606,457) |
| Adjustment in respect of prior years | 2,102,771 | 1,106,454 |
| Income tax expenses | ₩ 48,079,459 | ₩ 45,620,105 |
| Effective tax rate (*1) | 25.12% | 24.51% |

(*1) Income tax expense divided by net income before tax

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

| | Temporary differences | | | Deferred tax assets (liabilities) | |
|---|---|---|---|---|---|
| 2017 | Beginning | Increase (decrease) | Ending | Beginning | Ending |
| Allowance for doubtful accounts | ₩ 6,669,385 | ₩ 3,421,819 | ₩ 10,091,204 | ₩ 1,613,991 | ₩ 2,442,071 |
| Accrued income | (493,431) | (1,115,034) | (1,608,465) | (118,614) | (389,169) |
| Accrued expenses | 31,706,878 | (2,084,773) | 29,622,105 | 7,659,856 | 7,102,099 |
| Defined benefit liability | 240,483,033 | 17,461,706 | 257,944,739 | 57,620,045 | 61,828,408 |
| Pension plan assets | (233,466,211) | (20,756,913) | (254,223,124) | (56,047,142) | (61,002,777) |
| Land | (138,365) | 138,365 | - | (33,484) | - |
| Depreciation | (12,509) | (110,679) | (123,188) | 26,624 | (438) |
| Impairment of available-for-sale securities | 2,526,720 | - | 2,526,720 | 611,466 | 611,466 |
| Gain on valuation of available-for-sale securities | (4,169,940) | (871,077) | (5,041,017) | (1,009,125) | (1,219,926) |
| Payables for donation | 380,000 | - | 380,000 | 91,960 | 91,960 |
| Other non-current liabilities | 21,156,998 | 3,221,728 | 24,378,726 | 5,104,732 | 5,856,492 |
| Provision | 3,820,000 | 2,000,000 | 5,820,000 | 924,440 | 1,408,440 |
| Others(*1) | (3,418,649) | 1,818,256 | (1,600,393) | (612,831) | (416,669) |
| | ₩ 65,043,909 | ₩ 3,123,398 | ₩ 68,167,307 | ₩ 15,831,918 | ₩ 16,311,957 |

## 23. Income tax (cont'd)

| 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) |
| 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) | (1,543,385) | (1,875,264) | (3,418,649) | (404,125) | (612,831) |
| | ₩ 59,090,944 | ₩ 5,952,965 | ₩ 65,043,909 | ₩ 14,193,002 | ₩ 15,831,918 |

(*1) The Group has not recognized deferred tax assets arising from investments in subsidiaries as the related temporary difference will not reverse due to the low possibilities of dividend payouts and disposal of investments in the foreseeable future. As of December 31, 2017, the total temporary difference which is not recognized as deferred tax liabilities is ₩6,542 million.

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Deferred tax assets: | | |
| Deferred tax asset to be recovered after more than 12 months | ₩ 58,081,544 | ₩ 55,224,809 |
| Deferred tax asset to be recovered within 12 months | 9,029,074 | 9,312,607 |
| | 67,110,618 | 64,537,416 |
| Deferred tax liabilities: | | |
| Deferred tax liability to be recovered after more than 12 months | ₩ (50,410,287) | ₩ (48,638,204) |
| Deferred tax liability to be recovered within 12 months | (388,374) | (67,294) |
| | (50,798,661) | (48,705,498) |
| Deferred tax assets (liabilities), net | ₩ 16,311,957 | ₩ 15,831,918 |

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

| | 2017 | 2016 |
|---|---|---|
| Change in value of available-for-sale financial assets | ₩ (14,639) | ₩ (196,163) |
| Remeasurement of net defined benefit liabilities | (2,220,243) | (6,300,520) |
| | ₩ (2,234,882) | ₩ (6,496,683) |

## 24. Earnings per share

Basic earnings per ordinary share for the years ended December 31, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Profit attributable to owners of the parent company | ₩ 143,327,083 | ₩ 140,535,664 |
| Weighted average number of ordinary shares outstanding (*1) | 33,810,239 | 33,810,239 |
| Basic earnings per share (Korean won) | ₩ 4,239 | ₩ 4,157 |

(*1) Weighted average number of ordinary shares outstanding = Total issued shares – weighted average number of treasury shares

2017: 37,999,178 - 4,188,939 = 33,810,239
2016: 37,999,178 - 4,188,939 = 33,810,239

Diluted earnings per share for the years ended December 31, 2017, and 2016, are as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Profit attributable to owners of the parent company | ₩ 143,327,083 | ₩ 140,535,664 |
| Weighted average number of ordinary shares for diluted earnings per share | 33,810,239 | 33,810,239 |
| Diluted earnings per share (Korean won) | ₩ 4,239 | ₩ 4,157 |

## 25. Cash generated from operations

Cash generated from operations for the years ended December 31, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | 2016 |
|---|---|---|
| Adjustments for: | | |
| Depreciation, amortization | ₩ 147,472,952 | ₩ 144,932,819 |
| Loss on obsolescence of inventories | 12,860,577 | 12,802,875 |
| Severance benefits | 35,183,582 | 37,980,791 |
| Loss on foreign currency translation | 815,624 | 534,740 |
| Gain on foreign currency translation | (675,497) | (315,436) |
| Loss on disposal of property, plant and equipment | 2,941,485 | 1,640,353 |
| Gain on disposal of property, plant and equipment | (6,328,833) | (90,738) |
| Impairment loss of intangible assets | - | 117,393 |
| Loss on disposal of intangible assets | 11,000 | - |
| Bad debt expenses | 4,490,782 | 5,383,013 |
| Impairment loss on available-for-sale financial assets | - | 2,018,847 |
| Interest income | (3,396,668) | (1,787,653) |
| Dividend | (62,676) | (36,855) |
| Income taxes | 48,079,459 | 45,620,105 |
| Miscellaneous loss | 2,000,000 | 3,820,000 |
| | ₩ 243,391,787 | ₩ 252,620,254 |

## 25. Cash generated from operations (cont'd)

| | 2017 | 2016 |
|---|---|---|
| Changes in operating assets and liabilities: | | |
| Trade receivables | ₩ (4,668,439) | ₩ (526,457) |
| Other receivables | 2,103,615 | 1,331,855 |
| Advance payments | 18,326 | 911,256 |
| Prepaid expenses | 755,176 | (702,916) |
| Value added tax prepaid | - | 1,831 |
| Inventories, net | (18,293,586) | 763,160 |
| Other non-current assets | 724 | 726 |
| Trade payables | (8,016,618) | (2,969,058) |
| Other payables | 2,345,428 | (2,194,176) |
| Advance | 6,327,178 | (8,316,026) |
| Unearned revenue | (13,640) | (3,147,585) |
| Value added tax withheld | 3,798,553 | (2,041,255) |
| Withholdings | 874,103 | (427,339) |
| Net employee defined benefit liabilities | (35,466,761) | (35,558,017) |
| Deposits received | (3,948,407) | 1,658,275 |
| Other non-current liabilities | 10,464,710 | 3,144,383 |
| Others | - | 86,628 |
| | ₩ (43,719,638) | ₩ (47,984,715) |

## 26. Related party transaction

The related parties of the Group as of December 31, 2017 and 2016, are as follows:

| | |
|---|---|
| Entity with significant influence over the Company | Secom Co., Ltd. In Japan |
| Others | Affiliates of the Samsung Group |

Sales and purchases with subsidiaries and others for the years ended December 31, 2017 and 2016, are as follows (Korean won in thousands):

| 2017 | Sales | Purchases | Other income | Other expense |
|---|---|---|---|---|
| Entity with significant influence over the Company: | | | | |
| Secom Co., Ltd. In Japan | ₩ - | ₩ - | ₩ - | ₩ 4,592,854 |
| Others: | | | | |
| Samsung Electronics Co., Ltd. | 327,500,032 | 29,162,620 | - | - |
| Samsung Life Insurance Co., Ltd. | 74,564,606 | 8,309,473 | 5,744,037 | 1,459,623 |
| Samsung Display Co., Ltd. | 53,843,997 | 27,619 | - | - |
| Other affiliates | 274,172,975 | 71,837,583 | 6,754 | 10,690,339 |
| | ₩ 730,081,610 | ₩ 109,337,295 | ₩ 5,750,791 | ₩ 16,742,816 |

| 2016 | Sales | Purchases | Other income | Other expense |
|---|---|---|---|---|
| Entity with significant influence over 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 affiliates | 241,137,432 | 71,983,351 | 30,991 | 10,201,555 |
| | ₩ 648,466,971 | ₩ 103,964,451 | ₩ 5,453,340 | ₩ 16,442,057 |

## 26. Related party transaction (cont'd)

Outstanding balances with related parties as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Receivables | | | Payables | | |
| | Trade receivables | Loans | Other receivables1 | Trade payables | Borrowings | Other payables |
| Entity with significant influence over the Company: | | | | | | |
| Secom Co., Ltd. In Japan | ₩ - | ₩ - | ₩ - | ₩ - | ₩ - | ₩ 2,304,316 |
| Others: | | | | | | |
| Samsung Electronics Co., Ltd. | 42,615,025 | - | 98,156 | 268,418 | - | 381,389 |
| Samsung Life Insurance Co., Ltd. | 169,362 | - | 304,845,863 | - | - | 66,813 |
| Samsung Display Co., Ltd. | 8,789,979 | - | - | - | - | 3,960 |
| Other affiliates | 31,935,018 | - | 7,648,945 (*1) | 1,213,506 | - | 12,502,845 |
| | ₩ 83,509,384 | ₩ - | ₩ 312,592,964 | ₩ 1,481,924 | ₩ - | ₩ 15,259,323 |

(*1) Other receivables from other affiliates comprise plan assets of ₩284,092 million in Samsung Life Insurance Co., Ltd. and leasehold deposits of ₩20,754 million.

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Receivables | | | Payables | | |
| | Trade receivables | Loans | Other receivables1 | Trade payables | Borrowings | Other payables |
| Entity with significant influence over 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 affiliates | 28,080,380 | - | 6,916,250 (*1) | 2,551,501 | - | 14,510,710 |
| | ₩ 67,631,025 | ₩ - | ₩ 300,165,605 | ₩ 5,255,092 | ₩ - | ₩ 17,222,071 |

(*1) Other receivables from other affiliates comprise plan assets of ₩271,631 million in Samsung Life Insurance Co., Ltd. and leasehold deposits of ₩21,502 million.

Dividends paid to Secom Co., Ltd. in Japan, a related party of the Group, amounts to ₩12,184 million for the year ended December 31, 2017 (2016: ₩11,697 million). Dividends paid to other related parties amount to ₩9,770 million (2016: ₩9,379 million). In addition, the Company invested ₩ 1,131 million in S-1 Corporation Vietnam Co., Ltd. and invested ₩ 990 million to SVIC 35 New Technology Investment Association. There are no other fund transactions with other related parties for the years ended December 31, 2017 and 2016.

## 26. Related party transaction (cont'd)

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

| | Related product | Provided by | Fee |
|---|---|---|---|
| Technical assistance | Security system | Secom Co., Ltd. in Japan | 0.65% of a portion of sales |

As of December 31, 2017, there are no payment guarantees and collaterals provided by the Group to 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, 2017 and 2016, consists of (Korean won in millions):

| | 2017 | 2016 |
|---|---|---|
| Salaries and other short-term employee benefits | ₩ 3,842 | ₩ 4,406 |
| Post-employment benefits | 423 | 835 |
| Other long-term benefits | 1,737 | 1,727 |
| | ₩ 6,002 | ₩ 6,968 |

## 27. Segment information

According to the management of the Group who oversees the strategic decision making process and determines the operating segment, the Group has three operating segments.

The following table presents the revenue by segment from external customers for the years ended December 31, 2017 and 2016 (Korean won in thousands):

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Security system service | Building management service | Call center & telemarketing | Consolidated adjustments | Total |
| Sales Total | ₩ 1,589,356,120 | ₩ 474,226,679 | ₩ 10,721,949 | ₩ (132,038,620) | ₩ 1,942,266,128 |
| Internal | 121,316,671 | - | 10,721,949 | (132,038,620) | - |
| External | 1,468,039,449 | 474,226,679 | - | - | 1,942,266,128 |
| Operating profit | 163,963,987 | 38,378,859 | 231,511 | - | 202,574,357 |
| Total assets | 1,083,421,447 | 508,348,979 | 6,107,252 | (16,340,699) | 1,581,536,979 |
| Non-current assets | | | | | |
| Property, plant and equipment and intangible assets | 491,553,610 | 429,553,468 | 196,236 | - | 921,303,314 |
| Increase and decrease in property, plant and equipment and intangible assets | (21,582,730) | (10,606,455) | (37,031) | - | (32,226,216) |
| Depreciation and amortization | 133,590,794 | 13,819,420 | 62,738 | - | 147,472,952 |

## 27. Segment information (cont'd)

| | 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 |

Revenues from major customers accounting for more than 10% of the Group's revenue amount to ₩327,500 million and ₩283,491 million for the years ended December 31, 2017 and 2016, respectively.

## 28. Information about non-controlling interests

### 28.1 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, 2017 and 2016, are as follows (Korean won in thousands):

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | 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 |
| SVIC35 | ₩ - | ₩ (963) | ₩ - | ₩ 10,000 | ₩ | ₩ 9,037 |

| | 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 of the non-controlling interests in S1CRM.

### 28.2 Summarized financial information of subsidiaries

There are no subsidiaries with significant non-controlling interests held by the Group.